



**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

*Peace Independence Democracy Unity Prosperity*

**The Ninth Round Table Meeting  
28-29 November 2006, Vientiane**

**Recent Developments, Annual Plans  
and Budgets, and Aid Effectiveness**

**Government of the Lao PDR  
Vientiane, November 2006**

## **I. Introduction**

In preparation for the Ninth Round Table Meeting scheduled for 28-29 November 2006, a few background documents have been shared with the partners in development; and these and other documents have been posted on the Round Table Meeting website ([www.rtm.org.la](http://www.rtm.org.la)). The documents include the Sixth Five-Year National Socio-Economic Development Plan (2006-2010), two reports on the Private Sector, three reports on Trade, and a report on Governance; as well as this document on “Recent Developments, Annual Plans and Budgets, and Aid Effectiveness.”

This document covers (in Section II) some of the more significant developments and achievements since the Eighth Round Table Meeting in 2003 that are not covered in the other documents. Summaries of the results and lessons learned from the implementation of the FY 2005/06 Annual Plan, the three National Programmes (on Illicit Drug Control, HIV/AIDS and Unexploded Ordnance or UXO), and Gender Mainstreaming are presented in Section III. Also, it contains the proposals for the FY 2006/07 Annual Plan. Section IV presents summaries of the results from the execution of the FY 2005/06 Annual Budget and the proposals for the FY 2006/07 Annual Budget, as well as some of the measures planned to be implemented in the fiscal area. The last section (Section V) presents a brief review of the status on the arrangements in the Government for aid coordination and management and summaries of the initiatives under way for improving aid effectiveness in the context of the Paris Declaration.

## **II. Some Major Developments and Achievements since the Eighth Round Table Meeting**

### **A. General Developments**

#### **1. Government Restructuring**

In order to improve performance, the Government undertook a significant restructuring and realignment of some Ministries and Agencies during 2005/06. Accordingly, the new Ministry of Energy and Mines (MOEM) was approved in June 2006. The new MOEM consisting of seven departments – (i) Cabinet Bureau; (ii) Personnel Department; (iii) Inspection Department; (iv) Department of Electricity; (v) Department of Energy Promotion; (vi) Department of Mining; and (vii) Department of Geology – is to be in place by the end of the year; with the formulation and organisation of the staff and offices in the capital and in the provinces completed.

The Ministry of Industry and Handicrafts (MOIH) has been merged with the Ministry of Commerce (MOC) to form a new ministry, the Ministry of Industry and Commerce (MOIC), concentrating on linking industry and trade. This reorganization process is expected to be finished by the end of the year. In doing so, the Government intends to put

more emphasis on addressing such issues as the improvement of the legal environment for business, trade facilitation and export promotion; and production and marketing. In June 2006, the Department of Foreign Trade in the former MOC was split in two, creating the Department of Foreign Trade Policy, which deals mainly with WTO accession and the Integrated Framework; and the Department of Imports and Exports that deals primarily with administrative aspects such as licensing.

The Prime Minister's Decree on the Development and Promotion of Small and Medium Enterprises (SMEs) was promulgated in April 2004. As per the Decree, the National Committee for SME was established in March 2005, comprising of 26 members, 10 from the public sector and 16 from the private sector. The physical facility for the SME Promotion and Development Office (SMEPDO) was officially opened in April 2006; with 19 personnel assigned to the SMEPDO.

The Lao Women's Union (LWU) has been restructured, with a new president and four vice-presidents; and its provincial leadership has been improved. The Lao National Commission for the Advancement of Women (LaoNCAW) was established in April 2003. Sub-NCAWs have been set up in almost all the ministries, 15 organisations, and 17 provinces and are being expanded.

The Prime Minister's Office (PMO) has been restructured; a Secretariat of the Government was set up by Law in 2003; and staff have been designated. The Public administration and Civil Service Authority (PACSA) was up-graded to a sub-ministry by a Decree issued in 2004, which was implemented and launched in June 2005. A national information management system (PIMS) is being set up and will be piloted in eight pilot offices commencing in January 2007 for a period of 12 months. It aims to improve the harmonisation and alignment of personnel information compilation, management and utilization. Information has been collected and user training on database entry, etc., has been carried out. After this 12 month pilot period, the programme will be further developed and expanded to other organisations and provinces.

## **2. National Event**

***50<sup>th</sup> Anniversary of the Lao People's Revolutionary Party:*** The celebration of the 50<sup>th</sup> Anniversary of the Lao People's Revolutionary Party on 22 March 2005 was an historic event. The President of the Republic, H.E. Mr. Khamtay Siphandone, delivered a rousing speech to the citizens and the diplomatic community (including development partners) reiterating among others, the commitment of the Party to the market-oriented economy within the socialist framework; emphasising the reduction of poverty and upgrading the living conditions and the livelihoods of the Lao multi-ethnic people in the mountainous and rural areas; narrowing the development gap among various ethnic groups; and ensuring national concord, solidarity and mutual help, and transforming the policy of equity among ethnic groups into reality.

### **3. Hosting International Events**

**Tenth ASEAN Summit:** The Tenth ASEAN Summit was held in Vientiane at the end of November 2004. The Summit adopted the Vientiane Action Plan (VAP) (2005-2010) that builds on the achievements of the Hanoi Plan of Action (1998-2004). The ASEAN Development Fund (ADF) was established to accelerate the implementation of the activities in the Action Plan. The successful organisation of the Summit was an important achievement of the Lao PDR recognised both at home and abroad. The Government was able to build consensus among the ASEAN leaders to promote regional cooperation in the energy sector (especially hydro-electric power) as an important issue to be pursued.

**38<sup>th</sup> ASEAN Ministerial Meeting (AMM):** The 38<sup>th</sup> ASEAN Ministerial Meeting (AMM) was held in Vientiane on 26 July 2005. This was the first time that the Lao PDR hosted the annual meeting, which was chaired by H.E. Mr. Somsavat Lengsavad, Deputy Prime Minister and Minister of Foreign Affairs of the Lao PDR. The meeting reviewed regional and international political, security and economic developments, and intra and extra ASEAN cooperation, as well as wide ranging issues in the move towards the establishment of an ASEAN Community in 2020, as envisioned in the Declaration of the ASEAN Concord II adopted in October 2003 in Bali, Indonesia. Substantial progress was made in the implementation of the Vientiane Action Programme (VAP), which includes the signing of the Agreement on the Establishment of an ASEAN Development Fund (ADF).

**General Assembly of AIPO:** The five-day 26<sup>th</sup> General Assembly of the ASEAN Inter-Parliamentary Organisation (AIPO) was held in Vientiane from 18 to 23 September 2005. Over 300 delegates from 18 countries and organisations attended the Assembly. The General Assembly emphasised the need to make the AIPO a more effective and integrated organisation, monitoring and supporting the Governments of the ASEAN member countries in meeting the goals of the Community. It recognised that regional peace, security and stability depended largely on cooperation and sustainable development throughout Asia and the world. A resolution was considered with the objective of increasing the role of the AIPO and national Parliaments in the implementation of the commitments by the Governments of the ASEAN member countries, such as the outcome of the 38<sup>th</sup> ASEAN Ministerial Meeting, the Vientiane Action Plan, the ASEAN Economic Community, the ASEAN Development Fund, and the initiatives for ASEAN Integration.

### **4. Participation in International Meetings**

**Harmonisation and Alignment Forums:** A high-level forum was organized in Paris at the end of February – beginning of March 2005. The Lao PDR participated in the High Level Forum in Paris with the Government delegation led by the Vice Minister of Finance. The Forum adopted the Paris Declaration on Aid Effectiveness, which was endorsed by the Lao Delegation. The Paris Declaration stressed the focus on results and reiterated the principles in the Rome Declaration (2003), which emphasized the

importance of alignment of the operational policies, procedures and practices among development partners to reduce the transaction costs for recipient countries, and the alignment of development partner priorities and practices with those of the recipient countries. The Paris Declaration reiterated that recipient countries should take the lead in the promotion of harmonisation and alignment. It proposed some 12 time-bound targets and indicators to gauge progress on harmonisation and alignment at both the global and country levels. The targets and indicators have been finalized in September 2006.

**World Summit:** The 2005 World Summit was held at the UN Headquarters in New York from 14 to 16 September 2005. An estimated 149 heads of State and Government addressed the Summit, including H.E. Mr. Bounnhang Vorachith, Prime Minister of the Lao PDR. In addition, a number of key ministers, including H.E. Mr. Somsavat Lengsavad, Deputy Prime Minister and Minister of Foreign Affairs, and senior officials from the different member countries of the UN attended the Summit. On the development front, the world leaders reiterated the strong and unambiguous commitment by all governments, donors and developing nations alike, to achieve the Millennium Development Goals (MDGs) by 2015, and agreed to provide an additional USD 50 billion a year by 2010 for fighting poverty. The developing countries committed to adopt national plans for achieving the MDGs. In his speech to the Summit, H.E. Mr. Bounnhang Vorachith, Prime Minister, alluded to the significant achievements of the Lao PDR and the major challenges that remain; and emphasized the importance of the assistance of the international community in addressing the challenges to achieve the MDGs.

