



**2014 Round Table Implementation Meeting
Vientiane, Lao PDR
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Background Document

Prepared by
Department of International Cooperation
Ministry of Planning and Investment

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Chapter 1 - Introduction

1.1 About Round Table Process

1. The Round Table Process (RTP) is a national aid coordination mechanism established since 1983 with support from UNDP and the Government of Luxembourg in recent years. It presents a unique platform for policy dialogue to promote collaboration, coordination and mutual understanding between the Government of Lao PDR and Development Partners (DPs). The process stimulates substantive dialogue on the country's development agenda, while strengthens development effectiveness and aid coordination in the country.

2. The principle Round Table mechanism includes High Level Round Table Meetings (RTMs) held every three years, Round Table Implementation Meetings (RTIMs) organized on an annual basis, provincial consultation carried out prior to both RTMs/RTIMs, and Sector Working Groups (SWGs).

3. Since 1983, Lao PDR organized 11 High Level Round Table Meetings (RTMs) (5 in country since 2000 and 6 of them in Geneva from 1983 till 1999). In 2005, the RTIM mechanism was introduced and the first RTIM was organized in Vientiane as part of the formulation of the 6th five-year plan -National Socio-Economic Development Plan (NSED 2006-2010). Since then, 7 RTIMs were organized in Vientiane (the last RTIM was organized in 2012). During the 2005 RTIM, the Government of Lao PDR also announced to establish Sector Working Groups (SWGs) mechanism that is led by the Government and would build on the donor working groups that were established in December 2003. Prior to the policy dialogue held in the Vientiane capital, during the RTM/RTIM, a provincial consultation meeting has been held since 2008.

4. In recent years, the Round Table Process has evolved from one-off event to an increasingly continuous and inclusive process, which aims to facilitate an increased mutual understanding and consensus between the Government and DPs with respect to development policies and strategies, and to improve coordination and cooperation regarding Official Development Assistance (ODA) to Lao PDR. Traditionally, the RTMs were perceived as a forum between the national Government and DPs. However, an important evolution is the active participation and contribution of provincial authorities and other development stakeholders including civil society and private sector to ensure the national policy dialogue reflects what is actually happening on the ground and in line with national development plans.

1.2 2014 Round Table Implementation Meeting (RTIM)

5. The 11th High Level Round Table Meeting (2013 HL RTM) organized in Vientiane from 19th to 20th November 2013 produced 16 Action Points for follow-up by relevant parties. The action points are produced based on constructive dialogue and mutual understanding among various national and international stakeholders. They are categorized into four broad areas: macro-economic management and growth, off-track MDGs and action plans, governance reform, and development cooperation for results (please refer to Annex 1 of this Document for all 16 Action Points).

6. With the success of the 11th High Level Round Table Meeting (HL RTM) organized in 2013, the 2014 Round Table Implementation Meeting (RTIM) is organized in

conjunction with the annual implementation of the 7th NSEDP where the preparation for the final annual plan of the 7th NSEDP and the 8th NSEDP (2016-2020) is also taking place. The 2014 RTIM provides a timely opportunity for the Government and DPs to share views and thoughts on how lessons learnt from the annual NSEDP (2013-2014) implementation and action points from the last HL RTM and the various global events can be applied in the last year of the 7th NSEDP and the strategic direction for the 8th NSEDP and beyond. With these, the objectives of this year RTIM are, therefore, a) to highlight the 7th NSEDP annual achievements and challenges and then priorities and targets of the 7th NSEDP (2014-2015) and the preparation of the 8th NSEDP (2016-2020); b) to report on the progress of follow up action points from the 11th HL RTM; and c) to identify practical actions and map out how medium and long term resource requirements can be mobilized for the 7th NSEDP and MDGs by 2015 and beyond.

1.3 2014 RTIM Background Document

7. To guide the RTIM participants on background and key contents of key policy issues during the RTIM, this Background Document is prepared and structured around the 2014 RTIM agenda. The progress of the implementation of the 2013 HL RTM 16 action points is reflected in the text of this Background Document and the Annex 1 of this document provides an actual list of the mentioned action points. The production of this Document reflects and it is mainly based on the contributions of relevant line Ministries (LMs) and all Sector Working Groups (SWGs) who provided sectoral progress reports based on the 2014 RTIM guideline shared with them on 14th August 2014. Follow up meetings with relevant SWGs were also organized in September to brief about the structure of this Background Documents and inputs required and to response to any questions that SWGs might have over the Document.

8. All sectoral progress reports submitted by SWGs capture three broad areas. First, most SWGs report on progress and status of sectoral activities as per their work plan. Second, update on SWG internal and cross-coordination including south-south cooperation, capacity development initiatives, gender mainstreaming, and other cross-sectoral themes are also reported. Third, SWGs provide a brief narrative on the implementation of the 2013 recommendations, which are relevant to their sectors.

9. This Background Document has four Chapters. After this introduction, Chapter 2 provides a snapshot of the annual implementation of the current 7th NSEDP (2013-2014). Chapter 3 highlights key activities and progress in enhancing partnership for effective development cooperation and better development results. Finally, Chapter 4 provides the way forward which outlines key milestones in term of the Government's strategic direction and future national planning for sustainable development (a long-term and medium-term socio-economic development strategy and plan)

Chapter 2 - Snapshot of annual implementation of the 7th NSEDP (2013-2014)

2.1 Overall macro-economic achievements and challenges

10. Fiscal year 2013-2014 marks the fourth year of the implementation of the 7th National Socio-Economic Development Plan (NSEDP 2011-2015). The Lao economy continued to grow with a slightly slower pace in 2013-2014 compared to those in the previous years. The growth has been fueled by a vibrant resource sector, continued FDI-financed investment and gradual improvements in the macroeconomic framework. A number of performance targets as stated in the annual NSEDP (2013-2014) were being achieved despite the unstable outlook of the global economic. The society has maintained security and order, and people's livelihoods have gradually been enhanced [Following texts under this section address Action Points 1 to 4 of 2013 HL RTM].

2.1.1 Economic growth

11. Building on achievements over the past years under the current five-year plan period, GDP growth has continued to be robust although its growth rate declined from 8% (2012-2013) to 7.6% this fiscal year (8% planned). However, the growth rate of Lao economy is considered the highest in the region and faster than the average growth rate of developing Asian countries, which is around 6.5%.

12. The major source of the growth is service sector (wholesale and retail trade, tourism, transportation and telecommunication), which has recorded a 9.3% increase (around 98% of planned). The industrial sector in particular extractive industries, construction, food and non-food processing came second with a growth of 8.7% (around 73% of planned) and agriculture has grown by 2.9% (around 88% of planned). The contribution of these three sectors to the GDP growth varies. Service contributed 3.5 percentage points (accounted for 39.1% of GDP). Industrial sector contributed 2.5percentage points of the GDP growth (accounted for 28.8% of GDP) while agriculture contributed 0.8percentage points (accounted for 24.4% of GDP).

Table 1: Key macro-economic achievements and targets

Macro-economic indicators	FY 2012/2013	FY 2013/2014 (Estimate)	FY 2014/2015 (Targets)
GDP per capita	\$1,534	\$1,692	\$1,860 (Target \$1700)
GDP growth rate	8%	7.6%	7.5%
- Agriculture	3.1%	2.9%	3.0%
- Industry	7.4%	8.7%	8.9%
- Services	9.7%	9.3%	9.1%
Budget deficit *	6.4%	4.4%	4.0%
- Revenue collection	24.4% of GDP	24.3% of GDP	22.5% of GDP
- Budget expenditure	30.8% of GDP	28.7% of GDP	26.5% of GDP
Exchange rate	7,867.92 Kip/USD **	8,000.9 Kip/USD**	+/-5%
Inflation rate	5.64%	5.16%***	Less than GDP growth (%)

Source: Ministry of Planning and Investment (Department of Planning) and Ministry of Finance (Department of Fiscal Policy)

* More detailed information is highlighted under Table 2

** six month figure

*** twelve month figure

13. One key factor driving economic growth is the level of investment - public investment, domestic private investment and foreign direct investment (FDI). In fiscal year 2013-2014, total investment is estimated to reach about 34,877.41 billion Kip slightly increased (estimation) from 33,141.49 billion Kip for fiscal year 2012-2013.

14. Within the public investment programme (PIP), the Government has been implementing a number of projects in priority areas such as transport, agriculture, health, education and rural development. For 2013-2014 (The first half of the fiscal year), there were 2,469 projects implemented totaling 2,333.09 billion Kip. Of this total amount, 1,385.31 billion Kip was financed by domestic funds and the rest was financed by external sources ODA included.

15. ODA, as generated by the AMP and manual collection by DIC/MPI, is estimated to be at a level of nearly USD 795.18 million in actual terms for fiscal year 2013-2014. This total ODA amount covers 784 projects (644 grant project amounting to USD 470.92 million, 58 concessional loans project amounting to USD 242.35 million and 82 technical cooperation projects amounting to USD 81.91 million).

16. Domestic private investments for fiscal year 2013-2014 are expected to be around 2,624 billion Kip increasing by a small margin compared to the previous fiscal year (2,476 billion Kip – 2012-2013).

17. For foreign direct investment, a decrease in foreign private capital has been recorded over the year. The approved investments were approximately 8,880 billion Kip covering 33 projects.

18. Although the economy is growing fast, it is becoming less diverse and GDP growth, which remains high, is trending downward. Mining and electric power exports accounted for about 65-70 per cent of total exports during 2010 - 2014, a share which is expected to rise further in the coming years. Lao PDR's ability to attract inward investment compares favourably with regional comparators and the LDC average - although investment is almost entirely resource-seeking rather than efficiency-seeking (about 80 per cent of FDI are invested in the mining and energy sectors).

19. As an initial step to diversify the investment, the Government has recently been focusing on special economic zones and securities exchange. Since 2013, investment in special economic zone was also active especially in Boten Golden Land Specific Economic Zone, Golden Triangle Special Economic Zone, Vientiane Industrial and Trading Park-Nonthong, and Saysetha Development Zone. For Vientiane Industrial and Trading Park-Nonthong, 50-60 percent of land area has been booked by 26 overseas companies, of which 17 companies have already registered.¹

20. Investment in Lao Securities Exchange continued to increase. The Composite Index closed at 1,334 (December 2013),² increased by 29.93% compared to 2012. The average share prices of EDL-Generation Public Company and Banque Pour Le Commerce Exterieur Lao Public rose by 31.20% and 13.01%, respectively. The average daily trading volume increased from 93,000 shares (worth 500 million Kip) to 107,000 shares (worth 761 million Kip) in 2013. This shows that investors were more interested in investing in Lao

¹ All figures and information are highlighted in the Macroeconomic Outlook for 2013 and the Outlook for 2014 by NERI.

² Source - the Macroeconomic Outlook for 2013 by NERI.

Securities market. In December 2013, Lao Securities Exchange listed a new company: Lao World Public Company.

21. In addition, the priority of the Government is to mitigate any resource-induced volatility as much as possible, including coordinated fiscal and macroeconomic policy without overheating the economy; development of the financial sector; diversification of the non-resource economy; trade facilitation; the improvement of linkages between resource industries and the rest of the economy, as well as improving the investment climate in non-resource sectors.

22. The Government continues to integrate more closely into the rapidly growing regional economy through the implementation of trade commitments both multilaterally and within the Association of Southeast Asian Nations (ASEAN), the maintenance of relatively low tariffs, and through improved physical infrastructure and connectivity with neighbours in order to be well prepared for the ASEAN Economic Community (AEC) by 2015. This has resulted in strong growth in cross-border flows of goods, services and investment.

23. Since 2010, Thailand, China and Vietnam have increasingly become main export destinations as well as principle sources of imports for Lao PDR. Between 2010-2014, Lao PDR's merchandise export has been growing at average rate of about 35% per year with both resource and non-resource exports growing at more than 30% a year. However, Lao PDR is expected to become increasingly dependent on mining and electric power exports in coming years. While these two sectors accounted for 67% of total exports in 2013, this share is expected to rise to 77% in 2020. Strong import growth that has accompanied the economic upturn has been characterized by steady growth in the import of consumption goods alongside a slightly higher rate of expansion in the import of capital goods associated with mining and hydropower, although despite growth in absolute values, the overall proportion of trade to GDP has fallen slightly.

2.1.2 Macroeconomic stability

Price stability

24. For the first half of the fiscal year 2013-2014 (5.16% for the whole year – estimation), average inflation rate was 6.21%, which was higher than that of the same period for the fiscal year 2012-2013 (4.85%) and remained below the growth rate of GDP. For the monthly inflation rate, it is on the decline reducing from 6.94% (November 2013) to 6.65 (December 2013), to 5.99% (January 2014), 5.66% (February 2014) and to 5.32% (March 2014). For June 2014, the inflation rate was 4.26%. Food and non-alcoholic beverage category are the main factors contributing to the total inflation rate. Especially, the inflation of fresh food products and meat was 12.64%. The next category contributing to the total inflation was restaurants and hotels (9.38%) and clothing and shoes (6.79%).

Monetary stability

25. Exchange rate during the first half of the fiscal year 2013-2014 fluctuated. However, in general, Lao Kip maintained its stability. On average, compared to that of the same period for the previous year, Lao Kip depreciated against US dollar by 1.66% (from 7,867.92 Kip/USD to 8,000.90 Kip/USD). At the same time, Lao Kip appreciated against Thai Bath by 3.59% (259.32 Kip/Thai Bath to 250.33 Kip/Thai Bath). The key reason behind these exchange rate movements was the depreciation of Thai Bath against US Dollar due to the political unrest in Thailand despite the fact that the Central Bank of Thailand reduced the interest rate from 2.50% to 2.25%.

