



**LAO PEOPLE'S DEMOCRATIC REPUBLIC**  
**Peace Independence Democracy Unity Prosperity**

**Annual Round Table Implementation Meeting (RTIM)**  
**Vientiane Capital, 22 November 2011**

***Pathway to the Achievement of the 7th NSEDP/MDGs  
and 2020 LDC Graduation***

**Background Report to the RTIM**

**Ministry of Planning and Investment**  
**Department of International Cooperation**

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## TABLE OF CONTENTS

<b>LIST OF TABLES.....</b>	<b>III</b>
<b>LIST OF FIGURES .....</b>	<b>III</b>
<b>ABBREVIATIONS/ACRONYMS .....</b>	<b>IV</b>
<b>EXECUTIVE SUMMARY.....</b>	<b>VII</b>
<b>CHAPTER 1 .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>1</b>
<b>CHAPTER 2 .....</b>	<b>3</b>
<b>ACHIEVEMENTS AND CHALLENGES .....</b>	<b>3</b>
The 7 <sup>th</sup> National Socio-Economic Development Plan 2011-2015.....	3
Macroeconomic Stability .....	4
Economic Sectors .....	6
FDI and Quality of Investments.....	14
<b>CHAPTER 3 .....</b>	<b>20</b>
<b>ACCELERATING PROGRESS TOWARD THE MDGS BY 2015.....</b>	<b>20</b>
Three Seriously Off-Track MDGs .....	20
Six On-Track MDGs .....	26
<b>CHAPTER 4 .....</b>	<b>35</b>
<b>GOVERNANCE PROGRESS TO ACHIEVE NSEDP GOALS, ESPECIALLY THE MDGS .....</b>	<b>35</b>
<b>CHAPTER 5 .....</b>	<b>42</b>
<b>FINANCING FOR ACHIEVING THE 7<sup>TH</sup> NSEDP, INCLUDING THE MDGS.....</b>	<b>42</b>
<b>CHAPTER 6 .....</b>	<b>44</b>
<b>LDC GRADUATION BY 2020 .....</b>	<b>44</b>
<b>CHAPTER 7 .....</b>	<b>46</b>
<b>FURTHER STRENGTHENING PARTNERSHIPS AND AID EFFECTIVENESS.....</b>	<b>46</b>

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## **LIST OF TABLES**

Table 1 – MDG2: Achieve Universal Primary Education	28
Table 2 – Women’s Participation in Government Administration (numbers of women)	29
Table 3 - MDG 6 National Core Indicators as of June 2011	31

## **LIST OF FIGURES**

Figure 1: Top 10 Business Constraints for Lao PDR Firms	14
Figure 2:- Regional Poverty Rates	21
Figure 3:- Government of Lao PDR Sector Spending	43

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## ABBREVIATIONS/ACRONYMS

AAA	Accra Agenda for Actions
AFT	Aid for Trade
ASEAN	Association of Southeast Asian Nations
BoL	Bank of Lao PDR
CAP	Country Action Plan
CDP	Committee for Development Policy
DDA	Doha Development Agenda
DP	Development Partner
DTIS	Diagnostic Trade Integration Study
ESDF	Education Sector Development Framework
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
FS2020	Forest Strategy 2020
FY	Fiscal Year
GDP	Gross Domestic Product
GMS	Greater Mekong Sub-region
GNI	Gross National Income
GPAP	Governance and Public Administration Reform
HISSP	National Health Information System Strategic Plan
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HMIS	Health Management Information System
ICOR	Incremental Capital-Output Ratio
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial Public Offering
IPOA	Istanbul Programme of Action
JICA	Japanese International Cooperation Agency
Lao PDR	Lao People's Democratic Republic
LDC	Least Developed Country
LECS	Lao Expenditure and Consumption Survey
LNCCI	Lao National Chamber of Commerce and Industry
LWU	Lao Women's Union
MDGs	Millennium Development Goals
MMR	Maternal Mortality Rate
MNCH	Maternal, Neonatal and Child Health

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MoES	Ministry of Education and Sports
MoH	Ministry of Health
MPI	Ministry of Planning and Investment
NGO	Non-Governmental Organisations
NGPES	National Growth and Poverty Eradication Strategy
NHSR	National Health Statistics Report
NRA	National Regulatory Authority
NSAW	National Strategy for the Advancement of Women
NSEDP	National Socio-Economic Development Plan
NT2	Nam Theun 2
ODA	Official Development Assistance
OECD/DAC	Organisation for Economic Co-operation and Development/Development Assistance Committee
PAF	Performance Assessment Framework
PASCA	Public Administration and Civil Service Authority
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditures Tracking Survey
PFM	Public Finance Management
PFMSP	Public Finance Management Strengthening Programme
PRC	People's Republic of China
PRF	Poverty Reduction Fund
PRSO	Poverty Reduction Support Operation
RMF	Road Maintenance Fund
RTIM	Round Table Implementation Meeting
RTM	Round Table Meeting
SAO	State Audit Office
SPS	Sanitary and Phyto-Sanitary
SWG	Sector Working Group
TB	Tuberculosis
TBT	Technical Barriers to Trade
TVET	Technical and Vocational Education and Training
UN	United Nations
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNLDC-IV	The Fourth United Nations Conference on the Least Developed Countries

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US\$	United States dollars
UXO	Unexploded Ordnance
VDCAP	Vientiane Declaration and Country Action Plan
WB	World Bank
WTO	World Trade Organisation

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## EXECUTIVE SUMMARY

**1. Introduction** The 2011 Round Table Implementation Meeting (RTIM) aims to discuss implementation progress and achievements, and to recommend further actions to achieve the 7<sup>th</sup> NSEDP goals, especially the Millennium Development Goals (MDGs) by 2015. The agenda also highlights the launching of preparations for the following five-year ‘transition phase’ to graduate from Least Developed Country (LDC) status by 2020. The theme of the meeting is: *Pathway to the Achievement of the 7<sup>th</sup> NSEDP/MDGs, and 2020 LDC Graduation.*

**2. Opportunities and Challenges** The 7<sup>th</sup> NSEDP is entering its second year of implementation (2011-2012). The main achievements in implementing the first Annual NSEDP (2010-2011) were reported to the National Assembly in June 2011 and reflected in various Sector Working Groups’ progress reports. The Second Annual NSEDP is the first to be in line with the ‘**breakthrough approach**’ of the 9<sup>th</sup> Lao PDR Party Congress (March 2011), which has four priority areas for realizing overall development goals (imagination breakthrough - unlocking and addressing the characteristics of dogmatism; breakthrough in human resources development; breakthrough in improving management and governance regulations; and breakthrough in poverty reduction). The Government is determined to exceed expectations in implementing the breakthroughs.

Lao PDR has sustained strong **GDP growth**, with growth in 2011 estimated at 8.3%. The main economic concerns for Lao PDR relate to external variables, most notably a probable slowdown in the global economy. In this context of uncertainty, budgetary planning will be appropriately conservative. Serious flooding in 2011 also illustrates Lao PDR’s vulnerability to natural disasters and the impact of climate change.

The strategic direction for **agriculture and forestry**-based development is to ensure a gradual transition from subsistence to commercial production while also ensuring an appropriate and sustainable use of natural resources that achieves food security and better livelihoods for all Lao people. A central unifying theme is the continued development and strengthening of human resources, including farmer associations. To achieve the target of 65 percent national forest coverage by 2015, activities of restoring forests and planting trees need to be accelerated in line with the Forestry Strategy 2020. Land management remains a priority area, given that access to land for rural households is fundamental to poverty alleviation. The Government is committed to issue 1 million new land titles during 2011-2015. The government is committed to ensure that investment and production in **hydropower and mining** is consistent with social and environmental safeguards and pays greater attention to increase resources and strengthen capacity to improve the effectiveness in balancing tensions between the drive for financial returns and the need to protect communities and the environment.

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The new **transport** sector strategy aims at preserving the existing road network, improving connectivity within the country and with the region, and strengthening other means of transport. An important challenge in the infrastructure sector is the ‘unconnected population’ - about 30 percent of Lao PDR households live in areas without year-round access to roads. Important measures to improve performance include better prioritization of transport projects by economic/social/environmental impact, promotion of the use of local resources, and encouragement of greater private sector participation.

**Expansion of trade** has contributed to Lao PDR's growth, with exports rising at more than 11 percent per year and accounting for one-third of GDP in 2010. There is, however, very little in-country processing and thus only limited value addition, so strong GDP growth does not necessarily translate into similar increases in the Gross National Income (GNI). Clear strategies for development and maximising the benefits from a land-linked policy will be critical for expansion of trade. A major achievement has been the approval of the Trade Facilitation Strategy in July 2011. At the macro level, the 7<sup>th</sup> NSEDP target is to enhance **international trade and economic cooperation** and full international integration, by reaching the targets set by the ASEAN community by 2015 and acceding to the World Trade Organisation (WTO). Solid progress on WTO accession has enabled Lao PDR to move to the stage of producing a Draft Working Party Report.

Generating substantial off-farm **private sector** employment in Lao PDR is an important goal under the 7<sup>th</sup> NSEDP, through sectors such as agro-processing, silk garments, handicrafts and tourism. Findings from the 2009 enterprise survey suggest that the top business constraints are tax rates, access to finance, and labour skills. The 7<sup>th</sup> NSEDP focuses on improving the business environment, increasing the accountability of State enterprises, opening markets to competition, and strengthening feasibility analysis for public investments. Several steps have been taken recently to simplify business entry.

Given the reliance on FDI in the 7<sup>th</sup> NSEDP, achieving GDP growth of at least 8% per annum that supports the achievement of the MDGs and Graduation from LDC status will require mobilizing high **quality FDI**. High quality FDI will be needed to generate jobs and incomes for Lao people; transfer valuable skills to local workers; transfer valuable technology for the development of the local private sector; and to safeguard the country's valuable environmental assets. The **quality of FDI** investments in natural resources development is also an important element in sustaining growth and generating Government budget revenue, and the Government attaches priority to the reinvestment of revenues from resources to provide improved social benefits and preserve a sustainable environment. The direction for 2011-2012 is to attract FDI to job-creating sectors like agro-processing, tourism, services, education and health.

To achieve the strategic goals of the next decade still requires much effort and targeted investment, especially in **human resources development**, as highlighted in the ‘breakthrough approach.’