**The 60<sup>th</sup> Session of the United Nations General Assembly:** H.E. Mr. Somsavat Lengsavad, Deputy Prime Minister, Minister of Foreign Affairs and Head of Delegation of the Lao PDR, addressed the 60<sup>th</sup> Session of the United Nations General Assembly in New York on the 20 September 2005, on international issues and briefed the participants on the achievements of the Lao PDR and the challenges. The process of globalization has not produced equal benefits and the gap between the developed and developing countries is widening. In order for developing countries to reap benefits from globalization, an enabling external economic environment for development is required. H.E. the Deputy Prime Minister and Minister of Foreign Affairs, as Chairman of the Group of Land-Locked Least-Developed Countries (LLDCs), appealed to the international community for support for LLDC endeavours. He provides a brief overview of the current socio-economic situation in the Lao PDR and recent developments. He stressed the need to act collectively to reform and strengthen the United Nations Institutions to enable them to effectively address the many complex challenges the world is now facing. He concluded by stating that the UN cannot be strengthened if it does not embrace in equal measure the concerns of all, including the small, vulnerable and weak nations, which represent the majority of its members.

**The 27<sup>th</sup> AIPO General Assembly:** During 10-15 September 2006, a Lao delegation led by H.E. Mr. Thonsing Thammavong, President of the National Assembly, attended the 27<sup>th</sup> General Assembly of the ASEAN Inter-Parliamentary Organization (AIPO) in the Philippines.

***Landlocked Least Developed Countries Summit:*** The first Summit of the Landlocked Least Developed Countries (LLDCs) took place in Havana, Cuba on 14 September 2006, in conjunction with the 14<sup>th</sup> Summit of the Non-Aligned Movement. The LLDC Summit was chaired by H.E. Mr. Choummaly Xayasone, President of the Lao PDR and Secretary-General of the Party. The President of the Republic was accompanied by H.E. Dr. Thongloun Sisoulith, Deputy Prime Minister and Minister of Foreign Affairs and other senior officials. The meeting was attended by representatives of the 31 LLDCs and five observing nations and organizations as well as three guests, including Japan, the EU, the World Bank and some UN agencies. The participants in the meeting passed a declaration to achieve the Action Plan agreed on three years ago in Almaty, Kazakhstan.

***14<sup>th</sup> Summit of the Non-Aligned Movement:*** The 14<sup>th</sup> Summit of the Non-Aligned Movement (NAM) was held in Cuba from 14 to 16 September 2006, with the participation of 118 country delegations led by their Heads of State and Government. The high-level Lao Delegation was led by H.E. Mr. Choummaly Xayasone, President of the Lao PDR and Secretary-General of the Party. In his speech to the Summit, H.E. the President emphasized the NAM's principles and the state of imbalance and inequality in pursuing a uni-polar policy. The Summit highly valued the past activities of the NAM and concluded that the principles and objectives of the Movement continue to remain valid. The Summit approved the membership of two new countries, Haiti and St. Kitts-Nevis; and agreed on Cuba's chairmanship of the NAM for another three years. The Summit concluded with a Political Declaration by the Heads of State and Government and the endorsement of a final document, which indicate the unique solidarity among the member states of the NAM to address the current global problems.

The hosting of meetings such as the tenth ASEAN Summit, the AMM, the 26<sup>th</sup> AIPO General Assembly in the Lao PDR, and the participation of the Lao PDR in a number of regional and global forums including the World Summit and the 60<sup>th</sup> Session of the General Assembly, are historic landmarks and have contributed to the promotion of peace, cooperation and development, upholding the status and profile of the nation in the regional and international arenas as well as the status of the National Assembly of the Lao PDR in the International Parliamentary Forum.

## **B. Monetary and Banking Sector Developments**

During the first nine months of FY 2005/06, the money supply (broad money or M2) grew by about 8 percent and reached over 5,626 billion Kip in June 2006. The currency in circulation rose from 3,661 billion Kip equivalent in January 2005 to 3,963 billion Kip equivalent in December 2005; and from 3,715 billion Kip equivalent in July 2005 to 4,136 billion Kip equivalent in June 2006. The share of the Kip currency in the total currency in circulation increased from about 14 percent in January 2005 to about 19 percent in June 2006. The 50,000 Kip denomination bank notes have been introduced into circulation during FY 2005/06. Bank deposits (demand, savings and time deposits)

increased modestly from 1,462 billion Kip in January 2005 to 1,490 billion Kip in June 2006.

The inflation rate has been kept in single digits and decreased from about 9.44 percent in October 2005 to 5.49 percent in September 2006, averaging at about 8 percent during FY 2005/06. The exchange rate remained stable for the Kip in relation to both the US Dollar and Thai Baht. The rate for one US Dollar was 10,856 Kip in October 2005 and 10,037.27 Kip in September 2006, showing a tiny appreciation of the Kip during FY 2005/06. On the other hand, the Kip depreciated marginally against the Thai Baht during the year from 266.72 Kip in October 2005 to 269.91 Kip in September 2006.

Central Bank (Bank of Laos or BoL) lending to the Government rose from 193 billion Kip (or 21 percent of total BoL lending to the Government, SOEs and the private sector) in January 2005 to about 295 billion Kip (44 percent of the total) in September 2005, and to 423 billion Kip (60 percent of the total) in June 2006. However, it may have declined thereafter as the cash flow position of the Government improved significantly due to increased revenue collections. BoL lending to state-owned enterprises (SOEs) declined from 564 billion Kip (62 percent of the total) in January 2005 to 237 billion Kip (35 percent of the total) in September 2005, and stood at 193 billion Kip (27 percent of the total) in June 2006. BoL lending to the private sector also declined from 152 billion Kip (17 percent of the total) in January 2005 to 140 billion Kip (21 percent of the total) in September 2005 and to about 90 billion Kip (13 percent of the total) in June 2006.

Commercial bank lending to the Government rose from 371 billion Kip (or 15 percent of total commercial bank lending to the Government, SOEs and the private sector) in January 2005 to about 452 billion Kip (15 percent of the total) in September 2005, and to 556 billion Kip (17 percent of the total) in June 2006. However, it may have declined thereafter as the cash flow position of the Government improved significantly due to increased revenue collections. Commercial bank lending to SOEs increased from 412 billion Kip (17 percent of the total) in January 2005 to 475 billion Kip (15 percent of the total) in September 2005, and stood at 629 billion Kip (19 percent of the total) in June 2006. Commercial bank lending to the private sector also increased from 1,609 billion Kip (67 percent of the total) in January 2005 to 2,156 billion Kip (70 percent of the total) in September 2005, but declined to about 2,114 billion Kip (64 percent of the total) in June 2006. Commercial bank lending to small and medium enterprises is still low, due to the insufficient provision of documents and records required to assess the credit worthiness of the enterprises.

**Banking Sector Reforms:** The amended Governance Agreement of the Bank Pour Le Commerce Exterior Lao (BCEL) and the Lao Development Bank (LDB) was approved in August 2006. In 2005, the Agricultural Promotion Bank (APB) was separated into two organisations: the APB and the Policy Bank. The establishment of the Policy Bank is to serve the economic growth in the 47 poorest districts while the APB will deal with commercial activities. The income of the State-Owned Commercial Banks (SOCBs) has increased and non-performing loans have been reduced. At the beginning of 2006, the

Government recapitalized the BCEL and LDB and their present net-worth is positive. By 2009, the Government expects to transform the SOCBs into joint venture banks.

The oversight of banks by the BOL has been strengthened, due to the creation of a shorter report form and on-site inspections. Also a computerised Management Information System (MIS) is being developed. The BoL is preparing and revising some regulations and draft laws on banking, including the draft Law on Commercial Banking. The first draft of an amended Law on Foreign Currency and High Value Property Management was completed at the end of October 2006.

The other macroeconomic and sectoral developments during the Fifth Five-Year National Socio-Economic Development Plan period (2001-2005) are presented in Part I of the Sixth Five-Year National Socio-Economic Development Plan (2006-2010) document; and those during FY 2005/06 (October 2005 to September 2006) are presented in the next Chapter of this document.

### **III. Implementation of the FY 2005/06 Annual Plan and Proposals for the FY 2006/07 Annual Plan**

#### **A. Implementation of the FY 2005/06 Annual Plan**

**Annual Plan Targets:** The FY 2005/06 Annual Socio-economic Development Plan covers the first year of the Sixth Five Year Socio-Economic Development Plan (2006-2010). The Annual Plan targets included GDP growth of 7.5-8 percent; with agriculture increasing by 3.5-3.8 percent, industry by 14 percent and services by 9-10 percent. Total investment was expected to account for 30 percent of GDP; with a projected public investment of 3,649 billion Kip (11 percent of GDP). The budget revenue was expected to increase to 4,100 billion Kip and budget expenditures to 7,390 billion Kip. The exchange rate and the rate of inflation would be stabilized. The plan was to reduce the number of poor families to about 33,000 families, reduce *slash and burn* cultivation areas by 7,000 hectares and increase rice production to 2.65 million tons.