26. The foreign currency liquidity shortage gradually improved due to various measures taken by the Bank of Lao PDR and the depreciation of Lao Kip. The situation returned to its normal level from November 2013 onward. However, in the end of December 2013, exchange rate at commercial banks still faced quantity limitation. This required the relevant agencies to monitor, administer and manage exchange rate that reflects the reality more and to maintain an adequate level of international reserves for precautionary needs. Foreign currency reserves for the first six months of 2013-2014 had slightly increased. Reserves were USD 739.53 in March 2014 (equivalent to 5.4 months of imports) increasing from USD 583.44 in September 2013. Overall, the monetary situation has been calm over the year but there is a vulnerability to external shocks as foreign exchange reserves are still low with high current account deficit.

27. Interest rates for deposits and loans of commercial banks move in directions that promote saving and credit – deposit interest rates increase while credit interest rates decline. From 2012 to 2013, short-term (one year) loan interest rates declined from 13.48% to 12.93% for a Kip account, from 8.54% to 8.44% for a US Dollar account, and remained at 9.32% for a Thai Bath account. Short-term (one year) deposit interest rates increased from 8.72% to 9.01% for a Lao Kip account, from 3.64% to 3.96% for US Dollar account, and from 3.61% to 4.42% for a Thai Bath account.

28. Expansion of money supply (M2) has been witnessed during the first six months of the fiscal year 2013-2014. At the end of March 2014, M2 expanded by 15.88% since the end of last fiscal year (September 2013).³ The main reason for the expansion of M2 was an increase in net domestic assets while net foreign assets declined. Also, the credit to the Government increased and this reflected the fiscal liquidity shortage. In addition, credit to the economy increased as well. Most of credit to the economy went to construction and trade and industry-handicraft activities while credit to agriculture and service sectors remained stable.

Fiscal stability

29. For fiscal year 2013-2014, fiscal deficit has reduced significantly if compared to that of previous years. According to Table 2 below, it was estimated to be around 4.4% of GDP (net domestic financing: 2.4% and net foreign financing: 2.0%). This is due to tightening measures to control expenditures and strengthen revenue collections. Some key measures include a cancellation of civil servant's allowances for the fiscal year and only allow the salary index increase. Overall, for fiscal year 2013-2014, total revenue is estimated to be at the level of 22,038 billion Kip (24.3% of GDP) (96.72% of the amended budget plan) including 17,168 billion Kip from domestic revenues (18.9% of GDP) (95% of the amended budget plan). On the expenditure side, the total government expenditure is estimated to be at the level of 26,016 billion Kip (28.7 % of GDP) (Current and capital expenditures of 18.2 % and 10.5 % of GDP, respectively).

³ NSEDP 2014-2015

Table 2: Budget revenue and expenditure

Items	FY 2012/2013		FY 2013/2014 (Estimate)		FY 2014/2015 (Plan)	
	Amount (Billion Kip)	% of GDP	Amount (Billion Kip)	% of GDP	Amount (Billion Kip)	% of GDP
Total revenue and grants	19,586	24.4	22,038	24.3	25,815	22.5
Domestic revenue	14,674	18.3	17,168	18.9	20,536	17.7
Grants	4,912	6.1	3,593	5.4	5,279	4.8
Total expenditure	24,665	30.8	26,016	28.7	27,156	26.5
Current expenditure	15,888	19.8	16,514	18.2	16,621	16.2
Capital expenditure	8,776	10.9	9,503	10.5	10,535	10.3
Overall cash balance (deficit)	(5,078)	(6.4)	(3,978)	(4.4)	(1,341)	(4)
Financing						
Domestic financing (net)	3,905	4.9	2,145	2.4	804.6	2.4
Foreign financing (net)	1,172	1.5	1,832	2.0	536.4	1.6

Source: Ministry of Finance (2013-2014)

30. The revenue collection for the 2013-2014 fiscal year did not meet the amended target despite cuts being made to the original budget plan. Over the fiscal year, the total revenue collection represented only 96.72% of the amended budget plan. Of the total revenue collected, domestic revenue collection presented 95% of the amended plan (19,229 billion Kip). Grants provided by various donors to Lao PDR reached 103.33%, exceeding the plan by 3.33%.

31. The budget shortfall has resulted in slowing payment of salaries for state employees as well as payment for administration spending. The last fiscal year was the most difficult year Lao PDR has experienced, in terms of seeking sufficient budget to fulfill spending requirements. To address the matters, some key measures that the Government will take include streamlining organizational structure and modernizing the financial sector to ensure more effective and transparent performance along with formulating necessary regulations to manage finance (in particular the importance of improving revenue and administration and fiscal discipline) and pay greater attention to human resource development to ensure that finance officials are ethical, moral, as well as having sufficient professional knowledge.

2.2 Sectoral development

32. Together with an effort to maintain the rate of economic growth, the Government has committed to accelerate the achievement of various important milestones in building physical foundation in key economic and sectoral sectors and cross cutting areas. In particular, a number of the NSEDP social development targets are likely to be met while there are areas where the stake are still high and huge challenges need to be addressed.

2.2.1 Key economic sectors

Agriculture and forestry

33. One of the development priorities for Lao PDR in the coming years is to help improve the livelihoods of large agricultural workforce by increasing productivity in the agricultural sector. With 70 percent of the workforce engaged in agriculture, Lao PDR remains primarily an agrarian economy. For economies that are categorized as “agrarian”, raising agricultural productivity is the key priority to improve well-being from work. In the shorter term, higher agricultural productivity will help generate better livelihoods for the

4.5 million Lao people living on farms. Over the longer term, increased productivity on the farms would eventually lower the need for labor, freeing up agricultural workers to move to more productive jobs in other sectors.

34. At the same time, the creation of attractive off-farm employment opportunities needs to be promoted. To help create more attractive off-farm employment opportunities, barriers to doing business in Lao PDR must be removed to encourage investment and spur productivity growth in diversified sectors. In particular, action is needed on three fronts, namely:

- Further deepening economic integration;
- Continuously improving business enabling environment; and
- Enhancing enterprise productivity and competitiveness.

35. The agriculture and forestry sector is estimated to grow above 3% during the fiscal year 2013-2014 (first six month growth, according to the NSEDP 2014-2015, is 2.9%). Overall, agriculture and forestry production has improved and is able to supply production for basic domestic needs. The focus has still been on diversifying agriculture systems, the production of cash crops, meat, vegetables, other commercial plantations, livestock and fishery production. The production of some of the main food and vegetable items has increased, namely of rice, corn, sugarcane, coffee, tea, tobacco, peanut, soybean, green bean, cassava and cotton, in addition to livestock. In particular, the total rice production is estimated to be around 4 million tons (3.28 million tons for yearly rice production and around 0.7 tons for the production of rice and other staple food crops in the mountainous areas).

36. This is a satisfactory performance due to gradually increasing investments (both in terms of FDI and ODA) in the sector. Currently, 620 companies (289 domestic and 331 foreign) are registered with a total budget of USD 2.317 billion (USD 188 million - domestic investment and USD2.1 billion - foreign investment). This figure increased by 5.62% compared to last year. Also, there are 75 ODA projects implemented by 42 international development agencies/organizations including INGOs registered with the Ministry of Agriculture and Forestry (MAF) representing a total investment of USD 442 million.

37. The Government has also invested in 173 agriculture and forestry projects amounting around US\$12.5 million. Among these projects, 138 projects (equivalent to USD 2.25 million) are for the sector infrastructure program and institutions including research, extension and monitoring. There are also 4 projects by Nam Theun 2 (around USD 250,000) focusing on the development of technical agricultural centers and local capacity development in rural areas. For preserving forest resource and environment, there are 12 projects, which is equivalent to USD1.875 million. Finally, 19 projects covering the rest of the total expenditure are for the construction and rehabilitation of priority irrigation systems in all provinces and Vientiane.

38. In 2014, the Agriculture Development Strategy to 2025 (ADS) and Vision 2030 has been approved by the Government. They were developed based on consultations which took place at Agriculture and Rural Development SWG level and with DPs. The overall objectives of the ADS is to contribute to rural development, preserve Lao culture, protect environment and contribute to the stability of ecosystems. Both ADS 2015 and the Vision 2030 formulated with the dual aim: 1) ensuring national food security through clean, safe and sustainable agriculture, and 2) building an agriculture production system which can greatly contribute to the nations' economy in line with its objectives of industrialization and modernization. For the development of the sector, 9 priority commodities were identified

at the national level – rice, corn (maize fodder), coffee, sugarcane, cassava, rubber, medicinal herbs and Non-Timber Forestry Products (NTFPs), wood processed products and cattle. Also, some significant and practical measures and processes formulated as part of the strategy include: policy dialogue and policy enforcement; Improvement of policies on taxes, credit, subsidy, guaranteed prices, stock creation; Improvement of legislation, coordination mechanism, cooperation for investment, organization and development of human resources, and gender balance.

39. 2014 was also celebrated as the “International Years of Farming Families” to emphasize the role of farming family in food security and sustainable development. Livelihoods of more than 80% of the Lao population are dependent on agriculture activities. MAF envisions transforming its role from direct service delivery to smallholder farmers to the facilitator of service provision and involving private sector, non-profit association including farmers’ organisations in service delivery. Emphasizing the benefits of being part of a group and contribution they can make in the development of the agriculture sector, a Lao Farmers Network (LFN) was established in early 2014 facilitated by the Sub sector on Agribusiness. Over the period of 2015-2018, the LFN aims to improve their organizational structure, expand membership, establish information center and share lessons to improve the productivity of agriculture sector.

40. In addition, there was also some development in other areas. For instance, the preparation of the Uplands Development Strategy (UDS) Action Plan and Investment Plan was an important area of work, multi stakeholders’ consultation and achievement in 2014. Much consultation on the UDS action plan took place through focus group and bilateral discussions with key ministries and DPs, and a first draft of the UDS investment plan was completed and presented to Sub-SWG-Uplands. Agro Biodiversity is another area that was formally discussed during 2 Sub-SWG meetings which dedicated to presentations and exchanges on the status of Lao rice genetic resource maintenance and on Indigenous, forest-based, Medicinal Plants (MP) harvested for both domestic use and export market. To accelerate the progress towards MDG 1, members of the Sector Working Group on Agriculture and Rural Development (SWG-ARD) led by MAF actively participated in elaborating and launching the Multisectoral Food and Nutrition Security Action Plan (more discussion under section 2.3.2). The Policy Think Tank (PTT) has also been actively operational in a dialogue and consensus building exercise to address critical national policy issues that impacts actions at all levels and to support the improvement of livelihoods among rural poor.

41. On the environmental aspect, in particular, the forest coverage target under MDG 7, the review of the Forestry Strategy to 2020 (FS 2020) was conducted by the Sub-SWG on Forestry in 2014. In addition, MoNRE is currently preparing a report on the implementation of MDG 7 (A technical team has been on board and a technical work plan has been adopted. Then, the MDG 7 implementation report is expected to be available by March 2015). The following challenges limiting the implementation of the FS 2020 were discussed at the Sub-SWG-Forestry level such as limited capacity, inadequate management, and others on the sector performance. A few recommendations were also formulated and discussed such as: reviewing the FS 2020 funding strategy, strengthening the information system, improving transparency, discussing the management of rubber plantations (which represents 80% of existing tree plantations), improving M&E mechanisms (including indicators), taking balance between prioritized actions and implementing capacity, including identified objectives and prioritized actions into the five year plans of all relevant ministries and departments, and ensuring consistency with and connection to all relevant national strategies [*Action Point 5 and 9 of 2013 HL RTM*].

Infrastructure and transport

42. Transport infrastructure in Lao PDR is at an early stage of development as demonstrated by the road density as well as by the road quality in many parts of the country. To increase industrialization of the country, the Government has emphasized infrastructure development as a critical need. In particular, being a landlocked country, Lao PDR depends heavily on road transport for economic development. The increase in the road network has been accompanied by an even faster growth in the number of vehicles across the country. However, remote areas still have low traffic density due to the low level of their economic activities.

43. In recent years, regional connectivity has been emphasized. The country's transport strategy, set forth in the most recent National Socioeconomic Development Plan (NSED), aims to provide transport infrastructure for the entire country so that the population can more readily communicate and participate in development activities as well as interact with neighbours and markets outside of the country. Attention to primary roads will continue, but increasing emphasis is placed on GMS road links, rural transport infrastructure, and railways development. In the 7th NSED, investment in infrastructure and transport has been identified as significant for development. The Government has set a target budget allocation for infrastructure development projects at 35%.

44. For the fiscal year 2013-2014, some selected key achievements of infrastructure and transport sector include the construction of Mekong bridges in four key locations – Donkhong (Champassak), Lao-Myanmar, Paklay-Khokkhaodor, and Pakbeng. In addition, the Mekong bridge at Thadeua-Pakkhone on National Road 11 in Xayabouli province was completed in late 2013. Lao-Thai Railway Phase II is ongoing project (Construction period 18 months) from September 2013 to March 2015. New domestic airports have been under construction, such as Attapeu airport with 66.8% completion rate and Nongkhang airport in Huaphan province which has recently started. In addition, upgrading and renovating the Parkse airport is nearly completed. The sector is also implementing various key projects (15 projects in total) to address urban development and water and sanitation sub-sector.

45. In addition to the public investment on infrastructure and transport, the Government has encouraged the involvement of private sector in the infrastructure development. For instance, Savan-Lao Bao Railway development has recently been invested by Malaysian company to connect east and west economic corridors. Pakayong Bridge has been invested by a private Lao company to link the national road No. 13 the north and the south.

46. The focus of the sector has also been on road construction and maintenance. For the fiscal year 2013-2014, road maintenance management of the national roads was established for four regions. This is an area of concern. Specially, rehabilitated paved roads have been deteriorating due to lack of regular maintenance, both routine and periodic, particularly during the rainy season and due to natural disaster. Although the Road Maintenance Fund has been set up and operationalized, it is focused on national roads and highways, and can allocate only a limited portion of revenues to provincial and rural roads. This has resulted in neglect of rural road maintenance, which is also due to insufficient funding by the provincial governments.