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The **Education** Sector Development Plan 2011-2015 was endorsed in June 2011. Participation rates in lower secondary education continue to improve and are on track to reach the target of 75 percent by 2015, but upper secondary education participation rates have not improved since 2008-2009 and have declined slightly among girls. Enrolments in technical and vocational education have increased by 35 percent over the past two years. One constraint is the financing gap to achieve the targets of the 7<sup>th</sup> NSEDP, estimated to be about USD 197 million over the five-year period; this includes financing for achieving education-related MDGs. A major constraint to improving the quality of education is the very low non-wage recurrent budget, but block grants and budget norms will be introduced in the 2011-2012 financial year to provide additional funding to provinces for this purpose.

The Ministry of **Health** (MOH) has recently launched the 7<sup>th</sup> Health Sector Development Plan 2011-2015. The key health policy is to emphasise health prevention and promotion as the highest priority; to focus on the quality and expand coverage of health services as the most important means of intervention; and to reach the health-related MDGs by 2015. One focus for reform is the revision of current regulations, while on service delivery the health care system is being assessed to identify bottlenecks and quality assurance and quality control standards. In health financing, the key direction is to shift to universal coverage of health insurance by 2020, for which the Prime Minister's Decree on national health insurance and the health financing strategy has been finalised. For human resource development, the priority is to ensure adequate allocation of health quotas to health centres and training of 1,500 community midwives or skilled birth attendants.

**3. MDGs.** Socioeconomic indicators demonstrate progress in achieving many MDG targets. There are, however, challenges remaining in achieving some targets, especially in eradicating poverty (MDG1: food poverty and child malnutrition), improving maternal health (MDG5: access to universal reproductive health and reducing maternal mortality rates) and ensuring environmental sustainability (MDG7: reducing the loss of environmental resources).

The reduction of overall **poverty** in the country is a major achievement, and the basic poverty headcount ratio has consistently reduced over time. It is estimated to have reached the MDG1 target of 24 percent in 2010-2011. **Food poverty**, however, has risen in recent years, reversing the earlier declining trend and placing the achievement of this MDG target by 2015 in doubt. Furthermore, child **malnutrition** has shown relatively weak improvement and has been identified as 'seriously off track' in meeting the 2015 target. Inequalities such as rural/urban and regional disparities are also important factors to take into consideration to achieve greater prosperity and reduction in poverty rates for rural villages, including improving access to infrastructure services and markets. Regarding **nutrition and food security**, children younger than age 2 years will be the highest priority, followed by children younger than age 5 years and pregnant and lactating women. In terms of interventions, the focus will be on proven interventions that have a significant impact on the overall target indicators. To achieve the National Nutrition Strategy, the Government has

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established a national task force to improve leadership as well as cross-sector coordination and leveraging of resources.

Improving **maternal health** (MDG5) has been identified as ‘seriously off track’ for Lao PDR to reach the 2015 target of reducing the maternal mortality rate (MMR) to 260 per 100,000 live births. The reduction of **maternal mortality** is off track, and **access to reproductive health** is characterized as seriously off track. To achieve these MDG5 targets, the NSEDP prioritises use of modern techniques and technologies in health services; mobile medical treatment units to reach remote rural areas at least four times a year; and further strengthening the capacity, knowledge and skills of doctors, and particularly female midwives and skilled birth attendants at the local levels.

Application of sustainable **natural resource management** and macroeconomic policies is important for Lao PDR to ensure that the country can reap the benefits from sustained GDP growth whilst minimising negative consequences for other sectors, especially rural livelihoods and environmental concerns. To help deal with these challenges, the 7<sup>th</sup> NSEDP has set several targets for environmental protection and natural resources management. In 2011, a new Ministry for Environment and Natural Resources was established, and a Sector Plan 2011-2015 was approved, along with an Action Plan. A key challenge is to enhance the capacity of various institutions to implement and enforce environmental regulations, as well as to develop and monitor environmental action plans.

With respect to the **on-track MDGs**, steady progress toward achievement of **MDG2** on universal primary school enrolment has been seen in recent years. However, data from the 2010-11 school year indicated a deterioration of dropout rates at each grade level, with fewer children reaching the final grade of primary school. MDG2 will not be achieved if the current dropout rates continue, and urgent action is essential to reverse these negative trends. The Ministry of Education and Sports will undertake a **literacy** assessment for the 15- to 24-year-old age group to determine paths to make progress with this target. It also is developing plans to further strengthen monitoring capacity in this area.

On MDG3, fewer girls than boys are participating at each level of **education**, and this ratio worsens with each increasing level. The share of women in wage **employment** increased from 38 percent to 44 percent between 1995 and 2005, but non-agriculture wage employment is a narrow proportion of total employment for women. A much better-performing indicator for MDG3 is women’s **political representation**, measured by the proportion of seats held by women in the National Assembly; at 25 percent, this stands well above the regional average. The Government is committed to work with other Government sectors, development partners and civil society to ensure gender equality measures are implemented by all parties to achieve the MDG targets. To that end, the National Strategy for the Advancement of Women 2011-2015 is being finalized.

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The **under-5 mortality rate and the infant mortality rate** have both been gradually reduced over the last 10 years, and both indicators currently appear on course to reach MDG4 targets by 2015. To continue progress with child mortality reduction, child malnutrition also must be tackled in an effective manner.

**HIV** prevalence in the general population remains low (0.2 percent of the population), while over the past few years there has been an appreciable drop in malaria exposure and considerable progress in tuberculosis (TB) case detection and cure. Health indicators remain on course for reaching the related MDG6 targets by 2015. The Government has approved a new National Strategic Plan on HIV/AIDS 2011-15, with a focus on preventing new infections.

**MDG9 on UXO** was added to the eight original MDGs in October 2010 at the 10<sup>th</sup> High Level Round Table Meeting. Currently all 17 provinces of the country and approximately 25 percent of villages (some 2,500) suffer from various degrees of Unexploded Ordnance (UXO) contamination. Complete land and UXO clearance will take decades to complete, so targeting of clearance resources to priority areas and improving cost effectiveness is of the utmost importance. Criteria are reflected in the Safe Path Forward II strategy for 2010-2020.

**4. Governance.** The 7th NSEDP emphasises the need for the public administration to be accountable, effective, transparent and responsive. The draft Strategic Plan on Governance 2011-20 therefore aims to improve the functioning of the State so that it is fully guided by the rule of law. A key priority for 2012 is the formulation of a governance sector 'road map' to facilitate sector coordination and monitoring of sector progress.

The Government prioritises improved transparency as a prerequisite for effective **public participation**. Government organisations are inspected and audited. The Government has widely shared information with the people, who have participated in monitoring the efforts of Government and have actively participated in the formulation of village development plans. The Government is also recognizing the role of **CSOs** in achieving the NSEDP targets. The decree on associations has been implemented for almost two years, and another decree on foundations has been signed in May 2011.

The Government has taken steps to make its **public administration** simple, rational and efficient. In an important step, the number of Ministries has increased from 14 to 18 as of June 2011. Further efforts are needed to improve coordination mechanisms between central Ministries, agencies and local administrative organizations; the Prime Minister's Decree 01/2000 is being revised to assign more executive roles to districts. A major step to improve service delivery was achieved through the decree on policies for working in remote areas. The Government's initiative to strengthen 35 district administrations has improved administrative capacity and expanded service delivery in remote areas. During 2011, Operational Expenditure Block Grants were piloted to address gaps in operating resources for service delivery.

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Improvements in the **rule of law** include further work on the Legal Sector Master Plan (LSMP), with the introduction of new regulations, implementation mechanisms and capacities by the Ministry of Justice. Further developments comprise the restructuring of local courts by the People's Supreme Court, with the aim to improve people's access to justice at local levels.

Lao PDR has made steady progress on improving **Public Finance Management** (PFM), which has led to a gradual increase of the State budget. The Government recognises the need to continue improvements to its PFM systems, and current cooperation will further strengthen budget execution, financial reporting and auditing procedures.

**5. Finance for NSEDP.** Achieving the goals in the 7<sup>th</sup> NSEDP requires continued high GDP growth that is also more inclusive, equitable and sustainable. In targeting for the MDGs, the Government continues to increase allocations to the education and health sectors, although resources are inadequate when compared to the needs identified in sector development plans. The plans to increase allocations for recurrent expenditures and make block grants available at the district level are promising initiatives that need to be taken to scale. Therefore, a concerted effort is required to mobilise additional resources while at the same time improving utilization and effectiveness of current expenditures.

**6. Graduation from Least Developed Country status by 2020** is a key long-term objective of the Government and leadership of Lao PDR. To become eligible for graduation, a country must meet the threshold for two of the three criteria established by the United Nations. In terms of GNI per capita, Lao PDR is close to the threshold for graduation, and with its progress towards the MDGs Lao PDR is at the 95 percent level for the human assets index. It is evident that progress toward attaining these two thresholds is robustly linked to achieving the MDGs. Lao PDR is, however, judged more vulnerable on the third criteria, exogenous shocks. LDC graduation by 2020 is achievable with success in implementing the 7<sup>th</sup> NSEDP. The Government recognises the need for a smooth transition strategy, and a conference will take place next year to prepare the strategy for graduation.

**7. Partnerships.** The Government has appreciated the strong and sustained support received from the international community. An updated Country Action Plan for aid effectiveness should be developed to replicate sound local practices in several areas and to take account of the outcome of the Busan Fourth High Level Forum on Aid Effectiveness.

A series of consultations within eight Sector Working Groups (SWGs) has taken place in the lead-up to the RTIM 2011, complemented by the Provincial Consultation in Sekong in September 2011. At these forums, discussions and consolidation of inputs on the annual progress, achievements and challenges in implementing the 7<sup>th</sup> NSEDP and MDGs have occurred.

As a result of all consultations within the Round Table Process and in light of emerging opportunities and challenges while taking into account the recent Government organizational

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structure, it was found that a need exists to enhance and escalate the role of SWGs, including the creation of two additional Sector Working Groups such as Trade and Private Sector Development and Natural Resources Management and Environment. Determination of the national aid effectiveness agenda depends on the actual development results realized at the local level. Therefore, the Government is committed to have a functional aid coordination mechanism at the provincial level that clearly links to the national Round Table Process, especially the work of SWGs.

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# CHAPTER 1

## INTRODUCTION

The Round Table Implementation Meeting (RTIM) is one of the key events within the Lao PDR Round Table Process (RTP), which is the overarching mechanism for aid coordination and management for effective development results. The RTIM is an important forum involving senior officials from the Government of Lao PDR and Development Partners (DPs) to pursue and strengthen the policy dialogue on the country's development agenda, to reinforce partnership, consolidate support for the implementation of the 7<sup>th</sup> National Socio Economic Development Plan (NSEDP) and MDGs and foster aid effectiveness.