**Macroeconomic Achievements:** In FY 2005/06, the GDP grew by 7.5 percent reaching 33,300 billion Kip; agriculture and forestry increased by 3.0 percent accounting for about 43.5 percent of GDP; industry increased by 15.7 percent accounting for 30.5 percent of GDP; and services increased by 6.2 percent accounting for 26 percent of GDP. The GDP per capita at current prices reached 5.8 million Kip equivalent to US\$ 553.

Total exports reached US\$ 629.11 million, which was about 20 percent higher than the Annual Plan target and a 38 percent increase compared to the same period last year. Exports of gold and electricity increase by about 35 percent and 14 percent respectively. The value of total imports was US\$ 913.4 million. The trade deficit was US\$300 million which is an increase of US\$ 230.4 million as compared to the previous year. This was

mainly because of a 70 percent increase in machinery imports for projects in the public and domestic and international private sectors.

For the 2005/06 Annual Plan, the National Assembly approved a total of 3,238 public investment projects, for a total value of 3,649 billion Kip, of which 424 billion Kip was domestic funds and 3,225 billion Kip was from Official Development Assistance or ODA.<sup>1</sup> Of the total, about 2,052 billion Kip (234.6 billion Kip in domestic funds 1,817.51 billion Kip in ODA) was administrated by the (central) Ministries/sectors and 1,596.93 billion Kip (189.4 billion Kip in domestic funds and 1,407.53 billion Kip in ODA) was administrated by the provinces. During FY 2005/06, 171 investment projects with a total value of US\$2,699.6 million were approved, of which 74 projects valued at US\$72.5 million were approved at the provincial (local) level.

The total funds utilized for implementation of the public investment projects in FY 2005/06 amounted to 2,882.28 billion Kip or 79 percent of the amount approved in the Annual Plan. Of the total utilized, 433.59 billion Kip were domestic funds (102.26 percent of the Annual Plan target) and 2,448.68 billion Kip were from ODA (76 percent of the Annual Plan target). The Ministries utilized 1,597.73 billion Kip (or 77.86 percent of the Annual Plan target) of which 209.98 billion Kip were in domestic funds (88 percent of the Annual Plan target); and 1,395.75 billion Kip in ODA (77 percent of the Annual Plan target); and the provinces utilized 1,284.55 billion Kip or 80 percent of the Annual Plan target (of which domestic funds were 231.61 billion Kip or 122 percent Annual Plan target and 1,052.94 billion Kip in ODA or 75 percent of the Annual Plan target).

***Agriculture and Forestry:*** Total production of rice reached the target of 2.65 million tons, increasing by 3.5 percent compared to the previous year. Livestock production and industrial crops and forest plantations (such as rubber and agar wood) expanded throughout the country. The livestock numbers rose, with buffaloes increasing by 1 percent to 1.1 million head, cattle to 1.3 million (2 percent increase), and pigs to 1.6 million (5 percent increase). The area under commercial plantations rose to 261,980 hectares. The irrigated area in dry season expanded to 91,100 hectares or 71 percent of the Annual Plan target.

***Industry and Handicrafts:*** The manufacturing sector production reached 493.34 billion Kip (23.4 percent increase over the previous year) in which processing industry-handicraft increased by almost 11 percent, and accounted for about 56 percent of total manufacturing production.

The production in power and minerals sectors increased by 44 percent compared to the previous year and accounted for 5.8 percent of GDP. The production of hydropower and mineral projects accounted for 23 percent and 77 percent respectively. In FY 2005/06, total power production was 3.727 million KWh equal to US\$150.9 million (13 percent increase from the previous year); of which 2.622 million KWh valued at US\$101 million were exported. The construction of the Nam Theun 2 (NT2) project is about 27 percent

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<sup>1</sup> Only a portion of the ODA passes through the Government budget.

complete and the construction of three other hydropower projects (Xexet, Xekhaman 3 and Nam Ngum 2) is ongoing. The mineral production increased by 57.3 percent, with 12.1 tons of gold production in Sepon valued at US\$108.47 million. From the beginning of operations to October 2006, the Sepon mine produced 34.7 tons of gold of which 34.15 tons was exported, fetching US\$285 million in export revenues. Bronze production reached 757,000 tons of which 739,000 tons with a value of US\$401.3 million were exported (rest in stock).

Substantial progress has been made in developing the infrastructure, with 65 percent of the R3 road construction completed. The Government received 100 percent of the loans and grants from the People's Republic of China. The Savannakhet-Mukdahan Bridge is more than 90 percent complete and is expected to be opened for use by the public by the end of 2006. The construction of Road no. 12 from Yommalath (Khammouan-Vietnam border) has been completed and is now in operation. The Road no. 8 (Phu Hai-Vietnam border) has been upgraded. The construction of Road no. 18B (Attapeu-Lao-Vietnam Border) was also completed. The telecommunications and postal services were upgraded to a higher quality with reasonable service fees. The number of mobile phone connections increased by 32 percent during the year.

In FY 2005/06, an estimated 1.18 million tourists entered Laos, which was a 33 percent increase from the previous year. Tourism revenues are estimated to exceed US\$168 million. The city of Luang Prabang received a gold medal from British Travel Agents as the most popular tourist destination in the world in 2006.

***Cultural and Social Areas:*** The construction of the Souphanouvong and Champassak Universities has continued. In FY 2005/06, net primary school enrollment was 84.7 percent and the primary school dropout rate was reduced to 9.4 percent. The health network expanded to cover 100 percent of the city areas and 95 percent of remote areas. At present, there are 739 health centers (91 percent of the Annual Plan target) and 5,248 village medical kits (99 percent of the Annual Plan target). The availability of safe water covered 69.7 percent of total families (102.6 percent of the target). The safe sanitation coverage rose to 48.2 percent of total families (achieving the Plan target).

New jobs were provided to 42,000 workers. About 7,065 people were sent for training and work overseas, and 48,000 Lao workers in Thailand were granted temporary border passes. The quality of the television and radio stations at the central and local levels was improved and upgraded. At present, the number of radio stations increased by 2 to a total of 20; and there are 29 television stations. The Seventh National Sports Festival was held in Savannakhet. In addition, the Lao athletes participated in the 23<sup>rd</sup> SEA Games, where they received three gold medals, four silver medals and twelve bronze medals. The capacity of public officials was enhanced. The establishment of an additional 26 model villages in three districts has been completed.

***Poverty Eradication:*** The formulation of targeted poverty reduction plans 33 *kum bans* (cluster/group of villages) in 31 of the 47 poorest districts was completed, through a participatory process. An evaluation of the implementation of development funds at the

village level in 22 poorest districts was conducted and pilot Village Development Funds were established in the 47 poorest districts. In FY 2005/06, the Government approved 10 billion Kip to support the Village Development Funds and 9.9 billion Kip of the total was utilized. The Poverty Reduction Fund (supported by the proceeds of a World Bank/IDA concessional loan to be implemented over three years) completed many activities covering 1,913 villages or 239 *kum bans* (regions?) in 20 districts in 5 provinces. It supported 1,212 sub-projects valued at 87 billion Kip. In 2005/06, 533 new sub-projects worth 44 billion Kip were implemented. The *slash-and-burn* cultivation areas were reduced to about 22,000 hectares and land and forest areas were allocated to people in 900 villages.

The above results were achieved in spite of several weaknesses and limitations in capacity at various levels, budget leakages and lax expenditure management, limited efforts on mobilization of funds from the communities, slow implementation of public investment projects, and lack of implementation of projects signed with some foreign investors.

***Recommendations for Implementation of the FY 2006/07 Annual Plan:*** To ensure the implementation of the FY 2006/07 Annual Socio-Economic Development Plan, the following measures are recommended:

1. Ensure the implementation of the resolutions of the Eighth Party Congress, establishing responsible committees for each programme to coordinate with sectors and the localities in drafting their own plans and proposing for funding;
2. Focus on addressing difficulties related to budget revenues-expenditures and outstanding debts by setting stricter measures;
3. Control inflation and exchange rates to maintain macroeconomic stability;
4. Implementation of the new enterprise law;
5. Continue to establish measures and policies to attract domestic private foreign investment; and implement mechanisms for foreign investment approvals through “one-stop” service;
6. Enhance the quality and quantity of production-business activities and exports;
7. Improve the management and administration of public investment projects;
8. Continue to support the implementation of activities in *kum bans* in order to reduce poverty in the 47 poorest districts and continue to raise funds from various sectors in the society;
9. Enhance the capacity of government officials in the areas of planning, finance, banking and commerce; and
10. Enhance the monitoring and implement laws and regulations; and prevent the abuse of power to gain personal advantage.