47. The Lao PDR's development plans have consistently supported the expansion of the road network but have also recognized the limitations imposed by funding constraints and other challenges. Despite large investments to develop the national roads and highways, the road network remains less developed due to funding constraints for

rehabilitation. Most remote parts of Lao PDR remain inaccessible and depend on earth roads, which are often impassable during the rainy season. Approximately 70% of the national roads are paved with a bitumen surface. Further, besides central budget allocations, MPWT depends on funding from multilateral and bilateral development agencies, whose funding has been mainly channeled toward developing the national road network, i.e., highways, often overlooking the smaller and more remote provincial and rural roads. Lack of adequate funding has been the main constraint faced by the sector, which is also evident by the delays in the availability of counterpart funds.

48. Institutional capacity has also been the focus of the sector. The capacity to plan, implement, monitor and evaluate, and maintain transport projects is currently insufficient to keep pace with the increasing size of the network. Although several capacity development programs have been implemented, gaps remain in various areas, such as project management, safeguard monitoring, rehabilitation and maintenance planning, and procurement.

49. In recent years, it is evident that urban transport is a matter that needs urgent response. The pressure on urban transport systems has been building up slowly. While the number of vehicles has been increasing in line with national figures, urban infrastructure in Vientiane and other large towns needs to be upgraded, and mass rapid transit systems must be introduced.

50. Road safety has also been an area that needs special attention in recent years. Road improvement is typically linked to higher vehicle speeds, which in turn leads to more road accidents. In addition, there has been an increase in the severity of these accidents in terms of injuries and fatalities.

51. Another emerging challenge linked to road safety is vehicle overloading. Logging trucks and international traffic on some road sections continue to be main sources of overloading. This leads to road damage, reducing the life of the road. Further, existing weigh stations on national roads do not adequately enforce vehicle axle controls, while provincial and rural roads lack such stations. Finally, road construction remains a challenging task, owing to the country's generally steep terrain and propensity toward landslides. Slope stabilization techniques for reducing landslides tend to be costly, reducing the economic viability of projects.

52. On water and sanitation, there are various barriers in waste-water management and sanitation practice in Lao PDR. Currently, there is unplanned sanitation and waste water treatment system and there are insufficient trained staff and inadequate funds for research and implementation. Also, among other challenges, community awareness about waste-water and sanitation practices needs urgent response.

Industry, trade and private sector

53. Fiscal year 2013-2014 has been a year for the implementation of the second generation of the Trade and Private Sector Development program following the DTIS update as highlighted in the previous years sector report. Despite a number of new challenges because of the depth and breadth of the program, initial progress has been made in major areas. For instance, the Government of Lao PDR has focused on 1) the establishment of conducive trade and investment; and 2) improving competitiveness, quality and value of agribusiness, manufacturing and service sectors.

54. On the establishment of conducive trade and investment, incremental achievements were made. The Government has made an effort to fulfill commitments

under AEC and WTO membership by carrying out a number of studies and assessments such as a horizontal assessment of laws, regulations, and administrative practices affecting trade in services [*Action Point 5 of 2013 HL RTM*]. Recommendation and findings have been shared by Ministry of Industry and Commerce with relevant stakeholders for comments through the SWG mechanism. The assessment found that many of the horizontal measures which impede the development of the services sector are primarily of a qualitative nature and, in a number of cases, are aimed at achieving legitimate socio-economic objectives. Given the importance of services as key inputs into production and exports, the challenge facing Lao PDR will be to determine the least trade restrictive measures to satisfy non-economic imperatives while facilitating the efficient development of the services industry. On average, the impact of horizontal restrictions on business is appreciably higher at the operations stage than on the market entry phase. Further, horizontal measures are most frequently imposed on the supply of services through the establishment of a commercial presence followed by the temporary movement of natural persons.

55. Also, the assessment of institutional and regulatory framework for telecommunication sector was also completed. Among others, the assessment concludes that in most areas, the primary legislation is already in place or well advanced to ensure the Government has the capacity to enable the required secondary legislation, including establishment of the National Communications Authority, development of a more detailed licensing framework. Some other studies are also under preparation such as a study on the implementation of ASEAN Mutual Recognition Agreements for professional services, and an assessment of regulatory framework for insurance sector.

56. There have been on-going efforts to improve trade facilitation. Information on the Lao Trade Portal is being updated on a regular basis and meetings of the National Trade Facilitation Secretariat have also been held regularly. Among others, the Secretariat discusses practical issues affecting traders (importers and exporters) such as clearance and documentation approval procedures, including import export licenses, rules of origin, SPS certificates and others. Also, computerized customs procedures have been introduced at 11 international customs checkpoints, the system of which are called ASYCUDA*4 and they contribute to trade facilitation.

57. In addition, work on non-tariff measures (NTM) got started with the establishment of working group on non-tariff measures to update database, to ensure all NTM are identified, and to code them properly in accordance to the UNCTAD classification. To help improve trade facilitation, the Trade and Transport Facilitation assessment supported by the World Bank has now been finalized. In total 231 NTMs have been collected and next is to analyse the NTMs in terms of their purpose and of the relative impact they have on the economy. Each of the NTMs will be considered in relation to its significance as a potential barrier to trade and consider whether it should be eliminated or whether it could be simplified.

58. A few activities have now been on going to improve business environment in Lao PDR. Among other, process mapping exercise for starting a business in Lao PDR has now been completed and plan for further simplification has been finalized by an inter-ministerial task force led by Ministry of Planning and Investment. Among others, the reform plan proposes to further streamline and simplify procedures for enterprise registration, tax registration, and sector licensing procedures.

59. Also, the Lao Tax Department has now developed simplified SME (Small and Medium Enterprise) taxation regime to reduce their tax compliance cost. This new regime is expected to be piloted in selected districts of Vientiane Capital by the end of 2014.

Under this area, the fiscal 2013-2014 marks an increased support from development partners. For instance, there was a launch of Private Sector and SME Development Program supported by ADB and the SME Access to Finance Project funded by the World Bank.

60. Furthermore, work on building quality infrastructure has now started. EIF (Enhanced Integrated Framework) project was launched with an aim to increase quality, safety and reliability of Lao products and services, and improve competitiveness through implementing national standards, technical regulations, and formulating and implementing viable industrial development policies based on systematic, comparable and action-oriented country analysis.

61. In term of improving competitiveness, quality and value of agribusiness, manufacturing and service sectors, it is envisaged in the sector roadmap that firm and sector level competitiveness is enhanced through provision of both firm level and sector level quality and productivity improvement support. In particular, a new set of activities aimed to support private sector outside the natural resource sectors to improve their competitiveness in both domestic and international markets has been launched. Some of key activities include:

- The establishment of the Business Assistance Facility to support individual firms in building their skills and experience through two forms of assistance, namely: 1) direct consulting services; and 2) 50:50 matching grants, and
- Finalization of a project proposal with ILO to implement the labor standard and manufacturing productivity improvement schemes to address the labor supply, labor productivity, and buyer confidence constraints for garment industry.

62. Over the past few years, Lao PDR has become a better place to do business for both domestic and foreign firms. According to the World Bank Report “Doing Business 2015 – Going Beyond Efficiency”, Lao PDR currently ranks 148th out of 189 economies, which is a significant improvement compared to last year’s 159th place. A number of new regulations were introduced to improve predictability and transparency in regulatory environment. Despite significant improvement in the business environment, there are still certain gaps between policy and implementation and without reducing this gap the potential of key economic sectors is likely to go unrealized. Further improvement in the enabling environment will require a wide range of sectoral and cross-sectoral initiatives.

63. Another key challenge will be to follow through with fuller implementation of legal reforms enacted in recent years. This will be especially challenging in a post WTO accession environment when, evidence from other post accession countries shows, reform momentum may begin to slow. Similarly, as trade and investment flows become increasing driven by the natural resource sectors, substantial efforts will need to be made to ensure that growth in the more labour-intensive non natural resource sectors is not hindered.

64. A lack of information and understanding by SMEs on the benefits of regional integration and FTAs with Dialogue Partners is also leading to the low utilization rate of the AEC implementation. Therefore, some form of policy coordination is crucial for addressing these issues in order to make the AEC realisation. Supporting business to prepare for the joint market will be key to ensure that the Lao economy will maximise the net benefits from regional integration.

2.2.1 Key social sectors

Education

65. To address challenges and improve education outcome, the education sector has taken an innovative approach to developing the next Education Sector Development Plan (ESDP 2016-2020), by commencing the process with a Theory of Change methodology, thus facilitating a participatory and strategic approach to planning leading to broader ownership. The ESDP 2016-2020 has achievements which can be practically measured against output and outcome targets. The Focal Groups (under the Education Sector Working Group (ESWG)) have taken a leading role in the process, with technical assistance support, to ensure that the plan is aligned with related documents including the National Education Sector Reform Strategy, Mid-Term Review of the current EDSP 2011-2015, and master plan for individual sub-sectors. The ESDP (2016-2020) will be completed by end of May 2015.

66. With the support of Development Partners, the Ministry submitted an application for the implementation of Phase II of the Global Partnership for Education (GPE). This program will support the development of a school based management framework. GPE II will also pilot a reading development approach for children with weak Lao language skills.

67. 2013-2014 Joint Sector Review Mission (JSRM) marks the third occasion for development partners to join with the Ministry of Education and Sports (MoES) to review the education sector's implementation of the Education Sector Development Plan (ESDP) 2011-2015 and the National Education Sector Reform Strategy. The 2014 Joint Sector Review Mission (JSRM) Aide Memoire followed closely the comprehensive Mid Term Review of the Education Sector Development Plan in late 2013 (The ESDP MTR).

68. Progress to improve education outcomes continue to improve: Primary Net Enrolment Rate increased from 97 per cent in 2012-13 to 98 per cent in 2013-14, with gender parity increasing from 0.95 to 0.96. Survival Rate to Grade 5 increased over the same period from 73 per cent to 78 per cent with girls having a 3 per cent margin over boys for survival rate to Grade 5. However, Grade 1 dropout remains the major barrier to achieving MDG2: at a national level, grade 1 dropout improved from 11 per cent in 2012-13 to 9.9 per cent in 2013-14 but not evenly across the country. Grade 1 dropout worsened in 20 districts while 14 showed significant improvement. The 2014 JSRM examined grade 1 dropout as a priority area and identified districts at risk. A workshop is to be held late in 2014 to identify why some districts have improved in grade 1 dropout while others have worsened [*Action Point 7 of 2013 HL RTM*].

69. Grade 1 repetition rates declined from 20 per cent in 2012-13 to 15 per cent during 2013-14, although with variation across districts. Grade 1 repetition rates among boys is 2 per cent higher compared to girls. Grade 1 repetition worsened in eight districts but significantly improved across 24 other districts. The JSRM recommended a workshop be held late in 2014 to identify why some districts have improved in grade 1 repetition while others have worsened. These workshops will be supported by development partners [*Action Point 7 of 2013 HL RTM*].

70. The Ministry of Education and Sports is determined to improve the quality of higher education to ensure that the university graduates have sufficient knowledge and skills entering to the labor force. Since labor market demands are changing quickly, the curriculum has been updated to meet the country development, and labor market demand. More facilities are introduced in universities for students to practice skills before entering the labor force. In this regard, the national human resource development (HRD) strategy

for 2016-2020 has been revised with full involvement of line ministries across the country to ensure that it reflects the country and regional development priorities. The HRD action plan is being prepared which aims to include the needed skills in both public and private sectors; the implementation of HRD action plan will be a great challenge for the government of Lao PDR.

71. The Government has also focused on increasing vocational education and skill training in industry and service sectors. Enrolments in technical and vocational programs have continued to increase. Total enrolments increased from 20,886 (female: 7,717) in 2012-13 to 23,248 (8,848) in 2013-14. Enrolments in 9+3⁴ level courses have also increased; from 2,029 (600) in 2012-13 to 3,114 (886) in 2013-14 but account for only about 13 per cent of total enrolments, showing that most students are studying at the Diploma or Higher Diploma level. Initial information suggests that enrolments for 2014-15 have also increased over 2013-14. This is probably caused by 1) decrease in intake to university courses; 2) suspension of bachelor program offering in the private sector; 3) improved quality of TVET infrastructure, equipment and particularly dormitories; and 4) increased opportunities for scholarships [*Action Point 5 and 7 of 2013 HL RTM*].

72. Improvements in teaching facilities, dormitories and increased scholarships have been supported by projects funded by ADB, GIZ and KfW. A new project (Vocational Education in Lao - VELA) funded by Germany, Switzerland and Lao PDR has recently begun, including a component to improve inclusive access by providing scholarships to disadvantaged groups. As part of the development of ESDP 2016-20, development partners are providing technical assistance for specific areas of need. One of these areas is secondary vocational education. So far, curriculum for secondary education has been revised to better serve the development of higher education and technical and vocational education. Textbooks for grade 6-11 have been revised and printed for distribution to all secondary schools across the country, and textbooks for grade 12 are being developed with active involvement of key stakeholders. Also, capacity building of the human resource and national curriculum development of the vocational training in the service sectors have been supported by the IV-JAPAN project funded by JICA, including the training of vocational trainers in the provinces and management personals at central level, with the partnership with VEDI and MoES [*Action Point 5 and 7 of 2013 HL RTM*].

73. To help Lao PDR achieve and sustain the MDGs targets, another area that need attention is an administration and efficiency of teacher management. The ESDP MTR found that teacher supply is not efficient and is consistent with the JSRM field visit findings of oversupply of primary teacher in urban areas since teachers do not go to where they are deployed and there are many volunteer teachers: For example in Samouy district of Saravan province there are 30 volunteer teachers (8 female). In contrast, there is an under supply of teachers in rural areas: For example there is only one grade 1 teacher in Ban Nasanoyai with 128 grade 1 students and one grade 1 teacher in Ban Kokmouang school with 58 grade one students; in Ban Donekhyoung, Toumlan district, Saravan province [*Action Point 5 and 7 of 2013 HL RTM*].