The 2011 RTIM is a follow-up to the triennial Round Table Meeting (RTM) last held in October 2010, which reviewed the country's strategic development directions outlined in the 7<sup>th</sup> NSEDP. This RTIM aims to discuss implementation progress and achievements; recommend further actions for development strategies and policies; and identify priority programmes/projects to achieve the 7<sup>th</sup> NSEDP goals, including the Millennium Development Goals (MDGs), by 2015. At the Tenth high-level RTM last year, the Government and DPs signed an MDG Compact, further reinforcing the collective commitment to achieve the MDGs by 2015 and including a new localised MDG9 on reduction of UXO impact. While furthering this agenda, this RTIM also will highlight the launching of preparations for the following five-year 'transition phase' to graduate from Least Developed Country (LDC) status in 2020. The theme of the meeting is: *Pathway to the Achievement of the 7<sup>th</sup> NSEDP/MDGs, and 2020 LDC Graduation.*

In the lead-up to the 2011 RTIM, a series of consultations within eight Sector Working Groups (SWGs) have taken place, complemented by the Provincial Consultation in Sekong in September 2011. In these forums, discussions and consolidation of inputs on the annual progress, achievements and challenges in implementing the 7<sup>th</sup> NSEDP and MDGs have occurred. In this regard, it also has been noted that a need exists to enhance and escalate the role of SWGs, including coverage of a wider range of subjects. The Government of Lao PDR is thus in the process of considering to add two additional SWGs, to cover Trade and Private Sector Development and Natural Resources and Environment. At the same time, determination of the national aid effectiveness agenda depends on actual development results realized at the local level. Therefore, the Government is committed to have a functional aid coordination mechanism at the provincial level that clearly links to the national Round Table Process, especially the work of SWGs.

This Background Document builds upon the results of these preparatory processes and is aimed to provide invited participants with an overview of key development achievements

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and challenges, and future directions for attaining the 7<sup>th</sup> NSEDP goals and the MDGs. It is not an exhaustive report; rather, it is intended to guide discussions, dialogue and the development of practical recommendations for further action.

The structure and content of this Background Document addresses the topics highlighted in the agenda of the 2011 RTIM. Chapter 2 provides overviews of the achievements to date and the substantial challenges that remain to reach the development objectives of the 7<sup>th</sup> NSEDP. Chapter 3 provides an overview of the progress toward achieving the MDGs by 2015; and Chapter 4 highlights progress in governance. Chapter 5 looks briefly at strengthening the financial framework for the 7<sup>th</sup> NSEDP, while Chapter 6 introduces the issue of LDC graduation by 2020. Finally, Chapter 7 considers how to further enhance aid management and coordination in the context of the Vientiane Declaration and Country Action Plan (VDCAP).

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## CHAPTER 2 ACHIEVEMENTS AND CHALLENGES

This chapter presents an update on implementation of the 7<sup>th</sup> NSEDP. It focuses in particular on the macroeconomic parameters and some key economic sectors (agriculture and natural resources, infrastructure, trade, private sector development and Foreign Direct Investment, or FDI), as well as the education and health sectors, in the drive to improve human resource development.

### **The 7<sup>th</sup> National Socio-Economic Development Plan 2011-2015**

The 7<sup>th</sup> NSEDP is an overarching framework for national economic development that aims to achieve sustainable and equitable growth. It was endorsed by the Ninth Party Congress in May 2011 and approved by the National Assembly in June 2011. It builds on the achievements of the 6<sup>th</sup> NSEDP 2006-2010, incorporating accomplishments, shortcomings and lessons learned while continuing to pursue the objectives of achieving the MDGs and making substantial progress toward LDC graduation. The Plan was formulated in a participatory manner, including consultations with line agencies, provincial and district authorities, and DP, which should translate into greater understanding and positive commitments toward its implementation.

Specifically the 7<sup>th</sup> Socio-Economic Development Plan aims to:

1. **Ensure continuation of national economic growth** with security, peace and stability, while maintaining an annual GDP growth rate of not less than 8 percent and GDP per capita of at least USD 1,700 by the end of the Plan.
2. **Achieve the Millennium Development Goals and poverty reduction by 2015**, adopt appropriate technology and skills and create favourable conditions for **graduating the country from LDC status by 2020**.
3. **Ensure sustainability of development** by emphasising the links and balances between economic development, cultural and social progress, natural resources preservation, and environmental protection.
4. **Ensure political stability, peace and an orderly society**.

The 7<sup>th</sup> NSEDP proposes to achieve these goals by focusing on seven implementation directions, that is: (1) by developing all aspects of the national economy for sustained

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growth; (2) making dynamic changes to rural development and poverty eradication to reduce inequalities; (3) promoting socio-cultural development, especially human resource development; (4) increasing the effectiveness of public administration from central to grassroots levels; (5) maintaining national security, political stability and social order; (6) promoting an open economy integrated into the regional and world economy, with skill upgrading and sustainable use of natural resources; and (7) implementing industrialization and modernization policies through large-scale projects and promotion of small and medium-sized enterprises.

The 7<sup>th</sup> NSEDP highlights specific directions, targets and measures for each sector. Successful implementation of these is vital for the realization of the goals set out above. The 7<sup>th</sup> NSEDP furthermore identifies priority projects and areas to be implemented as part of the five-year NSEDP Plan, mostly in the transport, infrastructure and natural resource sectors. To operationalize the five-year NSEDP, annual NSEDP documents also are prepared, focusing on short-term national development goals, targets and plans.

The NSEDP is entering its second year of implementation (2011-2012). Progress in the first year of implementation has been reported to the National Assembly in June 2011 and is reflected in various sections of this Background Document. Full reporting on progress in priority sectors covered by Sector Working Groups (SWGs) can be found in their progress reports, which are being circulated separately to participants in the RTIM.

The Second Annual NSEDP is the first in line with the 'breakthrough approach' identified by the Ninth Party Congress as a priority initiative for change and investment for realizing overall development goals. This approach has four elements, including:

1. Imagination breakthrough (unlocking and addressing the characteristics of dogmatism);
2. Breakthrough in human resources development;
3. Breakthrough in improving management and governance regulations; and
4. Breakthrough in poverty reduction

The 'breakthrough approach' is designed to focus efforts to realize the 7<sup>th</sup> NSEDP goals, including the MDG commitments, by 2015, as well as the requirements for LDC graduation by 2020. The Government is determined not only to implement these breakthroughs, but also to exceed expectations while doing so.

## **Macro-Economic Stability**

Macroeconomic stability is the foundation upon which sector goals and other achievements can be built. Following a decade of strong growth, the GDP growth rates of Lao PDR

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remained between 7.5 percent and 8.0 percent annually during the 6<sup>th</sup> NSEDP 2006-2010; moreover, they are expected to continue at this level for the medium term. Thus, Lao PDR has sustained strong GDP growth despite the onset of the 2008 global financial crisis, with growth in 2010-2011 estimated at 8.3 percent.

About 3.4 percentage points of GDP growth come from the natural resource sectors, with about 1 percentage point each from manufacturing and agriculture, 0.5 percentage points from construction and 2.4 percentage points from services. For 2010-2011, agriculture contributed about 27.7 percent to GDP, whereas industry contributed 27.6 percent. In 2011-2012, further structural changes should see industry contribute 29.6 percent of GDP, while agriculture will reduce to 26.5 percent and services will stand at 38.2 percent. Industrial growth will be driven by increased production of electricity, which is expected to grow by 37 percent in 2011-2012, and of mining by 49 percent, compared to those of 2010-2011 respectively. Exports of electricity and minerals are expected to generate USD 1.4 billion of export revenues in 2011-2012.

These resource revenue inflows sustain high levels of imports and a stable exchange rate, while annual inflation has remained in single digits. Inflation persisted in 2010-2011 at about 7.42 percent but was quickly managed by the tightening of fiscal and monetary policies; the Government aims to control the inflation rate, not higher than GDP growth for 2011-2012. The Bank of Lao PDR (BoL) will tighten monetary policies for the remainder of 2011, including stopping lending to local administrations by 2012. Excess liquidity will be targeted by securities offers, and possibly higher reserve requirements. Ongoing rapid growth of domestic demand provides scope for a further withdrawal of fiscal stimulus, and a medium-term fiscal strategy is being developed.

The value of exports has evidenced strong growth, from about USD 500 million in 2004 to almost USD 2.2 billion in 2010. The recent recovery of commodity prices, especially metals and agriculture, and dynamic regional demand have boosted Lao PDR export earnings in 2011 and encouraged further FDI. Lao PDR exports are projected to grow by nearly 30 percent in 2011 and imports by 20 percent. Imports from China increased from USD 34 million in 2000 to USD 377 million in 2009, representing an annual average growth rate of 30 percent. Thailand, however, remains the main trading partner, with more than USD 1.5 billion in bilateral trade during 2009.

The trade balance is expected to improve, although the current-account deficit is projected to increase from about 9 percent of GDP in 2010 to about 10 percent of GDP in 2011. The capital account surplus is projected to increase by 5 percent of GDP in 2011, from 10

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percent in 2010, with a corresponding surge of new investment, from small to large scales enterprises.

The main economic concerns for Lao PDR relate to external variables, most notably, a probable slowdown in the global economy. While developed economies struggle with growth due to the continuing financial crisis, Asian economies are expected to grow faster. Yet China is expected to slow growth to control inflation, which will be about 5 percent for 2011. Viet Nam also is likely to grow relatively slowly in 2012 as it struggles to bring inflation down from an expected 19 percent in 2011 to single digits in 2012. These trends suggest that external demand for Lao PDR exports may slacken and, more importantly, commodity and other prices may fall. In this context of uncertain and probably negative volume and price movements, budgetary planning will be appropriately conservative.

Serious flooding in 2011 also illustrates Lao PDR's vulnerability to natural disasters and the impact of climate change. The cost of recovery from the flooding this year is estimated at USD 141 million, for which the Government has already allocated additional resources for agriculture and roads. Disruptions also are likely to trade and development due to the serious nature of the floods affecting Thailand, Cambodia and Viet Nam.

## **Economic Sectors**

Rising inequality raises concerns about the inclusiveness of economic growth. GDP growth in recent years has been predominantly in capital-intensive industries, yet most workers remain in the subsistence agriculture sector, and the growth of off-farm employment has been modest. Lao PDR's large share of youth population (around 43 percent) provides a window of opportunity for high growth and poverty reduction. The challenge for inclusive and stable development until 2020 will be to generate substantial off-farm private sector employment in Lao PDR and diversify development through competition-friendly and equity-inducing policy and regulatory reforms.

## **Agriculture and Natural Resources Management**

Agriculture remains the biggest employment provider in Lao PDR, employing about three-quarters of the workforce. It is also a main component of GDP and general economic development. The sector remains one of the most significant contributors to the Government's food production and poverty reduction targets.