## **B. National Programmes**

### **1. Illicit Drug control**

In 1998, the Lao PDR was the third largest opium producer in the world with one of the highest rates of opium addiction among its population. Since then the country has made significant progress in eradicating opium cultivation and reducing the number of addicts. As a result, the Lao PDR was able to declare in February 2006 its success in being able to reduce illicit opium cultivation to insignificant levels. The opium poppy cultivation was reduced by over 93 percent, from nearly 27,000 ha in 1998 to just 1,800 ha in 2005; and opium addiction was reduced by more than 82 percent, from 63,000 addicts to 11,200 remaining addicts by mid 2006.

Maintaining this successful eradication of opium cultivation is a continuing challenge. Due to resource constraints, only about half the villages involved in opium growing in 1998 received adequate development assistance to replace opium poppy production. The Government is launching a new action plan to address the issues arising in the post-opium setting, particularly for the remaining villages, which have been identified as poor. The urgent provision of adequate assistance is essential in the critical transitional period of 3-4 years to allow former opium-growers (farmers) to adopt non opium-based alternative livelihoods. The Government adopted the National Programme Strategy for the Post Opium Scenario (2006-2010). The operationalisation of the national program strategy for the post opium scenario with an action plan targeting 1,000 priority former opium poppy planting villages has been approved. The Programme Strategy has four main components: (i) drug supply reduction through alternative development, (ii) drug demand reduction, (iii) raising civic awareness, and (iv) law enforcement. Assistance is necessary to integrate identified villages into on-going planned and future development programmes and projects. There is a need to prevent the return to opium poppy cultivation, prevent trafficking and abuse of Amphetamine type substances (ATS), and treat the remaining drug addicts in the country. The legislation and the capacity of the judiciary and the law enforcement agencies are being strengthened to deal with the challenges of drugs and crime.

### **2. HIV/AIDS**

At the moment, the Lao PDR is in a relatively fortunate situation of low prevalence of HIV/AIDS as compared to that in its neighbouring countries. At the end of 2005, the official cumulative number of people identified with HIV was 1,827, of whom 432 were known to be living with AIDS. About 60 percent of the reported cases were male and 40 percent female. More than 77 percent of those infected are between the ages of 20 and 39 years. Formulation of the five-year (2006-2010) strategy for combating HIV/AIDS was completed in February 2006 and launched in June 2006 at the in-country consultation meeting, which was attended by officials from relevant Government sectors and representatives of the partners in development. This is a part of the preparations of the country for the ASEAN Summit (on HIV/AIDS?) in December 2006 in Manila.

Institutional strengthening has been undertaken since 2003. The National Committee for the Control of Aids (NCCA) launched in 1998 has been restructured and strengthened. Districts committees for the control of AIDS have been set up, with some provinces also having village committees. It is necessary to provide technical assistance to these committees in order to raise awareness of the communities and provide counselling services for those affected by HIV/AIDS.

To avert the risk of the spread of the pandemic, the Government has been taking a number of measures to raise awareness, monitor the situation (surveillance), promote prevention and treatment, and encourage self-help groups, including home-based care, cooperation with the neighbouring countries. A pilot ARV treatment clinic was set up in Savannakhet in September 2003 and another clinic was opened in the Settathirath Hospital in Vientiane in June 2006. It is hoped that more ARV clinics will be set up around the country, particularly in Luang Prabang and Champassak in 2007. In May 2006, ARV and opportunistic infection (OI) guidelines were developed, and training commenced in October 2006 for provincial hospital staff. Also, the project on 100 percent condom use (CUP) piloted in July 2003 has been expanded to Khammoune and Oudomxay.

In 2005, the Volunteer Counselling Testing (VCT) was expanded to 37 sites. This provides pre-test and post-test counselling. There are 43 volunteer counselling centres around the country, and a number of support networks for people living with HIV/AIDS are now operating in Vientiane, Luang Prabang, Savannakhet, Champassak and Bokeo. These centres raise people's awareness and increase their understanding of HIV/AIDS. Additionally, there is a radio broadcast on Sundays on HIV/AIDS and sexually transmitted infections (STIs). In 2005, drop-in centres for service women were established in Vientiane, Champassak and Luang Prabang. Mass STI treatment for service women was started in 2003 and it was expanded nationwide in 2006.

A three-day exchange and learning workshop for field workers in HIV prevention project for men having sex with men (MSM) in the Greater Mekong Sub-Region (GMS) was organised in Vientiane from during 5-7 September 2006.

### **3. Unexploded Ordinance (UXO)**

UXO contamination poses an ongoing development challenge to the Lao PDR. Two-thirds of the land area in the Lao PDR is contaminated with UXO, which encompasses 25 percent of all villages, this means that vast areas of land are unsafe for agriculture, infrastructure or other human activity. The majority of the highly contaminated villages are in remote, difficult to reach areas of the country with high rates of poverty. Therefore people living in these areas are in danger of UXO. The number of UXO accidents has increased steadily from 60 accidents in 2003 to 90 in 2004, and 98 in 2005. While children represented 45 percent of the victims in 2003, that proportion rose to about 57 percent in 2005.

The UXO Lao Programme has been the main vehicle for the implementation of the Government's ten-year National Strategic Plan or "The Safe Path Forward." In 2005, the Technical Survey Study, Clearance Systems Study and Management Systems review were started. There was a 25 percent increase in clearance in 2005 over that in 2004, due to improved targeting of works, improved techniques and introduction of new equipment. The UXO Lao carried out community awareness, survey roving and area clearance activities in support of agricultural production and other development activities. The first two new humanitarian UXO clearance operators were accredited in the second half of 2005 and began operations in the Southern Provinces.

The National Regulatory Authority (NRA) was established by the Prime Minister's Decree issued in 2004 and the Authority has been staffed and began operation in 2006. Additional technical assistance is being mobilized which should be in place by the end of 2006. The main task of the NRA is to implement the National Strategy Plan adopted in 2004, establish policies and guidelines, and disseminate these to the UXO operators. This includes the creation of a national central database that will provide comprehensive consistent statistics. In addition, the NRA has to coordinate between the different demining organisations; establish national standards for mine action activities; and create mechanisms for accreditation. In the future, the NRA will also accept private sector deminers and develop regulations and legislation to guide them.

In February 2005, the Government approved a budget of US\$ 5.1 million for the UXO Lao Programme. By September 2005, the UXO Lao secured US\$ 3.6 million, which is the minimum funding required to maintain full operations. The NRA is also facing budget/funding constraints. The sector requires significant additional resources; and the mobilization of adequate resources is a high priority.

### **C. Gender Mainstreaming**

The Government has become more active in the establishment of the machinery for the advancement of women. Concrete steps are being taken in all key sectors and through national programmes to: support poor women's economic activities; improve their access to basic services such as education and health and productive resources, such as extension services; involve them in local decision-making; and increase their involvement and take their needs into account when developing policies and plans. Data is being collected on the implementation of the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) in two provinces - Luang Prabang and Champassak. Manuals are being developed on gender mainstreaming in agriculture, industry and trade sectors and on sex-disaggregated statistics. The Lao Women's Union (LWU) have held a number of workshops on vocational skills for women, to disseminate the new Law on the Development and Protection of Women, and to disseminate the CEDAW Convention. Micro-credit and savings programmes are being implemented for women in 616 villages of 40 districts with 210,546 members. Lao Women's Union Training Centre provides training on vocational education for employment and income generation skills. All new

policies, programmes and projects are being screened from a gender perspective. Local women are being consulted in the design of new projects for poverty reduction, and ensuring their participation in project activities, including extension services and training.

The Lao Women's Union (LWU) has a new president and four vice-presidents and provincial leadership has been improved. An increase of the active participation of women in the Party at every level has been achieved. There are more female parliamentarians (25 percent of the total number). On the 3<sup>rd</sup> of April 2003 the Decree 37 was enacted on the Control and Function of LaoNCAW, which laid out policies and guidelines. Implementation of this Decree commenced in 2004. At the end of 2004 the Law on the Development and Protection of Women, which was drafted jointly by the LWU and the Ministry of Justice, was passed.

The Lao Women's Union has implemented 16 projects nationwide. The activities include vocational training; extension of micro-credits; income generating activities for families; establishment of counselling offices for women; conservation and promotion of culture project; primary health care for women and children project; and HIV/AIDS project etc. Lao Women's Union has worked with the Ministry of Finance's land titling project, launching campaigns to educate women on their land ownership rights in order to improve women's access, maintenance and control over the land. LWU is playing an important role in increasing the number of parcels of land titles to women.

Gender Resource Information and Development Centre (GRID) is a key institute in Lao PDR which provides technical advice to various international and national government agencies in gender mainstreaming. The following are the main achievements:

- A series of gender training curricula including accompanying training materials and manuals have been developed and are available. GRID organised many gender training workshops for the leadership of Government Ministries in the provinces, districts, villages and various development agencies. A total of 4,554 people (2,408 females and 2,146 males) were trained by GRID between 1997 and 2005.
- Gender had been mainstreamed in the National Growth and Poverty Eradication Strategy and in the Committee for Planning and Investment (CPI) Planning Manual.
- Gender had been mainstreamed in the work of the NSC. Two Government notifications on six-disaggregated statistics were issued for government ministries to take action.
- Research has been carried out by the GRID research team and produced a number of useful publications for development work.
- Radio programmes have been broadcasting at national and provincial levels. A monthly newsletter with a circulation of 100-150 has been produced, and a monthly LWU newspaper carries a one page prepared by GRID.