74. There appears to be an under appreciation for multi-grade teaching, which may be a solution for dealing with large numbers of students rather than recruiting an oversupply of teachers. Multi-grade teaching is not only beneficial in achieving greater efficiency in teacher deployment but also enables children to be allocated to classes based on their

⁴ 9+3 refers to a three year course in skills training given to students with a pre-requisite of formal schooling (usually nine years of primary and lower secondary).

abilities to enable peer learning. To address the issue, the ESDP MRT provides some key recommendations [*Action Point 5 and 7 of 2013 HL RTM*] such as:

- No additional primary and lower secondary teachers be appointed for school year 2013/14. However, an additional 4,300 teacher positions and 177 administrative positions were created in 2013/14. It seems that if MoES does not take up the annual new staffing positions from Ministry of Home Affairs (MoHA) any potential savings may not be passed back to MoES. Thus, there is no financial incentive for MoES to increase the efficiency of teacher deployment.
- There is no functioning Personnel Management Information System (PMIS) database to develop an appropriate staff deployment plan, including teacher upgrading requirements, performance assessment and links to both EMIS and FMIS. Some technical support is being provided but more work needs to be done, particularly in enabling linkages with other databases. An assessment and review of the existing allowances structure and system for granting of honorific titles should be undertaken.
- Either a freeze or a reduced cap on intake to Teacher Training Institutes to encourage redeployment of surplus teachers.

Health

75. The delivery of high-quality health services is important for the development of Lao PDR. Therefore, scaling up the current health response, increasing access to health services and maintaining their quality are necessary. At the policy level, to strengthen health governance and system reforms for the achievement of national goals and MDGs, in particular, MDG 4 and 5, the Prime Minister issued a Decree to appoint a Commission for Health Reform (PM Decree No.29/Gov dated 20/01/2014). At the same time, a framework of Health Reform has now been established and approved on 24 March 2014 during the meeting of the National Commission for Health Reform [*Action Point 8 of 2013 HL RTM*].

76. At the implementation level, the 7th five year Health Development Plan (HDP 2011-2015) has been the key framework to guide all related health activities. Hygiene and health promotion programme has been focusing on mother and child health and primary health care. Disease prevention and control of communicable disease programme pays attention to epidemiology, medical analysis, prevention and control for HIV/AIDS infection and sexually transmitted infections (STIs), malaria control, parasites and insects and tuberculosis control.

77. The most updated estimation by the Maternal Mortality Estimation Inter-Agency Group reported that the Maternal Mortality Ratio (MMR) between 1990-2013 in Lao PDR has decreased by 80% from 1100/100,000 to 220/100,000, which met the expectations of the government set for 2015 (260/100,000). Laos has the 8th-largest reduction rate among 166 countries experienced MMR declines.

78. Although Lao PDR has made notable progress in improving maternal and child health for achieving the MDGs, the key Mother and Child Health (MCH) indicators (MMR, IMR, U5MR, and nutrition) are still challenging. Disparity in health outcomes is remaining.⁵ Quality of health service, low utilization of MCH services, and financial and non-financial barriers, high Out-of-Pocket expenditure (46% of Total Health Expenditure - THE⁶) are one of the multi-factorial causes.

⁵ The 2006 Multiple Cluster Indicator Survey (MICS), and the 2005 Lao Reproductive and Health Survey (LRHS).

⁶ Lao PDR National Health Accounts FY 2009-2010.

79. To cope with such multi-factorial causes, particularly the financial barriers, Lao government has introduced a national free MCH policy. The aims of this policy are to replace user fees paid as Out-of-Pocket by pregnant women with case-based payments by the government, including for critical MCH services. In addition small cash payments are provided to patients to cover opportunity and transport costs *[this paragraph and the following texts under this health section address Action Point 8 of 2013 HL RTM]*.

80. The free delivery scheme was piloted through the HSIP (Health System Improvement Project) in two districts in Savannakhet, 2009-2010. Currently, the free MCH scheme is scaling up throughout the country by 2015. However, the implementation of the policy is channeled from government budget (Nam Theun2) and from development partners in their proper geographic target areas, using different mechanisms, and different guidelines. For instance, the Health System Improvement Project (HSIP) with additional Fund, a World Bank financed project, uses the same mechanism as Health Equity Funds; the Community Nutrition project applied Conditional Cash Transfers, which provides reimbursement to health facilities that provided these services without user fees to pregnant women who deliver at institution and attend ANC and PNC as scheduled; WHO use the Vouchers, etc.

81. Recently, the Government has endorsed a new decree on free maternal health and children under-five free services (Decree 273/PM, 19 August 2014). MOH has put this direction into in action. At the same time, certain lessons learned from previous intervention on free MCH need to be taken into consideration as well, such as better oriented for the poor and remote area, finalize unification of the free MCH guidelines, improve management of the implementation of the project, with effort on the verification of the service delivered and the payment mechanism. During the transition period for merging the free MCH scheme within the existing health insurance schemes, MOH have to ensure that the MCH free service policy progressive moves forward, reserving the large share of expenditure for the less wealthy.

2.3 Key cross-cutting/multi-stakeholder issues

2.3.1 Rural development and poverty reduction

82. The poverty reduction has seen a considerable progress. The poverty ratio has continued to decline from 33.5% in 2002-03 to 23.2% in 2012-13 against a 7th NSEDP target of less than 19%. The national poverty has also fallen by 4.3% points compared to five years ago when the previous Local Expenditures and Consumption Survey (LECS) was conducted in 2007/8. According to the report from the National Committee for Rural Development and Poverty Eradication, among the 148 districts, the number of poor districts has actually gone down from last year 48 to 30, and some provinces, such as Champasack, Xiengkhouang, LuangPrabang are succeeding in meeting the target of cutting down the number of poor families below 10%.

Table 3: Regional Trends in Poverty 2002/2003 -2012/2013

	Poverty headcount rate				Poverty gap			
	2003	2008	2013	Change	2003	2008	2013	Change
Lao PDR	33.5	27.6	23.2	-4.3	8.0	6.5	5.5	-1.0
Vientiane	16.7	15.2	5.9	-9.3	3.4	3.4	1.5	-1.9
North	37.9	32.5	25.8	-6.7	9.4	7.7	5.9	-1.8
Central	35.4	29.8	23.3	-6.6	8.4	6.9	5.2	-1.7
South	32.6	22.8	29.2	6.4	7.6	5.6	7.6	2.0
Urban								
Vientiane	15.6	15.3	5.5	-9.8	3.3	3.4	1.5	-1.9
North	30.6	14.6	8.9	-5.7	6.7	2.8	1.7	-1.0
Central	20.1	22.2	12.8	-9.4	3.8	4.3	3.1	-1.2
South	12.8	11.3	16.1	4.8	2.7	2.0	3.5	1.5
Rural								
Vientiane	20.2	15.2	7.5	-7.6	3.8	3.4	1.5	-1.9
North	39.1	36.5	29.9	-6.6	9.9	8.8	6.9	-1.9
Central	39.0	33.5	26.9	-6.6	9.6	8.2	6.0	-2.2
South	35.5	25.5	32.2	6.7	8.3	6.4	8.5	2.1

Source: Lao Statistics Bureau (July 2014)

83. Despite the achievements, the Government acknowledges more work needs to be done to minimize the poverty challenges. Policies for rural development and associated development of the non-resource sector are not yet showing clear results and inequalities between urban and rural, inter-regional and intra-regional remain in evidence. Another persistent poverty factor is that, while in rural communities commercial agriculture has provided necessary conditions for improving livelihoods, not all households have benefited from commercial agriculture. The low quality and low productivity of goods and markets within the community needs to be improved and many of the poor are heavily dependent still on their access to nature or subsistence living as well as relying on government funding.

Table 4 Trends in inequality, 2002/2003 – 2012/2013

	Gini ⁷			
	2003	2008	2013	Change
Lao PDR	32.46	35.04	36.17	1.13
Urban	34.40	35.80	37.51	1.71
Rural	30.24	33.05	32.52	-0.53

Source: Lao Statistics Bureau (July 2014)

84. In order to address the above issues, the Government of Lao PDR has prioritized and invested substantially in rural development through the expansion of roads and infrastructure, provision of revolving funds for community income generation activities, building schools and health facilities, relocation of villages and eradication of slash-and-burn farming. In addition, fighting against poverty requires improved coordination and strategic interventions among stakeholders, community driven approach and participation and a more integrated approach.

⁷ Gini is an index calculated by the World Bank to measure the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution

2.3.2 Nutrition and food security

85. The Government with support from DPs has made considerable progress to accelerate the implementation of existing policies and strategies: 7th National Socio-Economic Development Plan, the National Nutrition Policy (2008) and the National Nutrition Strategy and Plan of Action (2010-2015). In particular, the Multisectoral (Convergence) Food and Nutrition Security Action Plan has been developed and discussed during the 11th High Level Round Table Meeting in November last year. The aim of Multisectoral Plan is to help address malnutrition matter in a practical, effective and a more coordinated manner.

86. The Government is committed to implement this Multi-Sectoral (Convergence) plan. It is important as it will not only help Lao PDR to achieve MDG 1 targets but also it has implications for efforts to achieve other MDGs targets (specially, MDG 2, 4, 5 and 9). This is a complex and challenging task that will tax the limited resources and capacity of the Government. However, efforts by different sectors to implement this Convergence Plan start to prevail in a coordinated fashion. In fact, there is enough progress in some areas to see clearly the areas where progress is distinctly lagging.

87. On the positive front, a National Multisectoral Nutrition Committee has been formed (PM decree 31 July 2013) which will assume overall responsibility for direction and coordination of the Action Plan. The Secretariat has been established as a body for coordination, technical support, and monitoring and evaluation. At the same time, core group of government staff have now been established and there is now a multi-stakeholder platform for discussing Nutrition issues (SUN) - Technical working group on Food and Nutrition Security (Gov + DPs). In particular, a clear set of recommendations by the UN team in consultations with DPs has been identified and shared with the Government of Lao PDR for consideration. Currently, the Government has agreed that the implementation of the Action Plan at the initial phase will be carried out in three pilot provinces (Saravane, LuangNamtha and Oudomxay). The Round Table provincial consultation held in Saravane on 15-17 September 2014 reconfirms the right approach of the Convergence Action Plan and calls for more efforts from stakeholders at all levels to ensure the successful implementation of the plan. Some of the key discussions from this meeting include: 1) a specific review by the National Nutrition Committee and the Provincial sub-committee of the National Nutrition Policy/Convergence plan as part of the annual budget exercise 2) a recognition of the involvement of other stakeholders such as the private sector and CSOs 3) the need to put local communities and their village institutions at the ‘heart of policy making’. During the RT Saravane meeting, the provincial and district government have clearly expressed their commitment to tackle the under nutrition issue in their localities and to subsequently follow up on the institution set up and implementation monitoring [*Action Point 6 of 2013 HL RTM*].

88. Success is, however, far from certain and many challenges remain. Among others, it is important to highlight that the National FNS Secretariat is not an operational agency and the implementation of the Action Plan is the responsibility of the organizations in different sectors. The interventions although well-designed and reasonably could be expected to reduce malnutrition, they must also reach their intended target groups (coverage) in order to see the impact of convergence. Also, the successful implementation requires sufficient technical, financial, and managerial resources to operate well and systematically.

2.3.3 Unexploded Ordnance (UXO)/Mine Action

89. The National Strategic Plan, “Safe Path Forward II” 2011 – 2020 outlines strategic objectives and indicators by which to measure progress for the entire UXO/Mine Sector.

SPF II is aligned very closely with 7th NSEDP and directs that the UXO Sector should focus clearance activities on areas that have been identified as development priorities including the MDGs and LDC graduation aspiration. In addition to clearance, victim assistance is another area where UXO sector has given more attention – but still needs to do much more to ensure better service, broader coverage and a more timely response to the full range of needs of survivors – physical, psycho-social and economic. The goal remains their full rehabilitation and reintegration as productive members of their communities.

90. There have been several areas where progress has been achieved in 2014. For instance, the number of UXO victims was down again for a 6th year in succession from 302 in 2008, to 41 in 2013 and in the 9 months of 2014 there are 38 casualties. As an effort to support victims from UXO, a specific UXO Victim Assistance Strategy has been developed and approved on 14th February 2014. This document was designed as a tool to guide the Victim Assistance unit in the National Regulatory Authority (NRA) to assist UXO victims within the broader disability and development frameworks in Lao PDR. Data collection on victims has been improved. Profiles of 8,581 survivors have been entered into the Information Management System for Mine Action (IMSMA) database with the aim to record their individual needs and to begin to systematically track their progress. This information is available to Ministries, local and international NGOs and donor countries. Over time, the Survivor Tracking System will provide Lao PDR with an accurate picture of survivor needs, an essential step in ensuring that the needs of cluster munitions survivors are addressed in compliance with the UXO Sector Strategy “Safe Path Forward II”, MDG9 and Article 5 of the Convention on Cluster Munitions. In addition, activities on risk education materials and methodologies are expanding even beyond contaminated areas to all provinces in Lao PDR. This is to ensure that Lao people are aware of the danger of UXO no matter where they might move to or travel in the country. The Sector also uses local media – especially radio in rural areas, and is working with the Ministry of Education and Sports to assist them in considering a risk education curriculum to be used in secondary schools to reinforce the education already provided at primary school level [*Action Point 11 of 2013 HL RTM*].