The growth rate in agriculture and forestry was estimated at 2.8 percent in 2010-2011. Rice production was estimated at 3.1 million tonnes - a slight increase over the previous last year, despite the flooding of some major rice-growing areas -- and is projected to increase to 3.6

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million tonnes in 2011-2012. The Government secured 30,000 tonnes of national rice reserve and the contribution of 3,000 tonnes under the ASEAN Plus 3 Emergency Rice Reserve (APTERR) Agreement.

The strategic direction for agriculture and forestry-based development is to ensure a gradual transition from subsistence to commercial production whilst also ensuring an appropriate and sustainable use of natural resources that achieves food security and better livelihoods for all Lao people. Efforts will continue to be made to improve relevant technologies that bring high value and efficiency to the sector, e.g., high-value crops, expanded irrigation and maintenance of soil fertility while linking smallholders to markets.

Where exports of agricultural commodities are the aim, quality control measures will be strengthened. This will be complemented by the encouragement of contract farming linked to foreign investments and the granting of concessions for larger-scale commercial farming. In contrast, the emphasis for the uplands will be on ensuring food security, diversifying crops and promoting an increase in holdings of livestock. A central unifying theme for the sector is the continued development and strengthening of human resources, including farmer associations.

Several emerging trends present challenges to the sector. The adverse impacts of climate change, already evident with the flooding this year, may have a disproportionate effect on low-income households. Therefore, the sector continues to be involved in disaster mitigation and relief efforts following the extensive 2011 flooding.

As farming becomes more commercial, smallholders will be exposed to fluctuating world market prices for agricultural commodities. Further, in order to break into international markets, more attention will need to be paid to quality and phyto-sanitary standards. In the uplands, efforts to increase food security have to offset the effects of reducing swidden agricultural practices. Special challenges are likely to be encountered to maintain soil fertility in relatively poor soils under conditions of stabilized cultivation. The relatively small number of female extension staff will present barriers to reaching women, especially those belonging to ethnic groups, yet women play a major role in agricultural production.

The continuing scarcity of Government funding will limit its ability to implement planned activities without complementary funding from Official Development Assistance (ODA) and FDI. It also has been the experience that not all FDI is good investment. While the Government is seeking to promote FDI that supports smallholder production systems and reduces poverty, there have been examples of exploitative relationships between foreign investors and local farmers, which have not had the desired effect. The Government is in the process of improving and strengthening regulatory and legal frameworks such as agriculture

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cooperative laws to protect local farmers while promoting effective public-private partnerships.

Natural resources also provide essential environmental services and economic safety nets. Climate change is causing severe weather conditions that destroy crops and livelihoods. Measures to mitigate these impacts need to be put in place. Thus, protection of forests and ecosystems remains critical to rural households, which rely on forests as a primary source of food and income. Proper forest management can contribute to alleviating poverty and hunger, as well as add to economic growth.

Key achievements over the last year include the formulation of a provincial five-year work plan, and the demarcation of 8.2 million hectares as protection forests, 4.7 million hectares as conservation forests and 3.1 million hectares as production forests. To achieve the target of 65 percent national forest coverage by 2015, activities of restoring forests and planting trees need to be accelerated in line with the Forestry Strategy 2020. Almost 4 million ha of deteriorated forest area will be rehabilitated and another 200,000 ha reforested. The promotion of community-based forest management should be an important contributor to forest restoration.

Land management remains a priority area for this sector, since access to land for rural households is fundamental to achieving sustained poverty alleviation. Between 1996 and 2010, some 580,000 land titles were issued; the Government is committed to issue 1 million additional land titles by 2015, although resources allocated for 2011 will cover only some 150,000. Responsibility for land matters was recently transferred to the new Ministry of Natural Resources and Environment (MoNRE), and reviews are under way to resolve some of the issues regarding the policy of 'turning land into capital'. These include improving coordination and removing overlaps in mandates on land issues, as well as improving human resource capacities.

The agriculture and natural resources sections of the 7<sup>th</sup> NSEDP have been shaped by the production of a Strategy for Agricultural Development 2011-2020, Agriculture Master Plan 2011-2015 and Farmer Organizations Strategy. In addition, MoNRE has developed a Natural Resources and Environment Sector Plan 2011-2015 and an associated Action Plan, a National Climate Change Strategy, a National Adaptation Plan of Action and a National Water Resources Strategy 2011-2020. An agricultural census was carried out in 2011, which will provide the sector with a stronger basis for measuring future progress.

Government activities to implement the 7<sup>th</sup> NSEDP over the last year involved both direct action and regulation. Because of its limited investment resources, the Government focused

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on institutional reorganization and capacity development. The Government continued to relocate Government experts to support work at *kumban* and grassroots levels. This was complemented by capacity development of local Government officials to better plan and implement poverty reduction and rural development programmes. In addition, the Ministries are increasingly focusing on research and development (R&D) while continuing to work with development partners to design and implement agricultural and rural development programmes and projects.

An increasing role for the relevant line Ministries has been the supervision and regulation of private sector investment in agriculture, energy and mining. Although FDI headlines often focus on mining and hydroelectric schemes, agriculture is fast being transformed by commercial concessions largely for industrial crops and rapidly increasing levels of contract farming. In this context, it is important to ensure that investments and production are consistent with social and environmental safeguards. However, limited resources and capacity pose challenges in ensuring effective implementation.

## **Infrastructure**

The Government has been supporting the rapid growth of infrastructure development , with more than 40 projects completed at a total investment of about USD 500-600 million, almost all aided by DPs. The funds were allocated for improvement of road networks, railways, civil aviation, transportation, logistics, waterways, urban development, water supply, and river bank protection.

## **Transport**

Developing, expanding, and maintaining the transport sector is related to economic growth as well as to the achievement of poverty reduction and access to social services including education and health. Large number of villages and communities in rural Lao PDR remain without basic access to markets and social services. Between 2007 and 2010, the total road network in Lao PDR increased from 37,731 km to 39,546 km, a gain of 5 percent. Of the current total network, 50 percent are earth roads, 35 percent are gravel, and 15 percent are paved.

The overall strategy for the transport sector in the 7<sup>th</sup> NSEDP is for transport to become a fundamental factor in modernisation and industrialisation of Lao PDR, thereby increasing efficiency in production. There are plans to connect north-south and east-west economic corridors, linking with neighbouring countries as part of the Greater Mekong Sub-Region (GMS) transport network expansion (920 km are planned for regional connectivity). The GMS north-south corridor, which links China and Thailand through Lao PDR, illustrates what

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can be achieved. The new transport sector strategy aims at preserving the existing road network, improving connectivity within the country and the region, and strengthening other means of transport, including rail, air and inland waterways, to support poverty alleviation and economic growth.

An important challenge in the infrastructure sector is the ‘unconnected population’ - those who are the most difficult to reach because of the rugged terrain of Lao PDR. This relates also to the issue that more than 80 percent of the road network remains unpaved and 30 percent is not passable year-round. About 30 percent of Lao PDR households live in areas without year-round access to roads. In addition, natural disasters (e.g., floods, erosion, landslides) remain a serious issue, causing increasing damage to transport infrastructure.

There have been functional coordination mechanisms among line agencies at all levels; however, there is a need to continue ensuring smooth flow of resources so as to achieve the goals of the 7<sup>th</sup> NSEDP and MDGs. In this regard, the Government has committed to enhance aid coordination mechanisms at the provincial level that clearly link to the national Round Table Process, especially the work of SWGs.

Moreover, future measures to improve performance include better prioritisation of transport projects by economic/social/environmental impact; promotion of the use of local construction materials, labour, and experts; delegation of more authority and responsibility to provincial authorities, while clarifying roles and responsibilities between central and local authorities; and encouragement of greater private sector participation in the sector (e.g., public-private partnerships).

Development demand for transport infrastructure, however, largely exceeds available funds. In the 2010-2011 budget, half of transport sector expenditures were financed by DPs. Even though revenues from the Road Maintenance Fund (RMF) have increased from USD 2 million to USD 30 million between 2002 and 2010, covering 60 percent of total needs for the maintenance of the national road network, the operations and maintenance budget remains insufficient. Roads deteriorate and can remain in poor condition for long periods of time, so maintenance should be allocated sufficient budget and its needs coordinated with construction of new roads. To build on the progress made, continued funding by development partners is therefore necessary.

## **Water Sanitation and Urban Development**

The Government is committed to the maintenance, upgrading and construction of infrastructure to support socioeconomic development. In the past few years, there were a

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total of 87 water supply system stations in 73 districts. The water supply systems were improved to serve about 998,393 people, equivalent to about 57 percent of urban inhabitants, with access to safe water.

126 out of 144 districts have town master plans. Some of urban infrastructures have been developed in the main cities such as in Vientiane Capital, all provincial capitals and some economic cluster areas. In addition, the revised Vientiane Urban Development Master Plan was finalised in November 2010.

### **Trade Expansion and Diversification**

Lao PDR needs to modernise and diversify its economy away from the predominantly subsistence-agriculture base, and for this it needs to actively promote indigenous business, manufacturing and services for job creation. Lao human and skills development will be tied closely to those emergent sectors where Lao PDR has a comparative advantage.

The country's exports are currently concentrated on very few products: after minerals, other large exports are electricity, garments, agricultural goods, and wood and wood products. The share of mining exports has grown rapidly since 2000 and accounted for more than half of the country's total export value of USD 2.2 billion in 2010. Most of the country's exports are destined for Thailand, Viet Nam, China and Europe, as well as Australia and Taiwan, Province of China. Imports consist mostly of industrial and capital goods, petroleum, food and other consumer products, coming for the most part from Thailand, followed by China, Viet Nam, Switzerland and the Republic of Korea. At the same time, the economy has been experiencing a surge in project investment imports financed by FDI.

Expansion of exports has contributed to Lao PDR's growth, rising at more than 11 percent per year and accounting for one-third of GDP in 2010 - up from only 9 percent in 1990. There is, however, very little in-country processing and thus only limited value addition created in the country. Thus, the strong GDP growth since 2005 does not necessarily translate into similar increases in Gross National Income (GNI). However, it is promising to note that average tariffs imposed by developed countries on Lao PDR exports decreased from 20 percent to 8 percent between 2000 and 2005, and are expected to have fallen further since then. The Government itself is committed to reducing costs related to importing and exporting of goods, so that the Lao private sector is better able to compete in regional and international markets.