The LaoNCAW completed the National Strategy for the Advancement of Women (NSAW) in 2004 and it was adopted by the Government in 2006; and an action plan for implementation of the strategy has been drawn up. Sub-NCAWs have been established in almost all ministries, in 15 organisations, and 17 provinces and are being expanded. Two

or three staff members from each ministry are to be designated to the relevant sub-NCAW. The NSAW is being integrated into the action plans of each sector and province.

The LaoNCAW has put strong emphasis on raising awareness and understanding on gender issues. This has included initiatives such as training, meetings and workshops. Good results have been achieved in this area, with increased participation of both men and women in the meetings and initiatives at both the central and provincial levels. Substantial progress has been made in the advancement of women in decision making positions. For example in the last Party Congress the number of women in decision making positions has increased, there are now four women in ministerial positions. Training is being conducted for female members of the National Assembly to develop their debating skills to promote women's participation in the Assembly's deliberations.

The annual meeting of the LaoNCAW was held on 18 August 2006 where an update was presented on the progress made in the area of gender awareness. Every sector and province has to complete their own action plan for achieving gender equality. The progress report on implementation of CEDAW will be completed by the end of 2006 for submission to the United Nations.

#### **D. FY 2006/07 Annual Plan Proposals**

The positive trends in the world situation have increased the opportunities for the Lao PDR to open up exports, promote investment and use new technologies. However, the steep rise in the prices of petroleum products and building materials will adversely impact on economic growth. The political stability and security of the country has been maintained, and the macroeconomic situation remains stable, with increased mobilisation of foreign direct investment (FDI). However, the implementation of the FY 2006/07 Annual Plan may face a number of challenges and difficulties such as the small scale of the national economy, high debt, and inadequate socioeconomic infrastructure.

**Plan Priorities:** The main priorities of the FY 2006/07 Annual Plan are to: (i) maintain macroeconomic stability; (ii) implement agro-production projects; (iii) implement the poverty reduction strategy; (iv) reduce *slash-and-burn* cultivation; (v) extend access to quality education and health services; (vi) solve the social problems; (vii) upgrade the capacities of civil servants; and (viii) construct the socioeconomic infrastructure.

**Plan Targets and Tasks:** The FY 2006/07 Annual Plan visualises the GDP to grow by at least 7.5 percent (reaching 37,926 billion Kip); with agriculture and forestry increasing by 3.4 percent, accounting for 41.9 percent of GDP; industry by 13.2 percent accounting for 32.2 percent of GDP; and services by 7.9 percent accounting for 26.7 percent of GDP. The GDP per capita is projected to be about 6.5 million Kip (USD 591). The money supply (M2) will grow on average at about 18 percent and the inflation and exchange rates will remain consistent. Exports are expected to reach US\$ 652.9 million and imports to US\$ 977.9 million, maintaining a controlled trade deficit. Total investment will be at

30-32 percent of GDP, with public investment accounting for 10 percent of GDP. The poverty incidence will be reduced at the rate of 2-3 percent.

The *slash-and-burn* cultivation area will be reduced to 14,400 ha. Timber extraction will be limited. Rice production should reach 2,725,000 tons. The production of meat and fish is expected to expand by about 4-5 percent. About 200,000 ha of natural forestry area will be rehabilitated and trees will be planted on 25,000 ha, in which 15,000 ha will be used for planting economic trees. Electricity will be supplied to 50 percent of all families.

**Sectoral Strategies:** The emphasis in agriculture and forestry will be to increase food production, increase the use of modern technologies and techniques, develop processing industries and reduce *slash-and-burn* cultivation. The Government will continue to implement some key projects such as irrigation projects, rubber and agar wood plantation projects, and the animal disease prevention centre in Vientiane. The focus will be on improving the quality and increasing the production of processed and semi-processed products for domestic consumption and export.

The construction of the hydroelectricity projects will continue and the establishment of mineral processing plants will be encouraged. More power transmission lines will be constructed. The implementation of the infrastructure development plan will continue to make the country the transit connection centre in the sub-region. River transport, Lao Aviation services and border facilities will be developed and improved. National traffic and road safety will be enhanced. Postal and telecommunications services will be further improved and expanded, and extended to the poor districts, which will aid the development of these areas and increase exports. The Tourism Authority will develop quality basic facilities at the tourist sites and advertise through the internet.

In 2007, the population is projected to reach 5.8 million. The Government plans to provide more family planning services, especially in remote areas. The quality of educational facilities and teachers will be upgraded and expanded to the poorest districts. The literacy rate for adults (15-24 years old) will increase to 87 percent. The Government will continue to upgrade and expand the health care system, by increasing the capacities of medical staff, equipment and medicines. The vaccination programme coverage will reach 70 percent. The surveillance and treatment of transmittable diseases and epidemics will be upgraded. The safe water supply will cover 70.7 percent of the families, with the coverage of toilet facilities meeting general standards expected to rise to 50.8 percent.

The Plain of Jars and the Stone Pine Forest will be proposed to be declared as World Heritage sites. Work skills will be upgraded to serve the industrialisation process. Attempts will continue to provide vocational training for 13,860 people, create jobs for 129,000 people. Media organisations will be improved to provide more information and attractive programmes. In FY 2006/07, the radio signal will be expanded to 70 percent and television to 80 percent. Assistance will be provided to national heroes, combatants, and retired officials, people affected by natural disasters, disadvantaged people and migrants. Social insurance will be promoted. The Government will continue to support athletes to attend competitions at regional and international levels. Preparations for

hosting the SEA Games in 2009 will continue. The Government will promulgate a number of laws and decrees in relation to science and technology. It will pilot the use of the standard Lao script in computers and the information system for the Lao officials' work. Public awareness and participation in sustainable environmental protection will be increased.

**Regional Development:** The main priorities for the Northern Region will be to develop focal potential areas; promote food production and industrial tree plantations; implement infrastructure projects especially along border areas; promote tourism and exports; and expand the electricity network. In the Central Region, the industrial sector and agricultural production will be further enhanced; trade and tourism will be promoted; and the railway service from the Friendship Bridge to the Thanalang warehouse will commence. The Central Region will be developed as the international centre for economic, service, socio-cultural and modern science and technology areas. In the Southern Region, the plantation of industrial trees and Xexet 2, Sekamane III and the cement factory in Saravane province will be completed. The construction of some necessary infrastructure will continue. Tourism sites will be developed. The Champassak University will continue to be constructed and the hospital further improved.

**Poverty Eradication:** All Government sectors will increase efforts to implement the determined poverty reduction projects, particularly the development plans for the 47 poorest districts. The priorities are to continue to construct the socio-economic infrastructure and promote production for trade in the 47 poorest districts. Assistance and alternative employment will be provided to families that have stopped opium planting and *slash-and-burn* cultivation activities. The number of families practicing shifting cultivation will be reduced to 21,000 in 2007. Land and forest area will be allotted to 59,000 families in 832 villages.

**Government Administration and Services:** The Government will continue to improve its service in each locality, building the capacities of staff and improving the justice system and people's access to it. In FY 2006/07, the Government will draft five new laws, and increase the dissemination of regulations and laws widely. It will upgrade the village legal units and district justice offices.

**Investment and Human Resource Requirements for Development:** The overall investment required is estimated to be at least about 12,000 billion Kip, ranging between 30 and 32 percent of GDP. Public investment is projected to be about 10 percent of GDP (3,790 billion Kip), with the remainder (8,210 billion Kip) to be mobilized from the foreign and domestic private sector. Based on the limited national budget, the National Assembly has approved the allocation of 517 billion Kip for the works in the national budget for FY 2006/07. The funds contribution (counterpart funds) should amount to about 98.22 billion Kip for projects supported by ODA grants and loans (on-going and new projects) and external assistance of 2,836 billion Kip for 872 projects. Of the total, 246.3 billion Kip will be provided to implement 516 on-going projects; 106.49 billion Kip will be provided to fund 669 new projects. The Government will continue to strongly

promote direct national and international investment by re-invigorating and upgrading some strategies, policies and other laws to be more appropriate and attractive to investors.

**Implementation Measures:** The Government has presented some fundamental and necessary measures that include the following: (i) the problems of budget imbalances and long term debts will be solved through setting national saving principles; (ii) the customs divisions, tax and treasury will be controlled based on the approved Budget Law; (iii) the policies to reform land and property (selling) rights will be put in place; (iv) business accounts will be audited; and (v) rules will be set to centrally control budget revenues and expenditures. The inflation and exchange rates will be controlled. The private sector and FDI will be promoted, for example by implementing the one-door mechanism and reducing service fees, and streamlining business regulations. The quality and quantity of goods for export will be increased.