91. The survey and clearance activities have also made steady progress. The government of Lao PDR has established a target of 20,000 hectares per year and around 7,000 hectares mostly have been achieved this year on the basis of full clearance. On 24 March 2014, the NRA Board also granted provisional approval to new survey procedure that was presented in the 5th Meeting in Costa Rica in September 2014, which is being applied more appropriately to the Lao context, and will enable the Sector to focus clearance efforts through a stringent “evidenced based survey process”. The first trial survey in Xiengkhouang and Savannakhet provinces were completed in September 2014 which showed the effectiveness of the new national survey procedures. In addition, in 2014, a Concept Note for the Civil Society Funding Facility (CSFF) was drafted through a series of consultative meetings. The CSFF will be opened for applications from both domestic and international CSOs, primarily in support of expanding evidence-based survey activities.

92. On the sector management aspect, the National Regulatory Authority for UXO/Mine Action Sector (NRA) is in the process of developing a multi-year work plan for the sector through to 2020, reflecting the direction provided in the national strategy. In addition, a comprehensive institutional capacity self- assessment for the Sector was undertaken in order to determine where capacities need to be further strengthened. The results of these assessments were shared and recommendations are being taken forward.

2.3.4 Environment and natural resource management

93. Effective environmental management and climate change is essential for ensuring the sustainable development path of Lao PDR. The increasing incidence and severity of floods and droughts over the past years, together with environmental degradation, threatens progress towards the achievement of the MDGs and the LDC graduation goal by 2020s. To mitigate and address the issue, several activities have been carried out by the Government as well as within the framework of the Natural Resources and Environment Sector Working Group, including forest conservation and the inspection and intercepting the illegal deforestation and aquatic-wildlife especially in the conservation and protected forest.

94. Draft manual and strategy for environmental evaluation have been prepared and there is now a technical tool available for eco-environmental promotion. In addition, provincial environmental management plans for 7 provinces have been prepared and adopted (Sekong, LuangPrabang, Luangnamtha, Savannakhet, Khammuan, Vientiane capital, and Sayaboury). Through the sector working group discussion, there has also been a consultation to review the targets for forest coverage and identify tools to more appropriately classify type and definition of forest in Lao PDR's context [*Action Point 9 of 2013 HL RTM*]. Turning to water resources and meteorology and hydrology, the government has developed a guideline for water quality monitoring, wet lands survey and inventory, integrated water resources management planning and water resources inventory. Then, activities to develop and improve geology and mineral data in the ratio of 1/200,000 and 1/500,000 in northern, central and southern part of the country have been carried out. Finally, on disaster and climate change, the decree on National Disaster prevention and control committee was adopted by the government in August 2013 and its first meeting was held in 2014 to review and discuss the future plan and related activities.

95. In term of land management, measures have been taken to ensure appropriate land allocation in village and district levels including land registration and issuance of land title. Nevertheless, direct issuing land title for non-quality investment remains an issue and can potentially bring negative drawbacks from the environmental aspects such as reforestation, water contamination, community land disputes, etc. As a result, the revision of land policy has taken all possible account of all possible risks. The policy is being finalised and is subject to the National Assembly endorsement in the ordinary session in December 2014 (*Action Point 10 of 2013 HL RTM*).

96. In recent years, the Government has begun to take steps to increase the level of transparency in the mining sector. Transparency (information disclosure) is legislated in the Decree on Environment Impact Assessment (EIA) (2010), EIA Guidelines (Draft, 2011) and the Public Involvement Guidelines (Draft, 2009). In practice, however, transparency within the sector is still limited, particularly in relation to mining payments and tax revenues collected by the government. Starting from FY12/13, the Budget preparation instruction requested revenue departments to separate mining, hydro and non-resource revenues in their budget plans in order to help monitor developments in each revenue sources. Currently, the Government publishes the summary of the budget in the print media and details in the national gazettes. However, the disclosed budget summary does not yet include detailed resource revenue information.

97. In this regards, the Government takes note of the recommendation to prioritize the potential of the Extractive Industries Transparency Initiative (EITI) in supporting the government's mining sector reform efforts, both in terms of the reporting process itself and the collaborative framework provided by the EITI implementation process [*Action Point 9 of 2013 HL RTM*]. The Government strives to find a practical measure to increase

effective management and transparency in the mineral sector to ensure the highest returns and benefits for the country. As the EITI is viewed by many in the mineral sector as a potential tool for supporting these efforts, the Government is in the process of studying how the EITI can be applied within Lao context. The Government recognizes that the EITI process is in line with the goals and strategies of the mineral sector in Lao PDR (mining sector as revenue source for development, rural development and poverty eradication; EITI process supports Sam San Policy) – The implementation of the EITI process is therefore likewise an implementation of the mineral sector strategy of Lao PDR.

98. According to the World Bank Economic Monitoring Report (2013), the EITI is a voluntary global coalition, aimed at enhancing transparency and accountability. Countries implementing the EITI commit to publishing all payments made by oil, gas, and mining companies to Government, and all revenues received by the Government from those companies overseen by a multi-stakeholder group. The benefits include for the Government: Standardized procedures, Improved taxation practices, International credibility (attractive to investors and FDI) – for the Mining Companies: Levels playing field between companies, Improved investment climate, clarity of obligations and accountability, Supports the company’s reputation and the “Social license to mine” – for the civil society: Increased transparency, Improved accountability, sustainable development.

2.3.5 Governance

99. The strategic plan for governance has guided the continuing development of the governance framework during fiscal year 2013-2014. The work in this sector is spread over four thematic areas: public service improvement, people’s participation, rule of law and sound financial management.

Public Service Improvement and Sam Sang (Three Build Directive)

100. Incremental progress is being made in addressing the various policy gaps and capacity development issues in improving public service in Lao PDR [*Action Point 14 of 2013 HL RTM*]. To streamline the state administrative framework, the Government has initiated consultation on the proposed amendments to the Law on Government and Law on Local Administration and on the draft Law on City and Municipality. On-going efforts were made during the year to further improve the structure and operation of the state administration. For instance, Ministry of Home Affairs (MOHA) provided support to the drafting, and review of new and or amendments of decrees and regulations namely: Decree on Ethnic and Religion; Organization and Operation of the Securities and Exchange Commission; organization and operation of Bank of Lao PDR; reorganization of the Ministry of Justice; among others.

101. To help strengthen central-local relations, the Government extended the pilot implementation of PM/16/2012 ‘Sam Sang’ for another year until October 2014. The extension of the pilot is aimed at completing the pilot implementation of Sam Sang, identify key issues that need further clarification and draw lessons learned to inform the subsequent up-scaling of Sam Sang to the other districts and villages outside the current pilot. Some of the issues that may require further study include the following: 1) whether all districts will be delegated the same functions or whether certain functions will be selectively delegated to districts depending on capacity; 2) how to address the personnel requirement of the expansion of Sam Sang to other district given the Government’s fiscal constraint; 3) overall implementation strategy for the expansion of Sam Sang. Some other key activities include expansion of district development fund, monitoring local service delivery, performance-based grant system, strengthening community resilience to climate change through small rural infrastructure.

102. In addition, a number of initiatives were implemented during the year to develop a more effective management of the civil service. These include: 2nd National Examination held on July 19, 2014. A total of 31, 821 examinees took the general examination of which 28, 734 passed. However, the government had only approved 5,000 new positions for financial year 2014-15 as a result of continuing economic difficulties and cut in the budget for the next fiscal year. This represents a significant decline from the 16,500 quota for new positions approved last year (2013-14). The current ratio of government employees to population is 2.36 per 100 people higher than the comparable ratio in most countries which is below 2 civil servants per 100 people. The increase in the number of civil servants is expected to further contribute to budgetary pressure in the future unless there is a significant increase in revenue collection performance in the coming years. Some other related activities include development of a Civil Servant Development Plan, on-going pilot of Job Position and Job Description in selected ministries and provinces. On-going drafting of a Decree on Civil Service Appraisal consultation with provinces and ministries have been conducted during the year to assess the status of the implementation of the current civil service appraisal system and inform the development of a decree on civil service appraisal.

People's Participation

103. The Government took further steps to strengthen the foundation for people's participation with the implementation of a number of initiatives during 2013-2014. On the National Assembly area, prior to the Ordinary Session, the National Assembly organized an intersession programme on June 16-19 to discuss a wide range of issues from review of proposed bills to be passed during the upcoming Session to implementation of the 7th NSEDP and State Budget Plan. The National Assembly convened its 7th Ordinary Session from July 7-25, 2014 with economic management as a key area of focus and deliberation. The assembly also debated other important areas of concern including: private and public investment, progress on achieving the MDGs, forest management, state audits, NA hotlines, corruption, and law implementation/enforcement. A number of new laws were passed: (1) Law to combat money laundering and money supply for terrorism; (2). Law on Independent Audit; (3) Law on Value-added Tax; (4). Law on Tax. New laws or existing laws to be amended were discussed including the Law on Handling Petitions, Law on Customs, and Law on Standards. The next Ordinary Session is scheduled in December 2014.

104. Significant improvements have been witnessed in the role of National Assembly in 2014. Several initiatives were undertaken such as a conference involving six organizations was conducted to respond to hotline queries during the July Session. It was the first time that issues raise through the hotline were responded to within 2 weeks. The 35th ASEAN Inter-Parliamentary Assembly (AIPA) General Assembly was held in Vientiane on September 14-20 under the theme of "Strengthening Parliamentary Cooperation in the ASEAN Community Building," gathering more than 300 delegates from AIPA member countries, development partners, and other invited guests. On this occasion, various subjects were covered through two plenary sessions and four sessions of AIPA Committees on political, economic, social and organizational affairs.

105. Further effort by the Government to improve transparency, accountability and access to information were made during the year with the effectivity of the Prime Ministerial Decree on Asset Declaration in January 2014. The Decree on Asset Declaration

requires state officials⁸ to declare their assets and liabilities every two years while new state employees are required to declare their assets within 30 days of assuming their duties. The decree also requires state employees to declare their assets 30 days before they retire.

106. On civil society, following a number of consultations involving INGO, development partners and representatives from various ministries the INGO implementation guideline were finalized and submitted to the Office of the Prime Minister where it is currently awaiting approval. The meeting between the government and INGOs nationwide was also held and chaired by Deputy Prime Minister/ Minister of Foreign Affairs on 28th October to review the implementation and contribution from INGOs whom the government notes their significant role in promoting peace, security and a key player to national socio-economic development and poverty reduction for the country [*Action Point 12 of 2013 HL RTM*].

107. The Decree on NPAs underwent revision in 2014. The Government organized a series of consultations over the year to seek views of various stakeholders on the proposed revisions to the Decree. Some of the key changes include i) the ceiling for external contributions requiring prior approval had been removed from the Decree ii) role of various Ministries in the registration process, amongst other changes. The revised decree has been approved in principle by the Government and will now start preparing the implementation guidelines. More discussions are needed to address pending concerns of civil society organizations as a result of this decree revision. For the first time, Lao Non-Profit Organization (NPA) has submitted a report in response to the universal periodic review (UPR) recommendations to Lao PDR. This is expected to contribute to the discussions at the General Assembly on the status of the civil society-enabling environment in Lao PDR. During the year, the Government approved the application of 23 NPAs and 3 Foundations. This brings the number of NPAs and Foundations to a total of 152 NPA (44 national; 99 local) and 9 Foundations (8 national; 1 local).

108. At the community level, sharing information on government policies and actions are important. The Community Radio on air has played significant role in spreading the news and has now reached the audience of about 200,000 people across six districts of three provinces, Oudomxay, Xiengkhouang and Saravane.

Legal Sector Development/Rule of Law

109. During the year, several key initiatives related to policy reforms in the legal sector have begun to take shape. One of the important changes in the legal sector is expected to be introduced following the amendment of the Constitution which is taking place almost 12 years after the first amendment in 2003. The President of Lao PDR has appointed the National Committee comprising of 17 members, to work on the proposed amendments, which will be aimed at addressing issues related to current socio-economic development needs. The final draft of the amendment is expected to be submitted to the NA's ordinary session scheduled at the end of 2014.

110. As part of the Legal Sector Master Plan, the Government is currently in the process of codifying the criminal and civil codes. This marks a critical juncture in the legal sector as the codes are expected to introduce new legal provisions in both spheres giving rise to significant changes in the legal landscape. Particularly important are the international

⁸ Covers high ranking leaders, administrative level officials and state employees in the Party, Lao Front for National Construction and mass organizations; state joint venture enterprises; police and military officers with rank of lieutenant and higher and official in-charge of economic and financial affairs.

obligations which need to be incorporated into domestic laws. Both codes are expected to be finalized and adopted in 2015.

111. The Government currently is in the process of refining the legal frame work applicable to its Village Mediation Units (VMUs). The VMU in Lao PDR is considered a semi-formal mechanism established under the Ministry of Justice decision No.304/MOJ, 7 August 1997 and decision No.08/MOJ, 22 February 2005. The VMUs operates under the technical guidance and supervision of District's Justice Office which is under the supervision of Department of Judicial Administration of Ministry of Justice. The current draft Decree sets out some principles and regulations related to the VMUs and outlines a legal frame work within which 'mediation' is expected to be used as tool for dispute resolution. It is expected to bring about a much transparent and coherent dispute resolution mechanism tailor made to suit Lao PDR. The MOJ is also discussing the broader parameters of a decree on legal aid.

112. Another major reform in the Lao justice sector, under the LSMP scheme, is to establish a national judicial training institute (NJTI), aimed at delivering initial training to future judges, prosecutors and lawyers. The creation of a common institution has as prime objective to address the shortcomings of professional training for legal practitioners in the country and improve the formal justice delivery to the people of Lao PDR.

113. A Decree endorsing the establishment of the institution under a larger umbrella enclosing the Ministry of Justice's Law College and Law Research Institute, has been drafted and will benefit from further technical advice for improvement. In addition to supporting training of trainers and training on engineering of a judicial training institute, the structure, which will be located at the Law College campus, will receive significant support in terms of equipment and pedagogical/administrative running. As it is due to open and start training the first batch in January 2015, the next immediate steps are to help trainers finalizing their curriculum content, advice on the competitive entry examination modalities and prepare the detailed sequencing of the training curriculum.