Lao PDR has benefited from targeted trade assistance in tackling many of the key constraints identified in the Action Matrix as part of the 2006 Diagnostic Trade Integration Study (DTIS). The Ministry of Industry and Commerce (MOIC) is conducting an update to the DTIS by

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involving DPs through the joint Trade Programme Steering Committee, it expects to develop an aligned and joint programme to support trade and private sector development for 2011-2015. Under DTIS update, there will be the Trade and Private Sector Development program, which will consist of the action plan for implementing the National Export Strategy (NES). The implementation of previous structure of DTIS and IF has led to coordinate the inflow of development assistance that is in line with the principles of the Vientiane Declaration.

Moreover, clear strategies for development and maximising benefits from a land-linked policy will be critical for expansion of trade. Recent research has highlighted the need to improve trade policies, and to focus trade promotion on helping exporters find and stay in new markets. 'Breakthroughs' in export promotion will be supported by removing anti-competitive regulations that restrict the availability of cost-effective cross-border transportation and logistics services; investing in the education of workers; strengthening sanitary and phyto-sanitary (SPS) and Technical Barrier to Trade (TBT) capacities; simplifying licensing and tax procedures; and deepening of the financial sector.

Trade facilitation will be increasingly important for Lao PDR in overcoming the cost of being landlocked. A major achievement has been the approval of the Trade Facilitation Strategy by the Government in July 2011. Aid for Trade is increasingly considered an effective tool in increasing competitiveness, economic growth and poverty reduction, and a National Aid for Trade structure (NIFGS) brings together various partners, complemented by a multi-donor trust fund. A combined Aid for Trade matrix of donor projects has been produced and is available on the new Aid for Trade website ([www.laosaft.org](http://www.laosaft.org)). This helps in monitoring and alignment of Aid for Trade.

At the macro level, one of the 7<sup>th</sup> NSEDP targets is to enhance international trade and economic cooperation and full international integration, by reaching the political, security, economic and social targets set by the ASEAN community by 2015, and acceding to the World Trade Organisation (WTO). Solid progress on WTO accession has enabled Lao PDR to move to the stage of producing a Draft Working Party Report. This follows the conclusion of successful bilateral negotiations with Canada and the Republic of Korea in March 2011, and subsequently with Australia. Bilateral negotiation with Chinese Taipei is expected to complete by the end of this year. The bilateral negotiations with the European Union are almost finished. Bilateral agreements with the USA and Ukraine are still outstanding. On the domestic front, a number of new laws and regulations also have been revised to comply with WTO rules, including Prime Minister's Decree 119 implementing the Investment Promotion Law (April 2011), the Decree on Import and Export of Goods (April 2011), the Notification on the Automatic and Non-Automatic Licensing of Import and Export of Goods (May 2011),

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the Instruction on customs Measure for Protection of Intellectual Property Rights (September 2011) and others.

## **Private Sector Development**

Generating substantial off-farm private sector employment in Lao PDR is an important goal under the 7<sup>th</sup> NSEDP, which will have a subsequent impact on macroeconomic growth. Furthermore, the future of poverty reduction in the country will depend on pro-poor growth in the private sector, which in turn can generate employment and sustainable livelihoods through sectors such as agro-processing, garments, handicrafts and tourism. Improving the structures for trade and private sector development coordination, combined with competition-friendly policies and regulatory reforms, is therefore an important focus area to achieve the MDGs.

Because small and medium enterprises are the predominant form of enterprises and key off-farm employer, strengthening the environment for SMEs will be the key to sustainable business development in Lao PDR. Regulatory reform and reducing administrative burdens on private businesses encourages private sector development, which in turn creates employment and contribute to equitable growth.

To that end, a new Unified Investment Promotion Law was approved in May 2010 (and the implementation Decree in April 2011), which replaces previously separate domestic and foreign investment laws and removes the requirement for new investors to obtain an investment license for general investment activities will significantly simplify procedures for starting a business.

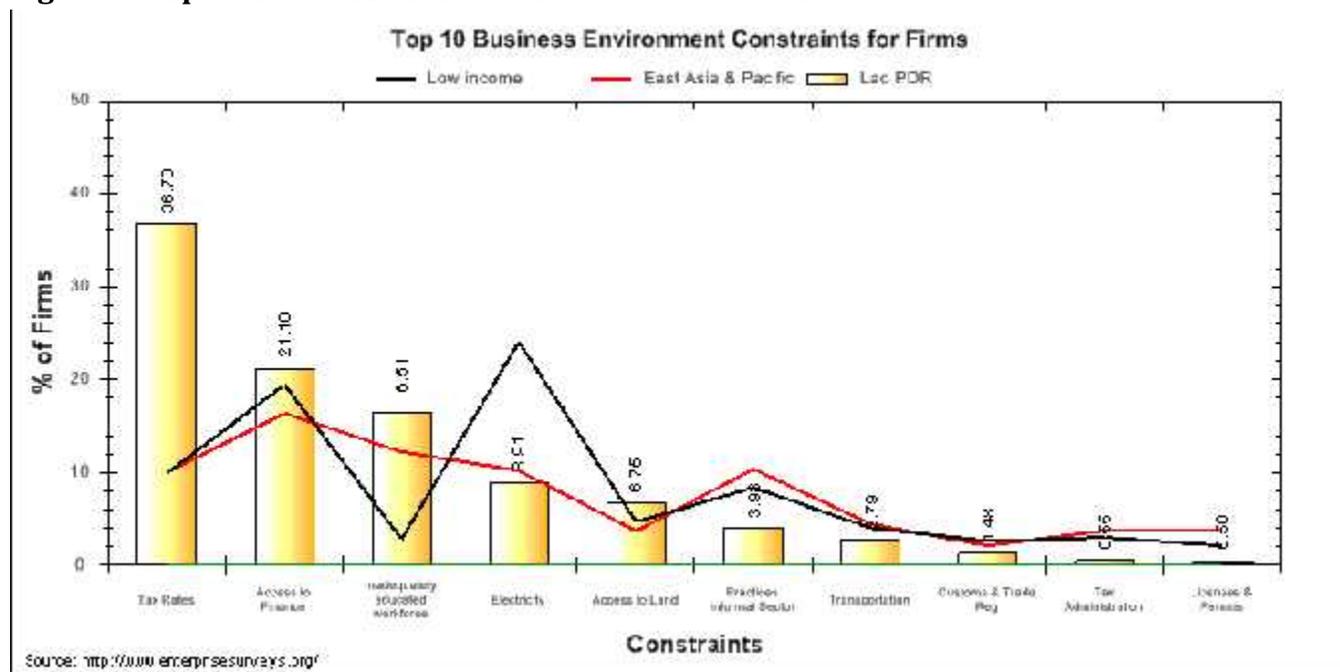
Several additional steps have been taken recently by the Government to simplify business entry, including elimination of the minimum capital requirement for starting a business, introduction of a simplified business registration system in major provinces, and abolishment of establishment licenses for general manufacturing firms.

Mechanisms for public-private dialogue to identify and address business constraints and improve the business environment have been established and continue to operate at both the central and provincial levels. Dialogues among the Lao National Chamber of Commerce and Industry (LNCCI), other business associations and the Government are facilitated through the Lao Business Forum, established in 2005.

The efficiency and effectiveness of these dialogues is an area for future improvement, including closer engagement with the RTP. Recent surveys suggest that significant improvements have taken place over the past five years to improve investment climate,

including such factors as access to electricity, infrastructure development, and improved regulatory framework. Findings from the 2009 enterprise survey in Lao PDR suggest that the top business constraints identified by private business are tax rates, access to finance, and labour skills (see Figure 1 above). Low skills and low worker productivity also have been cited as a concern by Lao PDR business managers. The 'breakthrough approach' also highlights the importance of continuing to improve conditions for encouraging domestic industry.

**Figure 1: Top 10 business constraints for Lao PDR firms**



Source: Enterprise Survey, 2009

### FDI and Quality of Investments

Since well over 50 percent of the 7<sup>th</sup> NSEDP is to be financed from FDI, the quality of that FDI and its contribution to achieving the valuable goals of the NSEDP is crucial. The Government plans to mobilize into implementation some USD 8 billion of FDI over the next five years, with a projection of USD 1.53 billion for 2011-2012. This is a substantial amount especially given the still relatively small size of the Lao economy. To achieve that volume while also improving the efficiency of investments represents a considerable challenge.

Quality FDI will contribute positively to job creation, skills development, technology transfer, local business development, and environmental sustainability. Likewise, it will contribute significantly to tax revenues needed to help finance the achievement of the NSEDP goals, especially the MDGs and graduation from LDC status. Contributions to tax revenues to help

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finance the social sectors and human development are especially important for FDI in the natural resource sectors where much of the investment is capital intensive thereby limiting the creation of sustainable jobs and incomes for Lao people while also putting at risk valuable environmental assets.

The important role of natural resources in sustaining growth and generating revenue for the development of Lao PDR is recognised by the Government, which intends, for example, to allocate the expected revenues from the Nam Theun 2 hydropower project to four priority sectors, including health and education. This reinvestment of the profits from natural resources exploitation needs to be widened to provide improved social benefits more quickly, as well as to ensure the preservation of the environment (see also discussion of MDG7 in Chapter 3).

These resources are finite, and the commodity prices are volatile; encouraging job-creating FDI and ensuring efficient public investments are ongoing priorities. Therefore, the direction for 2011-2012 also is to attract FDI to other job-creating sectors like agro-processing, tourism, services, real estate, education and health.

The quality of investments can further be assessed in terms of efficiency and by how much additional sustainable growth is generated from a given amount of additional investment. Many objectives of the Party and the 7<sup>th</sup> NSEDP focus on the efficiency issue. Investment efficiency can be enhanced by continuing to improve the business environment; increasing the accountability of state enterprises; opening markets to competition; and strengthening feasibility analysis for public investments. Recent initiatives to increase the flow of domestic and foreign private investment include the stock exchange opening in January 2011, with two successful Initial Public Offerings (IPOs); issuance of the implementation Decree for the 2009 investment promotion law; ongoing structural reform of the financial sector; and strengthened contracts and property rights. Achievements in these areas are essential for encouraging investment capital.

## **Human Resources Development**

The national poverty rate has consistently fallen, from 46 percent in 1992 to 26 percent in 2010. Despite this significant achievement, development challenges remain. To achieve the strategic goals of the next decade still requires much effort and targeted investment, especially in human resources development, as highlighted in the 'breakthrough strategy.' This section reviews overall progress in the education and health sectors, while MDG-related aspects are dealt with in Chapter 3.

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## Education

Improving primary education is part of MDG 2; specific issues will be discussed in that section in Chapter 3, although many of the more general comments in this section are also applicable to primary education. This part thus deals with post-primary education.