Government administration will be further upgraded and decentralized. Civil service salaries will be raised and disbursed regularly. Workers will be encouraged to have social insurance. Project set up and implementation will be monitored strictly to reduce corruption and malpractice, such as fake bidding and untimely payments. Measures and mechanisms will be issued to strictly control timber exploitation.

#### **IV. Execution of the FY 2005/06 Annual Budget and Proposals for the FY 2006/07 Annual Budget**

##### **A. Budget Plan for Sixth Five-Year Socio-Economic Development Plan<sup>2</sup>**

The total expected budget revenue of the state for the five years (2006-2010) is projected to reach approximately 34,600 billion Kip, growing at 19.9 percent per year on average, which would be 3.4 percentage points higher than that achieved during the Fifth Five-Year Plan period (2001-2005). The state budget revenue collection is expected to increase from 14 percent of GDP in 2005 to 17.4 percent in 2010. The total expenditure for the five-year period will be about 49,600 billion Kip, accounting for about 21.4 percent of GDP on average. The budget deficit over the Sixth Plan period will be about 15,000 billion Kip or 6.07 percent of GDP. The budget deficit will decrease gradually from 7.3 percent in 2004 to 5.8 percent in 2010. In order to accomplish the goals of the Sixth Plan, the state budget needs to be balanced in a more positive manner by striving to increase the national revenue and controlling expenditure.

The main measures to increase the state budget revenue are as follows: improve and establish the financial administration mechanisms; upgrade the capacities and ethics of the civil service staff; revise and amend the Budget Law, clearly identifying the

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<sup>2</sup> This sub-section is reproduced from the Sixth Five-Year National Socio-Economic Development Plan (2006-10) to provide the context for the presentations in the following two sub-sections.

obligations and responsibilities of different sectors and localities; improve financial management, and limit unplanned expenditure and unnecessary spending; keep the rate of increase of expenditure less than the rate of increase of GDP; adjust expenditure items appropriately in cases where revenue collection does not meet the planned target; improve civil servant salary payment; and increase tax collection.

## **B. FY 2005/06 Budget Execution**

The FY 2005/06 is the first year of the Sixth Five-Year Plan (2006-2010). The directives of budget plan for FY 2005/06 have been to diligently strive toward fiscal self-reliance, build up the strengths gradually, integrate the budget plan with the Sixth Plan, and continue to stabilize the macro-economic situation. The domestic revenue and expenditure targets in the FY 2005/06 Budget were predicated on the full enactment of the Tax and Customs Laws with new revisions in 2005. The total revenue was projected at 4,636 billion Kip in which domestic revenue was targeted at 4,100 billion Kip which is equivalent to 12.3 percent of GDP. Expenditure was planned at 7,390 billion Kip or 22.1 percent of GDP in which the public investment was 3,649 billion Kip. The budget deficit for FY 2005/06 was projected to be about 2,754 billion Kip, equal to 8.3 percent of GDP.

Initial estimates suggests that the domestic revenue collections in FY 2006 will exceed the target by 5 percent, and reach about 4,320 billion Kip (or 13 percent of GDP), while the expenditures are projected to reach 6,819 billion Kip (or 20.5 percent of GDP). The total budget deficit for FY 2005/06 will be about 1,990 billion Kip, which equals 6 percent of GDP.

The success in the revenue collection resulted from the efforts of the Government through active implementation of the policy reforms and measures laid out in the budget implementation plan. The Government has actively disseminated and provided training and advice on implementation of the Amended (revised) Tax and Customs Laws. Moreover, the Government has intensified the administration of tax collection from all business units by using the vouchers/receipts system as defined by the Laws. The rise in the prices of oil (petroleum) and metals such as gold and copper in the world market also contributed to the rise in the revenue collection.

On the expenditure side, the Government executed the budget based on the priorities and other emergency expenses. It was able to provide resources to the line ministries and provinces to about 93 percent of the Annual Plan and disbursed salaries to civil servants on a regular basis. These helped contribute to the maintenance of social peace in general, sustain economic growth, maintain macroeconomic stability, and motivate foreign investment in the country.

To address the weaknesses in the administrative system, the Government enhanced the finance line-agencies from the central down to the local levels regarding good attitudes, division of responsibilities and personnel reallocation, leading to improved performance. The nationwide dissemination of the laws to civil servants, private sector and

entrepreneurs has been given strong attention. Simultaneously, the Government is preparing the Law on Value-Added Tax, and revising the Budget Law and other Acts which are essential for sound fiscal management.

## **C. FY 2006/07 Budget**

### **1. Overall Objectives**

The FY 2006/07 is the second year of the Sixth Five-Year Plan (2006-2010). The overall directives for planning the budget for FY 2006/07 have been to keep the momentum of the reform and strive toward fiscal self-reliance, build up the strengths gradually, further integrate the budget plan with the Sixth Plan, and stabilize the macro-economy. The intention is to tailor the fiscal policy to facilitate further integration of the Lao PDR in the regional and international economies with a higher level of ownership.

### **2. Revenue and Expenditure Targets**

The revenue and expenditure targets by major categories for FY 2006/07 adopted by the National Assembly are provided in Table 1.

**Table 1. FY 2006/07 Revenue and Expenditure Targets**

<b>Revenue (billion Kip)</b>		<b>Expenditure (billion Kip)</b>	
<b>Source</b>	<b>Target</b>	<b>Category</b>	<b>Target</b>
1. Taxes	2,033	1. Salaries and benefits	1,540
2. Customs-tax duties	1,470	2. Allowances	487
3. Land	53	3. Operation expenditure	695
4. State property	1,144	4. Subsidy transfers	386
5. Other revenues (sale of timber)	150	5. Reserve and others	50
Total domestic revenue	4,850 (12.79% of GDP)	6. Government savings	50
		7. Debts	1,352
6. Foreign grants of which projects other	681 636 45	8. Public investment of which ODA Domestic investment	3,353 2,836 517
<b>TOTAL</b>	<b>5,531</b>	<b>TOTAL</b>	<b>7,913</b> (20.5% of GDP)

### **3. Budget Deficit**

The budget deficit for FY 2005/06 is projected to be about 2,382 billion Kip, equal to 6.3 percent of GDP. The possible sources of funding the budget deficit include ODA (projected at about 2,239 billion Kip mainly in the form of grants) and domestic borrowing (Treasury bonds of 143 billion Kip).

### **4. Implementation Measures**

#### **(a) Overall measures**

To achieve the above objectives, the Government will make every effort to achieve the revenue and expenditure targets, ensure improved collection of revenues and the effective execution of the expenditures; reduce internal deficits while preventing the incurring of new deficits; stabilize the macro-economy; and actively ensure that difficulties in financial/fiscal areas are trimmed down more than in the past. It will continue to improve the financial/fiscal agencies at both the central and the local levels; actively resolve problems concerning negative phenomena occurring in the financial/fiscal sector; and improve the financial/fiscal sector. The Government will improve the revenue collection and expenditure management mechanisms to ensure transparency and fairness; promote the private sector by supporting and facilitating business services while reducing the Government procedures and making them more flexible; and strongly enforce measures against offenders.

#### **(b) Revenue Side**

**Taxes:** The Government will continue to disseminate the revised Tax Law and the Decree on Tax Receipts to business people, entrepreneurs, civil servants and all citizens who must comply with tax payments at central and local levels. The Ministry of Finance will coordinate with the Provincial Authorities and related agencies to run a country-wide business survey to ensure that enterprises fully report their income and pay correct taxes according to the laws. Further, the Government will continue to encourage all business units and people operating businesses in all occupational types who meet the requirements to maintain the necessary accounts according to the Law. The tax department will intensify the administration and audit the large tax-payers to ensure that they comply with the laws and regulations. The Ministry of Finance will continue to modernize the tax administration by gradually moving to a computerized system. The Government has finalized the draft Value-Added Tax Law and other necessary Acts for submission to the National Assembly for consideration and adoption in December 2006.

**Export and Import Taxes:** The Government will continue to disseminate and provide training and advice on the implementation of the revised Tax and Customs Laws and related regulations. The Ministry of Finance will draft ministerial instructions on customs declarations according to actual invoices, and implement it in this fiscal year. The

Government will also re-check all duty-free shops to ensure that their operations comply with the regulations; otherwise they will be closed. In cooperation with all concerned sectors, the Government will set up an investigation committee to investigate smuggling cases, such as vehicles illegally imported and other goods. This committee will have the authority to take actions and measures according to the law to comprehensively resolve the cases. The Customs Department will intensify their monitoring and auditing of technical issues to ensure that the Customs Officers country-wide comply with the laws and regulations. The Ministry of Finance will continue to modernize the customs administration by gradually moving to a computerized system and upgrading to meeting regional and world standards.

***State Property:*** The Government will continue to coordinate with all related sectors to study and revise the Law and all regulations related to the transformation of property to capital, and intensify the management and use of state property in an effective way. The Ministry of Finance will revise the legislation on natural resource tax such as tax on mines, land lease and state property and other regulations deemed necessary. The Government will manage and monitor to ensure that all revenues from timber royalties are received on time and fully deposited into the Central Government bank account. The land tax collection activities will be strengthened, and land owners will be motivated to fulfil their obligations to the State.