Public Finance Management

114. Through the Public Financial Management Strengthening Program (PFMSP), while many challenges (human resources and capacity development, financial legislation and regulatory framework and others) still remain, Lao PDR's public financial management system has undergone promising improvements over the past years.

115. In term of revenue sharing, fiscal planning and budget preparation, an improved legal framework for budget management has been established that will enable further refinements, albeit following some long discussions among the stakeholders. The 2006 Budget Law and its Implementing Decree, issued in February 2008, have provided the legal framework and timetable for the budget planning and execution process. However, the Ministry of Finance (MOF) is working on the activities to revise the Budget Law. In recent years, there have been more consultations to build consensus and acceptance among ministries and agencies on this important instrument for budget planning. However, budget transparency and publication of the annual budget and budget expenditures are still facing delays and challenges as these measures are implemented. At the time of writing, finalization of the revenue-sharing formula and the exchange of experiences on developing the fiscal strategy for the next 5-year plan, and medium- to long-term fiscal and budget planning were done. For the next steps, the Government will ensure that these measures need to be better implemented and are actually used. For fiscal planning, the Government has currently in the process of drafting and finalizing the long-term fiscal strategy.

116. On treasury centralization, budget execution, accounting, and financial reporting. The PFMS provided critical support to implement the Treasury Single Account (TSA) framework and piloting of the Zero-Balance Treasury accounts (ZBA) at Bank of the Lao People's Democratic Republic (BOL) and its branches. The ZBA was then rolled out to three state-owned commercial banks. The World Bank Mid Term Review noted that the National Treasury reported that ministries with large expenditures successfully transferred their accounts to the National Treasury. Since then, the expansion of budget coverage was completed with the consolidation of technical revenue accounts into the National Treasury, and the Treasury Single Account was rolled out to commercial banks. Major off-budget funds were also consolidated in the budget. These funds are now disbursed through the National Treasury and its provincial offices. The Accounting Department completed the Prime Minister's draft Decree on Accounting for Enterprises, its implementation and government financial statements, in accord with the International Public Sector Accounting Standards (IPSAS) on a cash basis, and the International Financial Reporting Standards (IFRS) for small and medium enterprises (SMEs). These actions served as preliminary steps towards better monitoring and assessments of SMEs and need to be finalized so that their implementation—the next crucial stage—could begin. The External Financial Department (EFD) continued to record data on debt from international financial institutions (IFIs) and bilateral donors, and successfully completed the draft decree on External Debt Management and the draft manual for Overseas Development Assistance (ODA) Financial Management. These activities have set the stage for better government debt management in future, and the MOF needs to maintain this momentum going forward. Effort towards more transparency in government procurement was nudged forward, with preparations to start piloting the institutional procurement capacity-building program. Therefore, the Government is committed to ensure that the momentum must continue in order to achieve greater progress in this important area.

117. Regarding to revenue policy and administration. A major tax reform in the Lao PDR has been carried specifically through introduction of the Value- Added Tax (VAT). The VAT was successfully introduced through putting in place a firm foundation for the strengthening of taxpayer services. There is now the proper identification and registration of tax payers through the Tax IT system, the Lao Tax Information System. At the end of August 2013, 9,452 tax payers were registered, 6,700 of whom were VAT payers. The government has also moved to revamp the State Asset Management Law, the drafting of a Presidential Decree on Revenue Collection from Natural Resources, and a Prime Minister's Decree on State Fund Management. The State-owned Enterprise (SOE) Financial Management Department has been working on improving the regulations on SOE management and conversion of SOEs to public companies as part of the government's road map towards establishing the Lao Security Exchange. These activities have set the stage, although very preliminary, for reform in this area. However, much further work needs to be undertaken.

118. Local government financial management plays an important role to ensure service delivery. Some specific activities have reached the local and district financial officers, who benefitted from all PFMS activities conducted by MOF departments. The MOF continued to prepare a special program of support to target districts whose capacities are well below the national average. Following the State-Party Guidelines on Sam Sang, the MOF prepared to implement the Guidelines on Sam Sang and conducted related training activities at the local level. However, information on improvements achieved in capacity building need to be collected and analysed.

119. Turning to external budget and financial oversight and audit, the Government has in place State Audit Office (SAO)'s action plan for capacity development and an ICT strategy, as well as the SAO's development of a strategy on professional capacity building.

The SAO completed the audit report for the final State Budget Execution for fiscal year 2009–2010 and fiscal year 2010–2011, some extracts of which were made public. Activities to support the SAO were still on-going when the ICR was being prepared at the end of 2013.

120. With the recent achievements, the next important task for the Government is to ensure that various indicative reforms (as stated in the last year High Level Round Table Meeting's Background Document) are actually implemented sustained in a practical manner. This includes:

- Implementing regulation to bring all off-budget and technical revenues on budget. This is of critical importance in establishing effective control on available resources and ensuring a more effective cash management operation for the government;
- Ensuring budget allocation norms for other sectors for introduction in the future budget. The development of expenditure norms for use in budget allocation is an important input in informing budget prioritization vis-à-vis needs across sectors;
- Completing the roll out of Treasury Single Account to other banks;
- Implementing revenue sharing between the centre, provinces and pilot districts under Sam Sang Policy to bring development activities on the ground;
- Implementing capacity development and training on various component of the PFM system to sub-national (province and district) staff. This should be implemented in conjunction with enhanced accountability mechanisms;
- Completing design of the various components of an inter-government fiscal transfer system. This will involve clarification and subsequent legislation on expenditure and revenue assignment between and across levels of government and local administration; determining expenditure needs and fiscal capacity of sub-national administrations; and the design of fiscal transfer system that will address vertical and horizontal imbalances - the former between revenue capacity and expenditures of local administrations, and the latter due to differences in fiscal capacity across administrations/provinces;
- Ensuring the formulation of a Medium-Term Expenditure Framework (MTEF) is in line with the next NSEDP. The formulation of an MTEF will require the completion of the various initiatives related to the development of expenditure norms and revenue forecasting. While there is as yet no MTEF, it has been agreed (in response to the recommendations of the Mid-term Review of the 7th NSEDP) that the public investment programme (PIP) will in future be formulated as a three year rolling programme. This will help ensure that public investments are only admitted to the PIP if overall financing requirements fall within the financing framework for the PIP. This will in turn necessitate a three year rolling forecast of financial resources for public investment which takes account of, variously, budgetary funding, ODA and limits on borrowing to be set under the prospective law on public debt [*Action Point 3 of the 2013 HL RTIM*].

2.3.6 Illicit drug control and other social challenges

121. The dramatic spread of illicit drug trafficking and abuse continues to be a cause for serious concern. Lao PDR, like many other countries of the world, is confronting increasingly dangerous and devastating threats from illicit drugs. The Government of Lao PDR is strongly committed to fighting drugs and crime as well as to addressing the long-term harmful impact of drugs on society, national security, stability and socio-economic development of the country. Increasing drug production, trafficking, abuse, crime, violence, corruption and money laundering pose grave threats that seriously undermine efforts to eliminate poverty, the achievements of drug free ASEAN vision, the Millennium Development Goals (MDG) as well as the targets of the 7th National Socio Economic

Development Plan (NSEDP). The negative impact on efforts to enhance public health, public security, the rule of law adversely affects the welfare and quality of life of Lao people.

122. Through full implementation of the National Drug Control Master Plan, Illicit Drug SWG (IDSWG) contributes to the achievement of the *Social Sector Development* targets set by the 7th NSEDP and also contributes to the achievement of the drug free ASEAN vision as well as of all the MDGs. Objectives include supporting former opium cultivating communities through expanding the reach of enabling infrastructure, establishing sustainable livelihoods and improving food security; rehabilitating drug addicts including by improving access to primary education for boys and girls; strengthening the Government capacity to provide appropriate health services including for injecting drug users (IDUs); and raising awareness, and developing strategic partnerships to strengthen good governance based on rule of law and transparency.

123. In 2014, various donor-supported projects have been implemented to ensure the realization of the Drug Control Master Plan. The Government agencies concerned continued to make progress in law enforcement and criminal justice responses to drug offences and related crime. In impact surveys, many provinces reported enhanced inter-agency coordination, activated use of forensic analysis and improved compliance with law. In addition, the Law on Drugs and Article 146 of the Penal Law were amended to encourage prosecution of drug traffickers when there sufficient evidence to prove offenders' guilt even if no drug is seized. The Criminal Procedure Law was also amended. Under the amended Criminal Procedure Law describing transparent procedures based on active participation of all the actors concerned and lawfully-acquired evidence, prosecutors are expected to actively argue their cases based on law and lawfully-acquired evidence. The Law on Extradition, which entered into force in November 2012, establishes for the first time a legal framework of international cooperation in criminal matters based on judicial procedures.

124. Another recent development include the draft National Drug Law Enforcement Strategy (NDLES) which was prepared, and the Government agencies concerned have agreed upon the draft Strategy in principle. NDLES is designed to monitor and evaluate its own implementation by the end of 2013. Once officially approved and integrated into the comprehensive National Drug Control Master Plan framework, NDLES will contribute to improved monitoring and evaluation of the implementation of the Master Plan with regard to law enforcement and criminal justice responses to drug problems. The legal framework for effective drug law enforcement was further strengthened by amendments to the Law on Drugs, the Penal Law and the Criminal Procedure Law, as well as enactment of the new Law on Extradition.

125. While some progresses have been made, a number of challenges that the Government will need to address. Particularly, to address illicit drug related challenges which has been increased with improvement of the connectivity in the region towards ASEAN economic community (AEC), further comprehensive efforts are required to expand projects in the Lao PDR and tackle the challenges. Particularly in the following areas; drug demand reduction, supply reduction, and Law enforcement.

126. On drug demand reduction, as specific challenges in this sector, treatment of drug addicts is one of the main issues. Currently, the Somsanga drug treatment, rehabilitation and vocational center in Vientiane is overcrowding. The number of patients accommodated in the center is over 1,700. The center cannot provide its effective services to the patients because of lack of facilities, and resources. Some measures are required to

improve the center. In particular, vocational training for the patients is a key so that the patients will be able to get their jobs after leaving the center. Some existing drug treatment centers in provinces also are needed to be improved in terms of quality of treatment. The community-based treatment is a pilot approach that a community takes care of drug addicts who are not serious dependant on drugs. It is hoped that the approach will contribute to decrease the number of serious drug users and protect potential victims of illicit drugs at communities. It is need more investment to implement projects and pilot whether this new approach will work on. Raising awareness is a key to protect citizen from threat of illicit drugs.

127. In term of drug supply reduction, AD (alternative development) projects are needed to be expanded because opium cultivation in the Lao PDR has increased since 2006. Reasons why the opium cultivation restarted are high price of opium, existing of opium addicts, drug traffickers, and insufficient AD projects. The opium cultivation is deeply related to poverty in the Lao PDR. More AD projects are required in order to establish a system which makes local people livelihood sustainable without growing opium.

128. Finally on law enforcement, the Government such as LCDC, Ministry of Public Security, among others is currently working with other neighboring countries to address illicit drug and drug trafficking challenges. However, it is hoped that further cooperation will be promoted in consideration with the regional integration such as AEC. Particularly, information sharing among intelligence authorities in each country in the region is a critical. Further collaboration of Border Liaison Offices (BLOs) with neighboring countries should be promoted.

2.3.7 Gender

129. Women contribute to the economy in multiple ways, in both formal paid work, as well as in looking after their families and unpaid agricultural work. However, women-headed rural households are amongst some of the poorest, and while poverty rates have been falling overall, the ethnic minorities are five times more likely to be poor than the majority.

130. The Lao National Commission for Advancement of Women (LaoNCAW) and its Secretariat, often working with donors and CSOs as well as with the National Commission for Mother and Child, has continued to advocate on behalf of women and girls, and to raise awareness about the CEDAW Convention and its requirements. The Women's Caucus of the National Assembly has supported and often led this work, and is actively steering the Government's work to reduce and eliminate gender based violence.

131. More women than men marry at a young age: one in four young women and nearly one in ten men aged 15-19 years is currently married. Early marriage is common, and has been relatively unchanged over the past twenty years, but is closely associated with the level of education and wealth. Rural and remote ethnic women still marry at young ages, as has been common traditionally. The early age of marriage is reflected in the very high adolescent birth rate, at 94 births per 1000 girls aged 15-19 years. The rural rate is more than double that of the urban rate (114 compared with 44 births per 1000 young women).

132. Over the last six years since the 2008 CEDAW report, much progress has been made:

- Education: steady improvement in the education of girls, supported by Government policy and budgetary allocations, incentives to parents to send girls to school, as well as developing a gender and education policy. Enrolment in early childhood care is

virtually equal between boys and girls, literacy levels amongst young women have improved to 69 per cent (though this lags behind that for young men), and the gender parity index for schools indicates little sex difference. However, there are large regional variations, young women in rural and remote areas leave school much earlier, and approximately 40 per cent of students at the graduate and post graduate level are women (although in private colleges women are at parity with men). The proportion of women carrying out postgraduate studies has increased. Challenges to gender equity remain, as there are still perceived gender roles, safety concerns for young girls attending school, and a younger age of marriage.