The Education Sector Development Plan 2011-2015 (ESDP) was developed through a series of consultative meetings culminating in formal endorsement of the plan by an executive-level Education Sector Working Group meeting in June 2011. The ESDP is closely linked to the National Education Reform Strategy (NERS) and Education Sector Development Framework (ESDF), two key policy documents endorsed by the ESWG. The ESDF Policy Planning Matrix identifies the 19 policies and 96 strategies of the ESDF and includes targets, necessary legislative work and identification of responsible units.

A new approach to annual planning has been developed through an Annual Costed Sector Education Plan (ACSEP) process at both central and provincial levels. These ACSEPs are closely linked to the Education Sector Development Framework Policy Planning Matrix. Each province has submitted draft ACSEPs prior to National Assembly approval of the 2011-2012 budget; these are being revised to fit within the approved fiscal ceilings, together with the central ACSEP. Part of this plan is an Annual Joint Sector Review Mission, conducted near the end of the school year with participation of both Government and DPs. The first review was conducted in March-April 2011.

The four 'breakthroughs' of Ninth Party Congress include key education targets to ensure that by 2015 all Lao people finish compulsory primary education and that a gross enrolment rate of 75 percent is achieved for lower secondary school. Participation rates in lower secondary education continue to improve and are on track to reach this by 2015, but upper secondary education participation rates have not improved since 2008-2009 and have declined slightly among girls.

At the same time, a renewed emphasis is placed on quality improvements, including curriculum renewal, teacher upgrading, provision of new textbooks and improved monitoring at all levels. Post-basic education levels aim to provide adequate numbers of skilled people to support further economic and social development, in line with the needs of the 7<sup>th</sup> NSEDP. A priority was to improve sector management through greater reliance on policy-led planning and results-based decision making, in addition to strengthened monitoring and coordination between central and provincial levels.

While achievement of the MDGs is a pressing priority, it also is important to retain a perspective on Lao PDR's global commitments to achievement of the six Education For All goals by 2015. These goals include targets for universal primary education and gender

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equality, but also acknowledge the importance of lifelong learning and the broader role of education as the driver of human resource development. Beyond 2015, a skilled labour force will be a key to sustainable national development and graduation from LDC status by 2020.

Thus, MoES has contributed to the goals of the overall 7<sup>th</sup> NSEDP by increasing enrolments in technical and vocational education by 35 percent over the past two years. With the assistance of DPs, it will clarify the technical-vocational teacher education system while continuing to improve the links between technical and vocational education and labour market demands. Access to university education, which needs to be monitored and balanced with technical and vocational education, has improved with expansion of public provincial universities and the continued expansion of private sector educational institutions.

One constraint is the financing gap to achieve the targets of the five-year plan. This is calculated by comparing the total cost of implementation against projected resource flows to the sector; it is estimated to be about USD 197 million over the five-year period, which includes financing for achieving education-related MDGs.

A major constraint to improving the quality of education is the very low non-wage recurrent budget available. At the end of the 6<sup>th</sup> Plan period, the provincial non-wage recurrent budget share to education was only 9.5 percent of the total non-wage provincial budget. The Ministry of Finance expects to introduce budget norms in the 2011-2012 financial year to provide additional funding to provinces, in turn increasing this non-wage recurrent budget to at least 14 percent, with a further rise to 25 percent before 2015. This extra funding, together with the introduction of block grants, also in 2011-2012, will provide the necessary non-wage recurrent budget to support many of the activities required to realise targets in the 7<sup>th</sup> NSEDP.

## **Health**

The delivery of high-quality health services is crucial to the development of Lao PDR, and past years have seen significant improvements in this area. There are four central hospitals, three special treatment centres, four regional hospitals, 12 provincial hospitals, 127 district hospitals, 835 health centres, 254 private clinics, 1,992 private pharmacies, and 6,736 hospital beds in the country. Average life expectancy is now 67 years for women and 62 for men.

Immunisation programmes have expanded and now reach 72 percent of the population. As of 2010, village drug kits were provided in 5,812 villages, covering about 98 percent of the total target villages (on average, one out of every two villages). They have especially been

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distributed in the 72 poor districts identified in the National Growth and Poverty Eradication Strategy (NGPES), where about 94 percent of targeted villages have been provided with these health packs. Measles elimination campaigns have been introduced in 2009 and again in 2011 (Measles with Rubella vaccines) to reach 2.8 million children between ages 9 months and 19 years as part of the effort to realise the MDGs and related international commitments.

The Ministry of Health (MOH) has recently launched the 7<sup>th</sup> Health Sector Development Plan 2011-2015. The key health policy is to emphasise health prevention and promotion as the highest priority, to focus the quality and expand coverage of health services as the most important means of intervention, and to reach the health-related MDGs by 2015. The latter include nutrition (MDG1), mother and child health (MDG4 and MDG5), communicable disease control (MDG6), and safe water and sanitation (MDG7).

Continuing reforms in the health sector are to strengthen the health system following the international six building blocks: (1) leadership and governance; (2) service delivery; (3) financing; (4) human resources for health; (5) health information; and (6) medical products, vaccines and technologies.

On leadership and governance, the MOH focus is on the revision of current regulations, for example, the Law on Hygiene, Prevention and Health Promotion, the Law on Drug and Medical Products, and the Prime Minister's Decree on private hospitals.

On service delivery, the health care system is being assessed to identify bottlenecks and quality assurance and quality control standards. Provider accreditation and licensing are being developed.

With regard to the health financing transformation, the key direction is to shift away from the direct, out-of-pocket expenditure mechanism to universal coverage of health insurance by 2020. This policy aims to ensure equity and people's accessibility to health care. Government has finalized and revised the Prime Minister's Decree on national health insurance, free maternal and child health services, along with the health financing strategy.

Impetus with regard to human resource development will be given to implementation of the National Strategy for Human Resources for Health (2010), with particular attention to adequate allocation of health quotas at health centres and remote districts and training of 1,500 community midwives or skilled birth attendants. An Educational Development Centre has recently been established.

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Turning to medical products, vaccines and technology, the medical logistics system and a policy on laboratory services are being developed. Moreover, the Food and Drug Inspection Division was recently established to enforce food and drug safety control.

Recent progress in the health sector includes development of the National Health Information System Strategic Plan (HISSP) 2009-2015. Implementation progress has included publication of an annual National Health Statistics Report (NHSR) by MoH. Fiscal 2009-10 saw the first publication of this report using consolidated national data collected from health centres through the Health Management Information System (HMIS), which represents a significant achievement.

Government authorities this year began promoting private investment in health care services by allowing individuals and businesses that invest in the construction and operation of hospitals in Lao PDR to receive an additional five-year exemption on profit taxes. The new law also offers land lease and concession fee exemptions for investors who build a hospital, with tax breaks ranging from three to 15 years, depending on the location of the facility.

To further accelerate achieving improved health-related goals, the following challenges need to be addressed:

- Strengthening the health system, with particular attention to developing human resource capacities, health financing reform, improving collection of disaggregated data and increased levels of financial support from central and provincial governments
- Overcoming geographic barriers to access health services. Access to roads, transportation, clean water and other socioeconomic infrastructure and services are aspects of the multi-faceted requirements for sustained health outcomes.
- Social barriers that influence populations' health behaviour.

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## CHAPTER 3

### ACCELERATING PROGRESS TOWARD THE MDGS BY 2015

This chapter provides an overview of the progress toward reaching the MDGs since the last progress report in 2008, as well as the measures the Government has implemented to accelerate that progress. The next MDG Progress Report will be produced in 2012.

Substantive progress over the last years in achieving many MDG targets is reflected in socioeconomic indicators of these targets. There are, however, challenges remaining in achieving some targets, especially in eradicating poverty (MDG1: challenging in terms of food poverty and child malnutrition), improving maternal health (MDG5: access to universal reproductive health and reducing maternal mortality rates) and ensuring environmental sustainability (MDG7: particularly with regard to reducing the loss of environmental resources).

The first section in this chapter is devoted to these seriously off-track MDGs, with highlighted challenges as well as relevant Government initiatives and needed further international support to address these. The second part deals with MDGs that are considered on track overall but with some indicators/targets still off track, and therefore also requiring enhanced support from Government and DPs.

#### **Three Seriously Off-Track MDGs**

##### **MDG1: Poverty and Hunger**

##### ***Off-track target: Reduce hunger by half***

Reduction of overall poverty in the country is a major achievement that illustrates the efforts made by the Government in recent years. The basic poverty headcount ratio has consistently reduced over time, falling six percentage points between 2002 and 2007, to 27.6 percent. This ratio is estimated to have reached the MDG1 target of 24 percent in 2010-2011. The poverty gap ratio also has declined steadily, from 8.0 to 6.5 percent between 2002 and 2007, and is on course to reach the target of 6.0 percent by 2015.

The impressive poverty alleviation achievement of Lao PDR is, however, qualified by other poverty-related measures. Food poverty may have risen in recent years, reversing an earlier declining trend and placing achievement of this MDG target by 2015 in doubt. Furthermore, child malnutrition has shown relatively weak improvement and has been identified as 'seriously off-track' in meeting the 2015 target.

Although the government had eliminated opium poppy cultivation completely in early 2006, the impact of poverty and food insecurity caused an increase in its percentage of approximately 58 percent during 2009-2010, from 1,900 to 3,000 hectares. Therefore, the Government of Lao PDR has been putting efforts to address issues relating to the growing drug abuse and petty crimes amongst youth, while strong support to the Drug Control Master Plan 2009-2013 is crucial to ensure security and stability towards achieving the MDGs.

Within the context of poverty, inequality, rural/urban and regional disparities are important factors to take into consideration, even though the MDGs per se do not capture these elements. Urban areas and districts along the western border have experienced rapid growth and poverty reduction, but other, remoter groups continue to lag behind. The northern part of the country remains poorer than the southern and central regions, and uplands are poorer than lowlands. Poverty rates vary according to ethnicity, with the Lao-Tai displaying lower poverty incidence. Low access to infrastructure services and access to markets have been found to be the main barriers to greater prosperity and reduction in poverty rates for rural villages. Ensuring equitable poverty reduction remains a challenge, given that the Gini coefficient, which measures inequality, rose from 32.6 in 2002 to 35.4 in 2007 (LECS IV).