***State-Owned Enterprises:*** The Government will continue to coordinate with all related sectors to study with the purpose of improving the performance of state-owned enterprises, aiming for their business operations to be effective, and prepare to establish the stock (share) market in the future. In addition, the Government will intensify the management, monitoring, and control of state-owned enterprises, enterprises in which the State has equity, loan-based enterprises and lease of State businesses in order to ensure that these enterprises utilize property and state investments effectively and can make full payments and comply with their obligations to the State.

### **(c) Expenditure Side**

The Ministries, Sectors, Provinces and Municipality are not allowed to incur expenditure in excess of the budget plan approved by the National Assembly or spend off budget. All expenditures must adhere to the outlined budget-lines, and expenditures are not allowed to be moved around and among budget-lines; except with the permission of the Government. Ministries, Sectors, Provinces, and Municipality's expenditure has to be in accordance with the State's expenditure priorities. The Ministry of Finance will divide the responsibilities of budgeting and budget execution. The Budget Department is responsible for budgeting and the National Treasury is responsible for all budget execution activities. This will improve the budget preparation process to align expenditure planning with national priorities and strengthen budget execution.

## **5. Budget Policies and Legislation**

The Ministry of Finance will finalize the revision of the Budget Law and related regulations and propose it to the National Assembly for consideration and adoption by the end of December 2006. The Ministry will also revise the Decree No. 18/PM on the establishment of the National Treasury to centralise its administration; and Decree No. 20/PM on the General Regulation of State Accounting.

The objective of the revised Budget Law is to achieve national ownership and gradually enhance the management of the budget to secure macro-economic stability and ensure that budget expenditures are proper, transparent, economic, efficient and uniform throughout the country. It has been drafted in consultation with the Ministry of Finance of Vietnam; with technical comments from the World Bank, ADB and IMF experts; and through a nation-wide consultative process. The draft Law has been submitted to the Economic and Budget Committee of the National Assembly for preliminary discussion; and has been discussed at the Government meeting in October 2006.

The objectives of the revised budget law are to:

- Ensure that the budget law addresses the weaknesses experienced;
- Centralise the areas of public financial management covering the treasury, customs and tax;
- Ensure that the revised Budget law is in accordance with other legislation and the present socio-economic situation in the Lao PDR; and help move in the direction of international standards in budget execution;
- Secure a centralized budget process, with appropriate administration of revenue and budget execution; facilitating an optimal interaction between all levels (i.e. centre, ministry, sector, province and municipality) of the Government;
- Improve and clarify the roles and responsibilities of all levels in the budget process; and
- Identify the mandates and authorities of the budget units at all levels of the Government.

In essence the new Budget Law is stating that all revenue, including foreign assistance, shall be reflected in the budget. It specifies that only the central authorities can incur a deficit. The national budget will continue to be drafted and reported upon by the Government and approved by the National Assembly. It states the detailed responsibilities of the Ministry of Finance in drafting policies and strategies; drafting the budget; monitoring and reporting on budget execution; and administering loans. It spells out the sources of revenue and grant procedures to local authorities. The budget law also contains detailed guidelines for the state budget preparation and its execution.

## **6. Enterprise Accounts and Audit**

The Ministry of Finance will conduct studies on the revision of the Law on Enterprise Accountancy, monitor all business units to ensure effective implementation and take appropriate measures against those who violate the laws and regulations, in line with the domestic, regional and international requirements. The Government will revise the setup of enterprise accounting standards and criteria for auditing enterprise accounts, so as to improve enterprise accounting, which will be the instrument for accountants and auditors. The stated standards will be consistent with the standards and practices at the regional and international levels, aiming at promoting and attracting foreign investment.

## **D. Other Measures to Improve Fiscal Management**

### **1. 2005/06 Public Expenditure Review**

A review of the public expenditure is undertaken to examine the expenditure trends between 2002 and 2005 to support the Government's efforts to establish sound, accountable and transparent financial management practices. The public expenditure review (PER) process provides inputs to the formulation of the FY 2007/08 state budget and the pilot Medium-Term Expenditure Framework (MTEF) for the period 2006-2010. It is necessary to develop norms for public expenditure, based on such criteria as population size, poverty status, and access to education, health, clean water, safe sanitation and roads and communications. The plan is to start with the Medium-Term Fiscal Framework (MTFF) covering both revenue and expenditure aspects.

The main objectives of the PER are to: (i) review the macro fiscal performance as well as the intra- and inter-sectoral allocations of public spending at the central and local levels for the period 2002-2005; (ii) assess the sustainability of the macro fiscal framework and budget financing by source for the period 2006-2010; (iii) review the institutional framework for public expenditure management (PEM) to support the Government's ongoing efforts to strengthen PEM (see the next sub-section for details); and (iv) conduct intra-sectoral analysis of public resources for the Sixth Five-Year Plan priority sectors by assessing the quality of core public services, the efficiency in their delivery and the budget execution processes in place, especially at the local level.

The Government intends to implement a rolling programme of PERs, public expenditure tracking surveys (PETS) and analytical work geared to monitoring progress in the implementation of the Public Expenditure Management Strengthening Programme or PEMSP (see next sub-section) and assessing the improvements in fiscal management and the impact of public spending in key sectors.

## **2. Public Expenditure Management Strengthening Program (PEMSP)**

**Overview:** The strategic objective of the program is to secure macro-economic stability, improve policy consistency, efficiency, transparency and accountability in public expenditure management by strengthening institutional systems and capacities, and making progress towards appropriate international financial management standards. The PEMSP design builds on a substantial analytic work, including PERs and other assessments of the Government's financial management system. The PEMSP provides a framework for involving all levels of the Government's financial management administration and mobilizing and coordinating external support to the Government's public expenditure management initiatives. It constitutes a comprehensive Government-led program that ensures consistency of technical approach, determining appropriate sequencing and avoiding duplication of efforts.

**Achievements:** The PEMSP was officially launched in November 2005 and has held three regional workshops where all provinces had the opportunity to discuss the program and give input to the PEMSP strategy. Subsequently, a national workshop has endorsed the program document and now the Steering Committee has approved it. Revenue is now included in programme as an integral part. The PEMSP functions as an umbrella under which all public financial management activities are coordinated. ADB has provided assistance to the Ministry of Finance on development of the Medium Term Fiscal and Expenditure Framework (MTFF and MTEF) and strengthening the capacity for some departments.

In program management a technical advisor and a capacity building advisor are hired and national support staff are in place. Collaboration of the program with the ongoing Governance and Public Administration Reform (GPAR) project has been secured. Initial consultations with departments (in and outside Ministry of Finance) have been held on their needs and work plans to be included in the PEMSP work plan. A number of donors have been consulted and support is promised. WB is committing grant support for the program and ADB, JICA, EU, SIDA, UNDP/UNCDF and Luxemburg are either supporting or have indicated a strong interest in doing so.

The terms of reference (TOR) for technical assistance on cash management and the TOR for institutional strengthening of the Inspection Department have been drafted and the EU's support secured. The program is facilitating the public financial management and English language training for the Ministry of Finance staff. The TOR for the up-grading of training schools has been drafted and funding secured. The TOR for ICT upgrading in the Ministry of Finance has been approved and funding secured. The TOR for a provincial pilot has been drafted and is being discussed with the UNDP/GPAR. The Secretariat has also assisted the Treasury Department in bringing the draft treasury regulations up to international standards.

**The PEMSP work plan for 2006/07:** The first task at hand is to establish task forces, which will be responsible for detailing the work plans under the four components of the program implementation. The implementation will be undertaken by the beneficiary

departments/institutions with the assistance of the PEMSP Secretariat. A work plan for the individual components has been developed and will be further detailed by the task forces.

The Secretariat will facilitate and participate in the reviews of a few provinces, and draft project documents for institutional strengthening as well as a draft central/local issues paper.

The general training activities (financial management, English language, etc.) will continue and new training activities will be undertaken. The departmental institutional assessments/project documents will be drafted in close cooperation with the departments. The PEMSP will interact with donors on a number of issues and lobby for funding support for PFM activities as identified by the task forces and approved by the PEMSP Steering Committee.

In budget preparation, a draft detailed and phased strategy for strengthening budget preparation, formulation of a MTEF and a draft simple model for macro-fiscal framework will be developed. The PEMSP also will support a dissemination and implementation of revised budget law, including develops a clear expenditure and revenue assignment, budgetary norms and grant system. A budget circular with allocations for NGPES sectors will be developed with the budget regulations and classification/allocation criteria.

A detailed strategy on strengthening budget execution and a phased implementation plan will be drafted. The chart of accounts and budget nomenclature will be revised and a technical assistance on cash management will be conducted. The Inspection Department will develop a project on institutional strengthening; and procurement procedures will be improved. The Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS) will be upgraded, and a review of the debt management organizational set-up will be conducted. Upgrading (of infrastructure & curriculum) of the training schools will be initiated. The ICT strategy for the Ministry of Finance has been formulated with activities and phasing and a project has been started and will be finalized.