- Health: much positive development with the expansion of the skilled birth attendant scheme, financial support for pregnant women, leading to a reduction in the maternal mortality. However, there are major regional, wealth and educational differences between those having safe deliveries: safe delivery rates are six times higher in urban compared with remote rural areas. The fall in MMR is related also to the decline in the annual fertility rate which has halved, from six to three. There is still a high unmet contraceptive need, men need to be better informed about their roles and responsibilities in family planning, and many women still have children at a young age. Overall, 19 per cent of women have given birth by age 18. There are still attitudinal, language, cost and transport barriers for women wishing to access health care, and women with disabilities still face challenges in accessing services and education. Other women's health care services are less developed.
- Employment and economic empowerment: Eighty per cent of the labour force of 2.1 million people are said to be in agriculture and industry, and services constitute 20 per cent. However, the figures on the proportion of female workers in total wage employment in the non agricultural sector have risen and fallen (from 44 per cent to 34 per cent). Women are well represented in the civil service, but are still in lower level positions in the provinces. Some Ministries have gender strategies and where this is managed, women increasingly receive training and promotions. Women's work opportunities are slow to broaden unless leadership encourages them in non traditional areas.
- Vulnerable women: Women may be vulnerable for reasons of poverty, ethnicity, age, education, and disability. Rural ethnic and poor women in particular are vulnerable to abuse from both internal and external migration as they may be drawn into prostitution if they have limited education and experience. There are few government services on the ground to support them in such cases, although the Government has plans to develop them. Sex workers are vulnerable, may not be able to encourage the practice of safe sex, and unplanned pregnancies result. Gender stereotypes continue, as does the early age of marriage amongst some ethnic groups. These practices are taking time to resolve.
- Violence against women: Extensive work has taken place to develop legislation meeting international standards, and discussions continue. Extensive consultations have taken place, workshops to raise awareness amongst judicial officers have been held, and detailed costing and qualitative studies are underway with the support of UN Women. These, together with the new legislation, will be used to develop services for women and girl survivors of violence.
- Women's Leadership: Women constitute 25 per cent of the National Assembly, but while occupying key roles in the NA, do not hold any of the heads of staff in the provincial offices. And while women constitute 16 per cent of Deputy Ministers and equivalent, and DG and equivalent positions, the proportions are less than half that for lower level positions (deputy governor 8 per cent, and in 2013 there were no female provincial governors). The numbers cannot be directly compared with the 2008 report, as structures have changed.

Chapter 3 - Update on the progress of partnerships for effective development cooperation at country level

133. The Government of Lao PDR has placed the importance of collective responses to accelerate development progress, particularly the implementation of the MDGs and addressing new global challenges, such as climate change and environmental degradation, migration and youth unemployment. Therefore, effective development cooperation plays a critical and important role to ensure a coherent sustainable development for the implementation of the national development agenda. It is important that our cooperation needs to:

- Take into consideration the new challenges and changing international context;
- Recognize the different responsibilities and capabilities;
- Mobilize additional domestic and international public and private sources for the larger financing needs;
- Utilize resources in a most effective manner and creates an enabling environment that helps to catalyze other flows; and
- Have an effective monitoring and accountability framework.

134. Particularly, the development cooperation will have to continue to support poor and vulnerable communities facing sustainable development challenges, while mobilizing resources to address various new challenges.

135. The partnership for development or development cooperation in Lao PDR is conceived through the Round Table Process creating an environment, which is conducive to development and to the elimination of poverty. The Government has implemented various key activities such as:

- 1) An establishment of objectives and agenda for the Round Table Implementation Meeting (RTIM), which will be organized in Vientiane toward the last quarter of 2014. Setting up the RTIM 2014 objectives and agenda is important as it will not only capture what have been done to materialize the outcomes of the 11th HL RTM but also ways forward for the achievement of the current NSEDP goals including MDGs by 2015;
- 2) A move forward with development effectiveness agenda through the implementation of the revised Vientiane Declaration Country Action Plan and being part of the global framework on global partnership for effective development cooperation;
- 3) A practical and smooth coordination within and across Sector Working Groups and a creation of an effective link with the Round Table (Implementation) Meetings
- 4) A wider and constructive participation of all stakeholders not only at national, but sectoral and provincial levels.

136. With the highlighted mandates, a number of key activities and milestones have been carried out through the year. Some of key activities are highlighted as follow:

3.1 The revision and monitoring of the VDCAP (2012-2015)

137. In 2013/2014, Department of International Cooperation (DIC)/Ministry of Planning and Investment with VDCAP Secretariat carried out a revision exercise of the 2010 VDCAP taking into account the current development of aid effectiveness agenda as highlighted in the Busan Partnership for Effective Development Co-operation. This Busan Partnership for Effectiveness Cooperation marks a critical turning point in development co-operation as it is a declaration which for the first time establishes an agreed framework for development co-operation that embraces traditional donors, South-South co-operators, the BRICS, civil society organisations and private funders.

138. This revised VDCAP consists of 13 actions and 27 indicators classified under five principles as per the Paris Declaration on Aid Effectiveness. Some indicators reflect commitments and actions as specified under the Busan Framework.

139. The VDCAP Secretariat has now finalized the VDCAP monitoring framework which is designed to guide all stakeholders in Lao PDR for implementing, monitoring and reporting on the VDCAP progress to date. It is intended to provide country stakeholders with an understanding of what participation in the monitoring framework of VDCAP entails and how stakeholder collect, process and submit their data in practice, working closely with their relevant members and other stakeholders.

140. The launch of the VDCAP monitoring framework was done at the end of June 2014. The purpose of the VDCAP monitoring framework is to support the national accountability for making progress in the implementation of commitments and actions agreed in the revised VDCAP. Indicators and targets are formed to ensure that all stakeholders work together to advance the development effectiveness in Lao PDR. Its aim is not to monitor development outcomes, but it places emphasis on behaviour change in development co-operation efforts, which is in turn expected to contribute to the achievement of results as defined in the NSEDP.

141. Similar to the global monitoring framework on Development Effectiveness, participation in the VDCAP monitoring efforts is important to provide evidence of progress and signal opportunities as well as obstacles for further progress. In this process, the VDCAP contributes to:

- Support accountability for the implementation of the VDCAP commitments and actions by providing a snapshot of progress at country level;
- Stimulate multi-stakeholder dialogue at national and sectoral levels on how to improve the effectiveness of development co-operation; and
- Promote agreements on specific actions that are needed to enhance successful implementation of VDCAP and support mutual accountability at country level.

142. Key line ministries, SWGs and development partners were requested to make formal submissions to the VD-CAP Secretariat on VD-CAP implementation. Stakeholders that provided formal responses are: Australia, Germany, Luxembourg, Republic of Korea, Switzerland, USA, World Bank, European Union, United Nations, INGO network, Education SWG, Agriculture and Forestry SWG. The draft VDCAP monitoring report will be shared with stakeholders at the 2014 RTIM for comments.

143. The Vientiane Declaration and VD-CAP have played a pivotal role in creating the space and momentum to accelerate progress on development effectiveness at sector level. Most SWGs have integrated VD-CAP actions into their work. The implementation will only happen when there is a common understanding and among various stakeholders on

how each action under the VDCAP such as PBAs, PIUs, etc.. is applicable to individual SWG and a commitment to actively participate the process. At the time of writing, there are two SWGs (Agriculture and Rural Development and Education) submitted formal inputs for the production of VDCAP monitoring report. Therefore, the VDCAP Secretariat will need to take this matter into account and a proper work plan needs to be developed to ensure the application of the VDCAP is based on a proper understanding of various concepts and issues by stakeholders (*Action Point 15 of 2013 HL RTM*).

3.2 The ODA information

144. Disclosing accurate and timely ODA information is a work in progress and it needs not only a strong commitment but also a routine action by various agencies. To contribute to the national effort in this area, Aid Management Platform (AMP) has been in operation for some years now and it has facilitated collaboration between development partners and the Government of Lao PDR. The growth of the AMP is ongoing as the Government strives to bring more Development Partners in line with the reporting requirements of the AMP system. Expanding the range and scope of the AMP database, particularly with regard to South-South Cooperation remains a government priority for the foreseeable future. However, delays between the reference reporting periods and availability of data remain, therefore not all data was submitted for Foreign Aid Implementation Report (FAIR) analysis at time of reporting (*Action Point 15 of 2013 HL RTM*).

145. New features of AMP introduced during the 11th High Level Round Table Meeting (public portal and geo-coding capabilities) are now working. These allow users to explore and use data from AMP for planning and research purposes. Also, the two new features will help improve the transparency and effectiveness of ODA implementation in Lao PDR.

146. Building on the experience so far with the AMP implementation with the aim to improve consistency and reliability of the ODA information, DIC/MPI has embarked on an assessment of the current Official Development Assistance (ODA) information and management including support from International Non-Governmental Organization (INGO) and Public Investment Project (PIP) and Government contribution to assess options to integrate and improve quality of project data from various sources. Initial discussions have focused on planning and monitoring process of development project implementation across the Government of Lao PDR Line Ministries, Provinces and Districts (*Action Point 16 of 2013 HL RTM*).

147. Currently, there are a number of limitations pertaining to how information is being managed and reported. For instance, there is significant delay between the reference reporting periods and the release of information, supporting decision-making processes. Information collected does not correctly describe what is being measured. Data definitions between donor organizations submitting their data are not consistent, therefore affecting the quality of information being reported. In term of process, there is a need to create a common platform integrating both the external aid management process and PIP. Therefore, the current review exercise highlighted will help the Government to make further steps to create linkages among various existing data collection processes.

3.3 Development Finance and Aid Assessment (DFAA)

148. The Government under the leadership of Ministry of Planning and Investment is in the process of formulating the 8th NSEDP (2016-2020) where LDC graduation is a central objective. As such, there is a need to fully understand the changing development financing landscape. In this connection, a Development Finance and Aid Assessment (DFAA) has been commissioned by the Government to have a comprehensive assessment of current

and future flows of development finance in particular ODA trend, identification of alternative financing sources such as climate finance, South-South Cooperation and private and domestic resources. A scoping workshop will be conducted in November 2014 to formally launch the process of this analytical work. The DFAA report would be finalized by early 2015 and results of the DFAA exercise will be an important input for the 8th NSEDP formulation (*Action Point 15 of the 2013 HL RTM*).

3.4 Sector and cross-sector coordination

149. Increased ownership of SWGs is demonstrated by the fact that most of them have revised their ToRs to focus more tightly on their priorities. However, some core functions are not explicitly detailed in ToRs and SWGs are encouraged to review their TORs and revise as needed, for instance.

- **Sector strategies:** Most SWGs have made progress in supporting the development of sector strategies. Improvements in communication across SWGs and with MPI can ensure these gains are fully reflected in the national planning process.
- **Strategy costing:** costing, prioritisation and sequencing of sector investments remains a work in progress. SWG support to ministries is critical as the Public Investment Programme initiative is rolled out.
- **Track and align ODA:** most ministries lack access to reliable ODA data making it very difficult to measure and promote better alignment with sector priorities or integrate external financing in planning and budgeting.
- **Monitoring and reporting (a linkage with the Round Table Process):** It is important for SWGs to understand that operation of SWGs is a continuous process throughout the year. Therefore, sectoral issues are discussed on regularly basis and they are reflected well in progress reports which can inform key policy dialogue at the RTIMs/RTMs. The high quality production of sectoral progress reports and timely submission are essential for the production of the Background Documents and related presentations.
- **Capacity development:** SWG Secretariat has played a key role to ensure effective operation of SWGs. Therefore, both Chairs and Co-Chairs of SWGs need to invest in building capacity of their Secretariats.
- **DIC/MPI facilitating role for cross-sectoral coordination:** DIC has played a critical role in establishing the SWG mechanism and progress has been made. DIC is encouraged to provide strong strategic direction and additional practical support to SWGs and to celebrate the successes of SWGs in particular areas and promote exchange. To play the role of active learning agent the capacity constraints that DIC faces must be addressed. Some key actions include:
 - Regular meetings of Chairs and Co-Chairs of SWGs need to be convened to ensure all SWGs are on the same pace about various aspects of the Round Table Process
 - DIC's can significantly underpin SWG success by holding learning events or clinics and a dedicated workshop on key issues: developing sector strategies, programme-based approaches, monitoring frameworks,
 - DIC's investment in a more powerful and user-friendly Round Table website will facilitate cross-SWG learning, provided SWGs nominate a focal point to help DIC to update the site.

Chapter 4 – The way forward

4.1 Approach to Preparation of 8th NSEDP

150. 8th NSEDP preparation has benefited from lessons-learned from the implementation of the 7th NSEDP, including through the 7th NSEDP Mid-Term Review. A particular lesson-learned is that as the 7th NSEDP focuses on the achievement of outputs it lacks an adequate means of linking outputs to the achievement of national development priorities.

151. To overcome this, the 8th NSEDP will be more outcome based. It is expected to set out 3 clearly defined main sets of outcomes necessary in the 5-year period which will enable the overall national development objective to be achieved. It will also set out what activities will be needed to achieve the outputs necessary to achieve the 3 outcomes.

4.2 Overall Goal and Links to 2025 Strategy

152. Political and government leadership have indicated that eligibility for graduation from LDC status is the core of the overall goal of the 8th NSEDP. This is consistent with the proposed strategic targets of the 8th, 9th and 10th NSEDPs in the context of 2025 Strategy. As shown in the Figure 1, NERI has also identified macro-economic, social and other targets for the 8th NSEDP in the context of 2025 Strategy and the guiding principle is that the 8th NSEDP will be aligned with these targets (adapting to any changes made in the strategic targets).