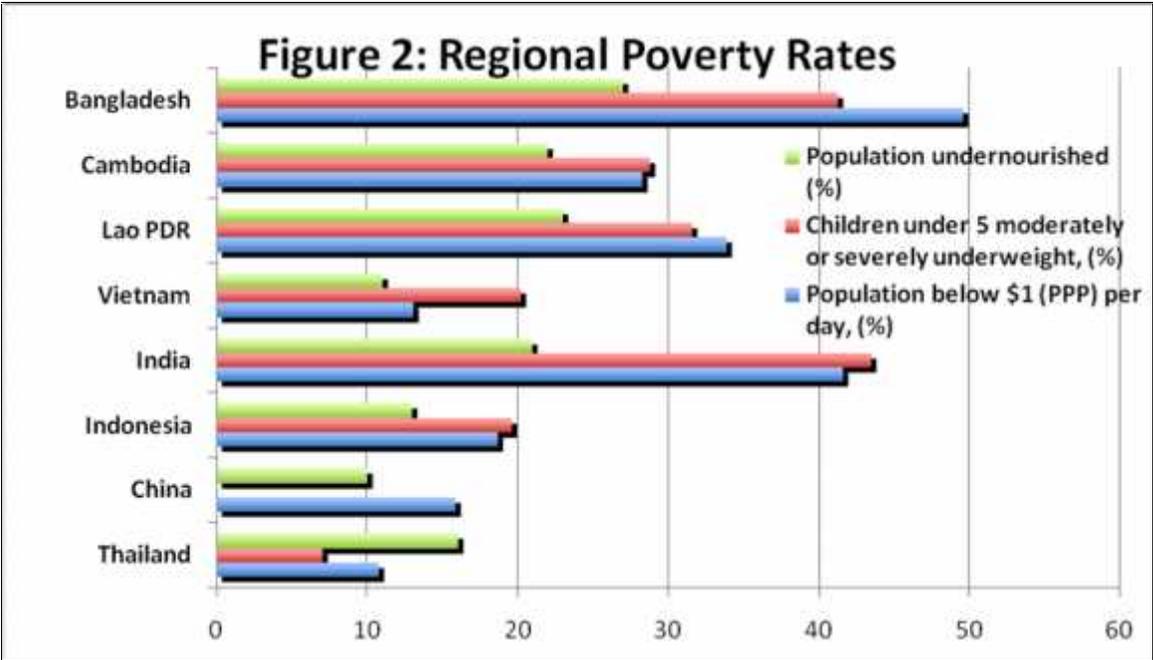


Figure 2 above compares Lao PDR to a selection of other developing economies. They are ranked from lowest GDP per capita (Bangladesh) to highest (Thailand). Lao PDR, despite the

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recent achievements, still has quite high relative poverty indicators. Bangladesh has much higher percentages, as does India (although wealthier per capita), yet Lao PDR has much to do to achieve levels close to those of China, Indonesia or Viet Nam.

Measures in the 7<sup>th</sup> NSEDP to further reduce poverty and achieve the MDG1 targets include: rural development programmes to improve communities; developing and rehabilitating provincial, district and rural roads to increase basic access for rural villages; investing in improved town planning; improving productivity and diversifying agricultural practices; and enhancing incomes from employment.

With regard to nutrition and food security, focusing on improving maternal and young child nutrition including from pregnancy up to at least 1,000 days after born provides a window of opportunity for healthier growth and development. This in turn can have an impact on families, communities and countries and break the cycle of poverty. In terms of interventions, the focus will be on proven interventions that are able to have a significant impact on overall target indicators. To achieve the National Nutrition Strategy, the Government has established a national task force, led by the National Science Council, to improve leadership and cross-sector coordination on nutrition issues, as well as to oversee activities such as training of village health workers, collaboration with mass organizations, and leveraging of resources.

Delivery channels also are being strengthened to create effective social safety nets (social and health insurance) to ensure the basic needs of the most vulnerable are met and prevent negative coping strategies in times of hardship, such as selling productive assets, taking children out of school, or reducing the consumption of food.

With these initiatives to improve implementation of policies and plans, the Government believes that the goals set for poverty reduction can be achieved. However, continued ODA support for the 7<sup>th</sup> NSEDP will be crucial. Considering the challenges of poverty reduction together with population dynamics, the focus of these interventions should be on reducing food poverty and malnutrition, improving access to health care including family planning and immunization coverage and access to safe water and sanitation, especially in rural areas, in order to reach the poorest of the poor.

### **MDG 5: Improve Maternal Health**

**Off-track target for maternal mortality and seriously off-track target for universal access to reproductive health**

One of the biggest socioeconomic challenges Lao PDR faces in terms of the MDGs is in improving maternal health. MDG5 has been identified as 'seriously off track' for Lao PDR to

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reach the 2015 target of reducing the Maternal Mortality Ratio (MMR) to 260 per 100,000 live births.<sup>1</sup>

The proportion of births attended by skilled birth attendants is widely considered to be a variable that has a big impact on the MMR. Statistics from the 2009-2010 National Health Statistics report calculate a national average of 37 percent for skilled birth attendance, a sizable increase from 23 percent in 2005. However, the 2015 target of 50 percent remains a challenge.

Universal access to reproductive health also falls under MDG5, and steady progress has been made, according to 2005 data, in the contraceptive prevalence rate (38 percent) and the age-specific fertility rate (76 percent). Progress in antenatal care coverage has been somewhat satisfactory, increasing from 21 percent to 28.5 percent between 2000 and 2005. However, the high unmet need for family planning (27%) and the adolescent birth rate (110 per 1,000 women) remain key challenges.

The 7<sup>th</sup> NSEDP is committed to improving maternal health and has the same goal as MDG5. To achieve these targets, the NSEDP outlines certain measures, including using of modern techniques and technologies in health services; continuing to deliver integrated services through outreach teams to ensure coverage of remote areas at least four times in a year to assist poor communities in each village,; and continuing to strengthen the capacity, knowledge and skills of doctors, and particularly female midwives and skilled birth attendants at the local levels.

Recent progress in relation to maternal health includes initiating the implementation of the Strategy and Planning Framework for Integrated Maternal, Neonatal and Child Health (MNCH) Services 2009-2015. These comprehensive strategic plans are expected to improve the current MNCH status, with interventions addressed both to service providers and beneficiary communities. Under the MNCH, one measure is to reduce financial barriers to access care by introducing programmes of fee exemption for the poor and conditional cash and food transfers.

Another important progress is the implementation of Skilled Birth Attendance (SBA) Development Plan (2008-2012) to expand access to basic and comprehensive obstetric services aiming to reduce maternal mortality. The plan focuses on (i) training of skilled

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<sup>1</sup> However, the MMR is extremely difficult to measure in Lao PDR. This is partly due to the lack of an accurate death registration system, but also due to studies and surveys using different approaches to estimate the MMR.

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workforce with capacity to deliver the MNCH services; (ii) the improvement and expansion of basic and comprehensive Emergency Obstetric and Newborn Care (EmONC) at provincial and district health facilities.

Another important element of the MNCH is to bring services closer to women by investing in a rapid scale-up of midwives at the community level, using the existing cadre of auxiliary staff, upgrading health centres, advocating that all families make a birth and emergency preparedness plan as soon as the woman is aware she is pregnant, and improving the quality of MNCH care and service delivery by health facilities, particularly for basic and comprehensive emergency obstetric and newborn care.

Programmes and plans must allocate a sufficient proportion of resources to vulnerable populations especially rural populations and young people if a significant impact is to be achieved in the run-up to 2015. This prescription reflects the fact that large variances in health indicators by rural and urban areas persist, for example, due to skills differentials of health care workers.

## **MDG 7: Ensure Environmental Sustainability**

### ***Off-track target: Reverse the loss of environmental resources***

Ensuring environmental sustainability is the third MDG where progress is 'off track,' particularly with regard to the loss of environmental resources.

Lao PDR is blessed with abundant natural resources, including extensive forest coverage, large mineral deposits such as gold, copper and silver, and numerous tributaries of the mighty Mekong River, which provide ample hydropower potential. The economy has benefited from large inflows of FDI in hydropower, mining, industrial crop production and agriculture, as well as from Government policies to open up the economy to trade and investment. All this has made the international private sector the prime driver of economic growth. The Government is aware that application of natural resource management and sound macroeconomic policies are important in this new economic environment for Lao PDR to ensure that the country can reap the benefits from these prosperous sectors whilst minimizing negative consequences – particularly environmental concerns – for other sectors.

The recent rapid increase in economic activity and growth linked to the country's natural resources, including hydropower, mining, and forestry, has brought about a noticeable deterioration of environmental quality. Lao PDR's forest resource coverage<sup>2</sup> (one of the

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<sup>2</sup> Based on a national definition of forest (20 percent canopy cover).

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MDG7 indicators), which once covered about 70 percent of total land area, had declined to 42 percent by 2002 and is about 40.3 percent in 2010. The Government recognizes this as a grave concern. If the trend continues, the country's last remaining natural forests may disappear by 2070, or earlier. Widespread soil erosion, especially in the uplands, and shorter fallow periods are leading to declining agricultural productivity. Hunting and illegal trade, on top of the loss of forest, wetlands and grasslands habitat, is having a detrimental effect on Lao PDR's 1.6 percent share of globally threatened species.

Lao PDR is a minor contributor to climate change overall; the contribution to greenhouse gas emissions is negligible and mainly related to land use change from forest to agriculture, recurrent forest fires and greenhouse gases produced by the agricultural sector. Nevertheless, climate change at global and regional levels has a significant impact on the country, and extreme weather patterns, including impacts of typhoons and floods, have become more common in recent years. The Government is carefully considering global and regional climate change scenarios and their impact on the people of Lao PDR.

Access to water sources and sanitation facilities is a further component of MDG7. Providing people with sufficient safe water and facilities for a sanitary disposal of excreta, along with introducing improved hygiene, are very important in reducing the burden of disease. Moreover, this related MDG7 to other MDGs, especially on maternal and child health and nutrition). Access to safe drinking water improved from 52 percent to 72 percent between 2002 and 2007. Less widespread is access to basic sanitation, which nevertheless increased from 37 percent to 49 percent over the same period. Performance across provinces remains varied, while coverage in urban areas was estimated at 86 percent, and in rural areas at 38 percent. Access in rural areas is determined partly by location; more remote provinces and those with fewer roads are likely to have lower coverage. Access for poor households is about 10 to 15 percentage points below access for non-poor households.

To deal with the challenges described above, the 7<sup>th</sup> NSEDP has set several targets for environmental protection and natural resources management. In 2011 the new MoNRE was established, and a Sector Plan 2011-2015 was approved, along with an Action Plan. Interventions include the protection of the quality of the environment (water, land and air) in 25 towns with development projects within the national environmental standards; setting up of models for managing green environments; and establishment of clean development and carbon credit mechanisms to maximize benefits for the country.