### **3. Public Expenditure Review (PER) 2005/06 Recommendations**

Based on the findings of the Public Expenditure Review (PER), the main tasks and issues that have to be addressed in relation to public expenditure management in order for the country to develop as planned in the Sixth Plan include the following: (i) increasing the mobilization of revenues; (ii) improving revenue sharing and intra-governmental transfers; (iii) ensuring the sustainability of the macro-budgetary framework by restraining the growth of the wage bill in line with that of revenues and contracting concessional debt only; (iv) enhancing expenditure and services delivery; (v) directing revenue gains to priority areas; and (vi) increasing the participation of the private sector in service delivery. These reforms will require a comprehensive restructuring of the intra-governmental relations, particularly strengthening the Central Government's control over

revenue administration and treasury operations in the provinces. One of the main priorities is to improve the annual budget process, based on reliable forecasts, strengthened monitoring and evaluation, and a budget cycle that starts much earlier in the fiscal year. The roles and responsibilities of the different departments and levels of Government in the budget process have to be specified clearly and appropriately and more staff have to be adequately trained in public financial management. The budget allocations between provinces need to be based on more realistic revenue forecasts and additional funds need to be provided for recurrent expenditure. More disaggregated data are needed to further understand the expenditure patterns and improve public policy.

## **V. Coordination, Harmonisation and Alignment for Improving Aid Effectiveness**

### **A. Implementation of the ODA Decree**

In order to improve aid coordination and management within the Government and spell out the roles and responsibilities of the institutions involved, a Decree was issued by the Prime Minister on the Management and Utilisation of Official Development Assistance ODA (Decree No. 168/PM, dated 22 November 2004). [The Decree builds on and supersedes the Prime Minister's Decree No. 32/PM, dated 17 March 2000, on the same subject.] An English translation of the ODA Decree was shared with the partners in development in March 2005. The Decree stipulated the Ministry of Foreign Affairs to be responsible for the overall coordination of aid, the Committee for Planning and Investment for aid planning and the Ministry of Finance for the negotiation of loans and facilitating the smooth flow of aid resources and their accountability. The detailed rules and regulations for the implementation of the Decree have been drawn up and will be disseminated soon. Meanwhile, the Government has commenced the implementation of the Decree.

### **B. Government Sector Working Groups**

As a part of the Round Table Process, the Government announced the establishment of the eight Sector Working Groups (SWGs) at the Semi-Annual Round Table Process Information Meeting on 29 June 2005. The chairs, vice-chairs and (mandatory) members of the SWGs were appointed in January 2006. The SWGs, which are being chaired and led by the Government (at Director General level), serve as the main mechanisms for coordination and dialogue with the partners in development at the sectoral and thematic area levels. The focus of the eight SWGs are: (i) macroeconomic issues and private sector development; (ii) education and gender; (iii) health, gender and HIV/AIDS; (iv) infrastructure; (v) governance; (vi) agriculture, rural development and natural resources management; (vii) drug control; and (viii) mine action. So far, the SWG on Macroeconomic Issues and Private Sector Development has held two meetings, and the

SWGs on Education and Gender, Governance, Mine Action and Drug Control have each held one meeting. In addition, the Ministries of Agriculture and Forestry and Communication, Transport, Post and Construction have organized sector meetings with the partners in development during 2006.

### **C. Harmonisation, Alignment and Managing for Results to Improve Aid Effectiveness**

**Background:** On 4 February 2005, The Government jointly with the ADB and the World Bank organized a day-long workshop on Harmonisation and Alignment in Vientiane in preparation for the Second High Level Forum in Paris. A Lao delegation led by H.E. Mr. Somdy Douangdy, Vice Minister of Finance, participated in the High-level Forum on Harmonisation, Alignment and Managing for Results held in Paris from 28 February to 02 March 2005. Thereafter, internal consultations were held and a one-day Workshop on Harmonisation and Alignment was organized in May 2005 for senior officials of the Government to orient them and discuss the benefits and risks associate with the process. The workshop participants recommended the implementation of the Harmonisation and Alignment Agenda in the Lao PDR. The recommendation was approved by the higher authorities in November 2005.

**Country Action Plan on Harmonisation and Alignment:** Based on a review of similar initiatives in neighboring countries, a zero draft of a Country Action Plan on Harmonisation and Alignment was prepared at the end of November 2005 and circulated to the internal Technical Working Group on the Round Table Process in December 2005. A small informal task group was set up in February 2006, comprising representatives of the Government, ADB, SIDA, UNDP and the World Bank to prepare a draft Country Action Plan on Harmonisation and Alignment. This task group met in May 2006 and drew up a draft Plan, with some suggested indicators. On 16 June 2006, the Government circulated the Draft Country Action Plan on Harmonisation and Alignment with suggested indicators to the partners in development and requested comments; and received feedback from a few.

**Joint Declaration on Aid Effectiveness:** Based on a review of similar initiatives in neighbouring countries, the Government prepared a draft Lao-Partner Joint Statement on Aid Effectiveness, which is a localised version of the Paris Declaration; and shared it with the partners in development in mid-September 2005, requesting their comments by the end of the month. The Joint Statement is intended to provide an overall framework to enhance aid effectiveness in the Lao PDR, through strengthening governance, improving development performance, and expanding development outcomes, thereby facilitating the achievement of the Millennium Development Goals (MDGs). The main tasks of the localised declaration are to increase the Government's ownership of development policies and further strengthen their leadership in coordinating aid; to ensure that donor strategies/policies are aligned with those of the Government within the framework of the Sixth Five-Year Plan; and to increase the implementation of common donor arrangements, simplify procedures, decrease the number of donor missions by increasing

the authority of donor country offices, and develop core economic and analytical sector reviews; and strengthen the program based approaches (PBAs). On 30 October 2006, a brief presentation on the draft Joint Statement was made at the Pre-Round Table Meeting.

***Survey on Monitoring the Paris Declaration:*** In September 2006, the Government confirmed to OECD-DAC its participation in the Survey on Monitoring the Implementation of the Paris Declaration and nominated the Department of International Cooperation (DIC) of the Ministry of Foreign Affairs as the National Coordinator. Soon after, the Government set up a small informal task force comprising representatives of DIC, EC, UNDP and the World Bank to localize the definitions in the Survey on Monitoring the Implementation of the Paris Declaration. The task force has put together a draft ‘guidance-note’ that will provide some clarifications on the interpretation and reporting on certain indicators, supplementing the materials provided by the OECD-DAC for the Survey. In the second week of November 2006, the survey questionnaire and the draft guidance-note have been circulated within the Government and to the partners in development seeking comments.

***The Way forward:*** The Government of the Lao PDR jointly with the partners in development is committed to move forward on implementing the aid effectiveness agenda and will lead the process in accord with the Paris Declaration. The Government believe that the partnerships will be significantly strengthened by the agreement on the Lao-Partner Joint Statement on Aid Effectiveness and its adoption at the Ninth Round Table Meeting; and will demonstrate the commitment of the Government and the partners to implement the Paris Declaration in the Lao PDR.

Some of the more significant steps envisaged for implementation of the Harmonization and Alignment Agenda in the Lao PDR in the coming months are presented in the following:

- The Draft Joint Statement will be revised incorporating, as appropriate, the comments received and the feedback from the consultation meetings with the partners in development planned to be held in November 2006 before the Ninth Round Table Meeting;
- The revised Draft Joint Statement will be shared with all and finalized in consultation with the partners in development;
- It is proposed to call the Joint Statement the “Vientiane Declaration on Aid Effectiveness,” which is the localized Paris Declaration. the draft Vientiane Declaration on Aid Effectiveness will be made ready for adoption at the Ninth Round Table Meeting;
- The Declaration is expected to be signed at the Round Table Meeting confirming the commitment of the Government and the partners in development to jointly pursue the Aid Effectiveness Agenda, within the overall framework of the Declaration;
- The Government plans to conduct the first Survey on Monitoring the Implementation of the Paris Declaration in early 2007 to compile the baseline data (for FY 2005/06) and establish the benchmarks to measure progress in the Lao PDR;

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- The results of the Survey should assist in building agreement on a limited number of practical indicators, establishing the baselines/benchmarks appropriate for the Lao PDR, which should assist both the Government and the partners in development in assessing and reporting on progress in the coming years;
- The agreed indicators and time-bound targets will become an integral part of the Country Action Plan on Harmonization and Alignment, within the overall framework of the Vientiane Declaration on Aid Effectiveness;
- The draft Country Action Plan on Harmonization and Alignment will be finalized in consultation with the partners in development, incorporating the agreed indicators and targets;
- Thereafter, the Government and the partners in development will begin implementing the Country Action Plan on Harmonization and Alignment; and
- The progress on implementation of the Country Action Plan on Harmonization and Alignment (and the Paris Declaration) will be monitored and reported coinciding with the regular OECD-DAC Survey Cycle in 2008 and 2010.