Figure 1: Long-term Targets 8th, 9th and 10th NSEDPs

Time	Main Goals	Macroeconomic targets	Social targets	Others
NSEDP VIII 2020	Graduating from LDC	- GDP growth \geq 7.5% (2016-2020) - GNI per capita above the criteria for LDC graduation - Reducing EVI to the level below the criteria of LDC graduation	- Improving HAI - Achieving all targets of MDGs - Poverty rate not exceed 10%	- MDG9 - Forest cover 70%
NSEDP IX 2025	Transition period from LDC status	- GDP growth 7.5% (2021-2025) - Ensure that both GNI and EVI continue to satisfy the criteria for LDC graduation status	- Ensure HAI remains above the criteria of LDC - Poverty rate not exceed 5%	Transition from LDC and LMIC
NSEDP X 2030	Graduation from LMIC to UMIC, SDG, Post-MDG	- GNI per capita to be above the criteria of Upper Middle Income Country (Current threshold USD 4,086; est. 6,600 in 2030)	- Implement post-MDG	Moving towards UMIC, avoiding middle income trap

Source: NERI

153. The Mid-term Review of the 7th NSEDP included in its conclusions and recommendations indicative outcomes for the 8th NSEDP. The indicative Outcomes were based on a number of observations made in the Mid-Term Review, principally that constraints to national development could be overcome by aiming at eligibility for LDC

graduation and that achievement of the criteria for eligibility would bring with it the achievement of associated development priorities. These were seen to include: (i) stimulating the non-resource sector and making the private sector a cornerstone of future development; (ii) focusing on growth of small and medium-sized enterprises (SMEs) in order to obtain a broader base for growth, as well as the employment effects associated in particular with the growth of established SMEs; (iii) overcoming shortages of entrepreneurial and technical skills, addressing market failures in agricultural and enterprise financing, and significantly improving the business environment; (iv) welcoming the stimulus to competitiveness that will come from the ASEAN Economic Community after 2015, as Lao PDR's domestic private sector is forced to compete in a single market in a highly competitive economic region; (v) continuing to support infrastructure development given the beneficial effects on enterprise and human development, principally through access of families, farms and firms in the periphery to opportunities in business, economic, social, and cultural centres; (vi) welcoming the productivity and growth stimulus provided by inter-regional, rural-urban and international labour mobility and, accordingly, strengthening human capital through training, such that the population can take up new opportunities as the economy transforms; and (vii) continuing to build social capital through improved health and education services throughout the country.

154. It was suggested that the 8th NSEDP could place more emphasis on the non-resource sector i.e. non-hydro and non-mineral resource exploitation. This would involve accelerating support to micro and small enterprises (principally by improving the business environment and solving market failures in enterprise finance), accelerating agricultural productivity including agro-processing wherever feasible and supporting infrastructure investment (rural connectivity and rural electrification wherever possible) all of which will help to continue to address poverty and inequality, including gender inequality.

155. It was also recommended that at the same time more emphasis could be placed on the management of the economic, environmental, equity and social impact of the exploitation of natural resources – care needs to be taken to ensure that exploitation of these resources does not have a negative impacts on the Laos environment and social conditions and that the economic justification is rigorously evaluated and is to the long term advantage of Laos PDR.

156. The Government has since confirmed that the Goal and Overall Objectives of the 8th NSEDP should be: (i) Goal - Laos to graduate from the Least Developed Country (LDC) status by 2020 through promotion of the national potentials and comparative advantages; (ii) Objectives of the 8th NSEDP – (a) Ensure that continued economic growth with quality and macro stability is achieved; budgeting goes hand in hand with development targets and consistent with new environment of industrialization and modernization; (b) Ensure sustainable development with harmonization among the economic development and socio-cultural development and environmental protection; be prepared to handle natural disaster in timely manner; ensure integrated rural development has a strong link poverty reduction; (c) Strengthen human resources capacity by improving workforce skills, encouraging them to be more discipline and tolerant; increase number of technical experts and specialists; enhance technical and professional capacity of civil servants, private sectors and entrepreneurs to be able to compete within country and abroad; (d) Maintain political stability, peace, and social order; solidarity, democracy, justice and civilization embedded in the society; and (e) Continue expanding international cooperation through different modalities under principle of mutual benefits; establish favourable environment for regional and international integration.

157. Drawing on these sources, the current formulation of the Overall Goal of the 8th NSEDP is as follows:

Eligibility for graduation from LDC status with sustained and inclusive economic growth and associated enhanced quality of life and environmental management

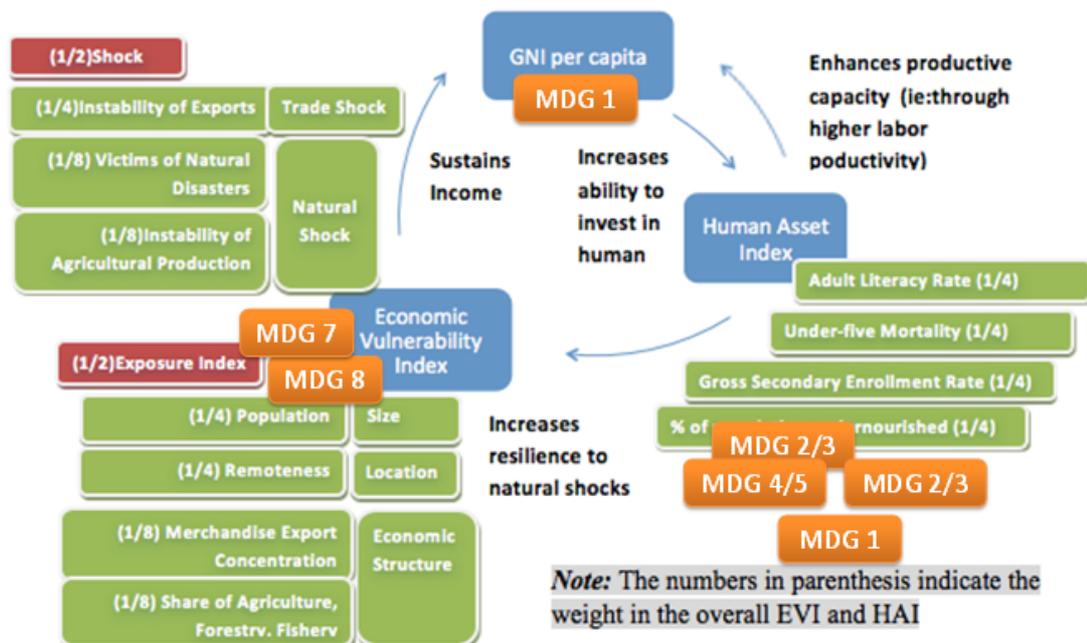
158. It is stressed that whilst the core of the proposed Overall Goal of the 8th NSEDP is eligibility for graduation from LDC status, the draft Overall Goal also acknowledges that there are associated development priorities and these include achievement of the off-track MDG targets, sustainability of economic growth, inclusive economic growth and enhanced environmental management. These are associated with the criteria of LDC graduation but need to be stated to broaden out the aims of the 8th NSEDP.

159. It follows that the Indicators and Targets which will enable the performance of the 8th NSEDP to be measured will be based on (but will not be exclusive to) the criteria for eligibility for LDC graduation.

4.3 Draft and proposed 8th NSEDP Outcomes

160. The proposed Overall Goal can only be achieved if there are LDC graduation linked economic, social and environmental Outcome achievements within the period of the 8th NSEDP. The draft Outcomes are therefore tightly (but not exclusively) linked to LDC graduation criteria including GNI per capita (low-income characteristics) and the Human Assets Index (HAI) and Economic Vulnerability Index (severity of structural impediments to sustainable development). The components of these indices are illustrated in the Figure below. Outcomes which have as their basis these criteria will contribute to the achievement of the Overall Goal which has at its core the achievement of eligibility for LDC graduation.

Figure 2: Snap-shot of All LDC Graduation Criteria



161. On this basis the working drafts of the 8th NSEDP Outcomes are as follows:

- **Outcome 1**

Sustained inclusive economic growth with economic vulnerability (EVI) reduced to levels required for LDC graduation and consolidated financial, legal and human resources to support growth

- **Outcome 2**

Human development enhanced to LDC graduation criteria level and achievement of off-track MDGs through the provision and use of services which are balanced geographically and distributed between social groups

- **Outcome 3**

Reduced effects of natural shocks as required for LDC graduation and sustainable management of natural resource exploitation

4.4 Outputs to Achieve Outcomes

162. Mostly, Outputs to achieve the Outcomes will be achieved at sector /ministry level with aligned provincial government support. Examples of Outputs (and their associated Activities) which need to be achieved at sector/ministry/aligned province levels have been identified by DoP/MPI and are the basis of ongoing discussions between DoP/MPI, line ministries and provincial governments.

163. Resources to implement activities are also a subject of discussion, including human resources and Activity financing. Discussion on the financing of Activities will be linked to PIP preparation and this is logical as many of the Activities could be financed through government and ODA funded projects and programs. This is particularly useful it has been agreed within government that the PIP will be in the form of a 3-year rolling program and instruments have been designed for the collection of demand data by ministries and provinces. What is needed to make this optimally effective is appropriate budget ceilings to be available at the time of discussing NSEDP Output linked Activities with the PIP rolling program.

4.5 8th NSEDP Preparation Schedule

164. Ongoing Consultations (initiated by DoP/MPI), October 2014 to mid- December 2014 (continuing consultations started in mid-2014)

- Consultations with ministries: detailed meetings between DoP / MPI and sector ministries between October and end December. It is intended that line ministries encourage other stakeholders, including their associated DPs, to contribute to their preparation of 8th NSEDP.
- Consultations with provincial governments: regional meetings for provinces of the Northern, Central and Southern Provinces with MPI and key sectors in the course of November and December

- **October to November 2014**

- Follow-up discussions/consultations with national Government agencies and provincial authorities and non-government stakeholders

- **Submission of inputs from national and provincial stakeholders – January 2015**
 - Throughout January- technical level consultations with government and non-government stakeholders
- **April-May 2015**
 - High Level Government Consultations,
- **June/July 2015 – National Assembly consideration and Approval**

Annex 1 - A summary of action points arising from the 11th HL RTM 2013

I. Macro- economic Management and Growth

1. In the current uncertain macro- economic environment, we were pleased the Government confirmed that its priority is to pursue a balanced approach to sustaining growth consistent with re-establishing and maintaining macroeconomic stability. We were encouraged by the actions taken already by Government. Adequate buffers are required to deal with present uncertainties and future shocks.
2. In this regard we recommended institutionalizing the High Level Task Force on Macroeconomic Policy and management to ensure a coordinated and sustained effort across a range of related fiscal, monetary and exchange rate measures and structural reforms that will be required to ensure stability.
3. For the preparation of the 8th Plan we encouraged reforms that would integrate planning and budget processes, move towards a rolling medium term expenditure framework, and to a fully costed and outcome based Plan.
4. We encouraged the Government to intensify the focus on the needs of the most vulnerable, including women, children and ethnic groups, and through prioritizing the off track MDGs, and in addressing equity considerations as a priority in the next plan.
5. We congratulated the Government in opening up the economy by joining WTO and preparing for ASEAN integration. We stressed the importance of modernizing and diversifying the economy through development of the private sector and SMEs especially in rural areas and for non-resource sectors. It is important for all investments to adhere to national environmental and social safeguards. The Extractive Industries Transparency Initiative is another opportunity to increase revenues and their predictability. Enhanced efforts are needed to increase vocational education and skill training in industry and service sectors.

II. Off track MDGs and Action Plans

6. MDG 1 Food and Nutrition security: We welcomed the Government's approval of a convergence approach to dealing with the serious issue of under nutrition, and sought more opportunities to consult about the related action plan so that we and NGOs could align support to bring the MDG 1 on track. Participants sought assurances about Government plans to increase local capacities and especially the allocation of adequate resources to implement the action plans in a phased manner over the next two years.
7. MDG 2 Education: DPs sought assurances that priority will continue to be given to resources for primary education and improving its quality, in an inclusive manner that addresses the most vulnerable and underserved, and that addresses high drop-out rates that prevent us from realizing this MDG target.

8. MDGs 4 and 5: We encouraged health governance and system reforms and the commitment to ensure free access to Maternal and Child Health services to help bring these MDGs on track.
9. MDG 7 with regards to Forests: We noted the Government's intention to achieve the MDG target of 65% of forest cover, and sought more consultations about how to support national efforts. Development Partners considered MDG 7 to be off track based on indicators in the MDG progress report. We affirmed our support to help Government in its commitment to reduce illegal logging.
10. Land: We welcomed the role of the National Assembly in deliberating on the land policy and encouraged more consultations on this as well as on legal and administrative aspects of securing land tenure, including for the most disadvantaged in remote areas. We look forward to more intensive engagement on this vital issue for rural development.
11. MDG 9 UXO: We welcomed the national strategy to undertake systematic surveys as a basis for prioritizing interventions linked to national development priorities. We encouraged increased investments so as to reach clearance targets while at the same time streamlining operations for those engaged in clearance activities to increase productivity.

III. Governance Reforms

12. Role of CSO: We welcomed the intention to hold the INGO conference in early 2014 on improving overall coordination and mechanisms for improving guidelines. We and INGOs emphasized the importance of predictability in implementing policy and national guidelines that enables rather than inhibits cooperation with INGOs, in a spirit of mutual accountability.
13. Some development partners raised the issue of the missing Mr. Sombath, a CSO leader, and called for establishing a more consistent and safe environment for CSOs throughout Lao PDR. The Government assured us it had taken all steps to continue the investigation and to bring the perpetrators to justice. We urge Government to resolve this case urgently.
14. We welcomed efforts being made by Government and related institutions to continue to increase capacities and effectiveness in governance reform, and encouraged greater access to laws and decrees and their implementation on the ground. The expanding role of the national assembly and the importance of enhancing legal institutions were highlighted as priorities. We look forward to learning the results of the decentralization of services under the Sam Sang pilot initiative so as to align with emerging national policies especially as this impacts on the most vulnerable, and in particular how to support capacity building at the local level.

IV. Development Cooperation for Results

15. We congratulated the Government on launching the public portal of the Aid Management Platform and encouraged all development partners to contribute information in the interests of enhanced transparency and cooperation. We look forward to the approval of the draft revised VDCAP and joining in its implementation in the spirit of partnership involving all actors.

16. Development partners encouraged the statistical agencies to improve data consistency and reliability and access to updated information.