Plans in the sector include a revision of the environmental protection law, due in 2012, which will update measures for the protection, mitigation and restoration of the environment, as well as guidelines for environmental management and monitoring. An update in the water

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resources law also is pending. Recently the National Water Resources Policy and the Strategy and Action Plan 2011-2015 also have been issued. Integrated water resources management at the river basin level is being promoted through management committees, and integration with hydropower development plans is being improved.

A key challenge for Lao PDR to perform better in meeting the targets for MDG7 includes enhancing the capacity of various institutions to implement and enforce environmental regulations, as well as to develop and monitor environmental action plans.

World leaders have expressed their willingness to contribute to environment and climate change initiatives. Lao PDR has also highlighted its commitment to environmental issues as well as international participation in the fight against climate change; this is strongly expressed in planning policies and documents, with a directive to achieve sustainable development of natural resources and ensure equitable growth.

## **Six On-Track MDGs**

The six MDGs discussed below are considered broadly on track, yet there is no room for complacency. Indeed, some indicators within these MDGs are off track. The Government is committed to these targets and will continue to work toward achieving them along with support from DPs.

### **MDG2: Achieve universal primary education**

Steady progress toward achievement of MDG2 has been seen in recent years, with both participation rates and survival rates to Grade 5 steadily improving. The survival rate to grade 5 increased from 66.8% in 2007/08 to 71% in 2009/10, but then decreased to 68% in 2010/11. This was caused by increased dropout rate from each of the 5 grades levels, particularly in grade 1. Grade 1 dropout increased from 10.5% to 12.1% between 2009/10 and 2010/11. This means that the decreasing survival rate to grade 5 will continue for the next few years, which could be a reversal of progress for MDG2. Significant differences in education outcomes between provinces and between districts within provinces also were striking. It was not clear what is causing this increased dropout rate and why it is happening now, after years of continuous improvements. It may be related to population mobility and more accessible economic opportunities for unskilled labour outweighing economic rates of return for primary schooling; increased poverty among some sub-groups; other factors; or a combination of factors.

A joint rapid assessment survey was implemented in October 2011 to help identify relevant causes. Although results from this survey are still being analyzed, it became clear that

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population mobility across district and provincial boundaries makes it challenging to identify those districts most in need of additional support. As a result, the annual school census will need to collect further information to more accurately track progress. Further analysis of the rapid assessment survey will identify remedial actions required.

The survey highlights that MDG2 will not be achieved if the current dropout rates continue, and that urgent action is essential to promote greater equity and reverse these negative trends if the goal of universal primary education is to be achieved within the narrow time frame remaining.

The findings of the rapid assessment survey reinforced the importance of a strong Village Education Development Committee (VEDC). It is clear that further capacity building will be needed to adequately support VEDCs throughout the country, particularly in villages with incomplete schools and those where most adults are illiterate.

Challenges to achieving MDG2 by 2015 also affect achievement of the 2020 target of graduation from LDC status, as both include indicators on adult literacy rates. Recent survey data on literacy among adults and young adults are not available, so it is not possible to assess Lao PDR's progress on this indicator. The most recent literacy survey (2001) gave a reported literacy rate of 72 percent (men: 80 percent, women: 65 percent) for the age group 15-59, and a tested literacy rate of 45 percent (men: 54 percent, women: 37 percent). The 2005 census, meanwhile, gave a reported overall literacy rate of 73 percent for the age group 15+ years. Literacy rates vary geographically, and due to the mountainous and remote terrain, some rural villagers without road access are difficult to reach with educational programmes.

During the Joint Sector Review Mission of 2011, MOES agreed to undertake a literacy assessment for the group aged 15 to 24. Many children are living in remote locations without access to formal schooling, and the Department of Non-Formal Education has developed a non-formal primary school equivalency programme, in addition to its continuing work in literacy and adult equivalency programmes.

The introduction of block grants and abolition of informal fees for basic education beginning in the financial year 2011-2012 is the key priority for the second year of the ESDP. First priority will be given to follow-up on the recommendations of the MDG2 Rapid Assessment Survey in order to get MDG2 progress back on track. It is likely that introduction of block grants will be a critical intervention, although the approved Government budget for 2011-2012 remains insufficient to enable a national rollout of block grants to the extent outlined in the ESDP. The current budget allocation also will constrain abolition of informal fees across the country. MoES will continue to negotiate with the Ministry of Finance and DPs about this crucial issue, which represents a major constraint to achievement of MDG2.

At the same time, new thinking will be essential to generate new solutions to old problems. Greater emphasis on capacity building at the local level is needed, particularly to strengthen VEDC involvement with schools through improved and ongoing support from DEB staff. This will require a shift in the balance between wage and non-wage recurrent funding of the sector. A comprehensive and systematic capacity development framework is the missing structural link to improve implementation and monitoring of the ESDP, particularly for MDG2 achievement. Such capacity building will need to prioritize district and school levels and include strengthening of analytical skills at the district level to improve tracking of MDG2 progress.

<b>Table 1: MDG2 - Achieve Universal Primary Education</b>	<b>1990 (baseline)</b>	<b>FY2007-08</b>	<b>FY2009-11</b>	<b>2015 (target)</b>
<b>Net enrolment rate (primary school)</b>	58%	85%	94%	98%
<b>Survival rate (completion) to Grade 5</b>	48%	69%	68%	95%
<b>Literacy rate 15-40 years</b>	69% (1995)	79% (2005)	87% (2009/10est.)	99%

Source: Education SWG

Recent Ministry analysis has identified the 56 most educationally disadvantaged districts, based on lower-than-national-average enrolment and completion rates for girls. This has resulted in priority targeting of school programmes to these districts, which is expected to decrease the unequal educational outcomes.

For the pre-primary years, an Early Childhood Development policy has been drafted in collaboration with the relevant Government agencies and development partners. Quality early childhood care and development programmes and services will enable a better educational start in life for children, which should have a positive impact on primary completion rates.

Achievement of the Ministry's target of 39 percent enrolment in pre-primary programmes is also a priority and a key investment for ensuring that children enter Grade 1 well-prepared for school. In turn, this is expected to help improve internal efficiencies by preventing repetition and dropout in the early grades.

### **MDG3: Promote gender equality and empower women**

MDG3 aims to achieve fair representation of women in the classroom, non-agricultural employment and the political context. The Government recognizes that progress has been

slow, especially on the former two, and is committed to increase its effort to achieve the MDG targets.

Progress has been especially slow toward eliminating gender disparity at all levels of education. Fewer girls than boys are participating at each level of education, and this ratio worsens with at higher levels. Primary net enrolment rates for girls in the districts that MoES considers a priority is only 85.6 percent (for boys, 90 percent), while enrolment rates for girls in other districts stands at 94 percent (for boys, 95 percent).

The low education level of girls has a direct impact on the next MDG3 indicator, namely, the share of women in non-agriculture wage employment, which has shown only slight progress. The share of women in wage employment increased from 38 percent to 44 percent between 1995 and 2005. However, non-agriculture wage employment represents a narrow proportion of total employment for women, since most remain in agriculture, informal-sector activities, and running of small shops and businesses.

A much better-performing indicator for MDG3 is women’s political representation, measured by the proportion of seats held by women in the National Assembly. This stands well above the regional average, at 25 percent. The table below presents recently updated data showing a very impressive increase in female participation (numbers of women) in different positions of Government administration over a five-year period.

<b>Table 2: Women’s participation in Government administration</b>	<b>2005</b>	<b>2011</b>
<b>Women as members of Party Secretariat Committee, Party member, and district governor or vice district governor</b>	155	363
<b>Women as members of Party Secretariat Committee and Party member, or village chief</b>	145	321
<b>Female district governors</b>	5	11
<b>Female Minister or equivalent</b>	1	5
<b>Female Vice Minister or equivalent</b>	3	16

Source: LWU 2010

These challenges call for a comprehensive gender equality plan, which is provided by the 7<sup>th</sup> NSEDP in its aims to strengthen women’s status in the domestic sphere, education, health and the labour market; to eliminate all forms of discrimination and violence against women; and to promote opportunities for women’s inclusive participation in social and economic fields. The NSEDP sets out quantitative targets for women’s participation in education, the paid workforce, and the National Assembly in harmonization with the targets and goals of MDG3.

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The 7<sup>th</sup> NSEDP priorities will be translated by the Lao Women's Union (LWU) through the Lao Women Development Plan 2011-2015, which includes six programmes and 32 projects aiming at promoting gender equality, empowering women, and protecting the rights and interest of women and children. The Lao Women's Union is in the process of drafting the Law on Lao Women's Union and has issued a rule on the management and utilization of the Savings Group Trust Fund for promoting and creating sustainable jobs, producing commercial goods, and generating incomes for women and their households.

The Government pays special attention to gender inequality in education, given its direct effect on all other gender-related issues. At the primary education level, a number of specific strategies have recently been implemented to increase the enrolment of girls. These include school feeding to offset the opportunity cost to parents due to the loss of girls' labour at home, and prioritization of completing incomplete schools to offer the full five grades of education, which helps girls in particular to finish their primary education.

At secondary level, MoES is introducing a scholarship system focusing on girls and a voucher system targeting ethnic-minority girls to encourage them to undertake skills training. The Education for All programme also is providing scholarships encouraging ethnic-minority women to become teachers to increase the number of role models for girls. An Inclusive Education Strategy and Action Plan will be finalized soon, based on the Inclusive Education Policy, and will strengthen MoES' approach to address bottlenecks to achievement of MDG3.

Improved quality in the education system also is essential to ensure that all girls and boys of all ethnic groups and language backgrounds are able to access the curriculum and learn effectively, so that parents are able to see a genuine cost benefit in sending their children to school. The Ministry's Schools of Quality approach supports schools to achieve minimum quality standards in a holistic way. A new Teacher Education Strategy and Action Plan will help address critical skills gaps for improved teaching and learning.

The above plans and programmes are expected to have a significant effect on increasing gender equality. At the same time, sustainability of these programmes and achievement of the MDGs depend on continued cooperation among all relevant actors. The Government is therefore committed to work with other Government sectors, DPs and civil society, especially the informal Gender Working Group, to ensure gender equality is well-recognized and implemented by all parties. To that end, the National Strategy for the Advancement of Women (NSAW) 2011-2015 is being finalized. This overall strategy aims to advance women over the next five years by increasing equality between men and women; balancing power

relationships; increasing the number of women in decision-making positions; and improving women's and girls' access to many services and income-earning opportunities.

#### **MDG4: Reduce child mortality**

The Under-5 Mortality Rate and Infant Mortality Rate have both been gradually reduced over the last 10 years, with the latter declining more rapidly.

Both indicators currently appear on course to reach the MDG4 targets in 2015. Improvements in both measures are mostly attributed to availability of vaccinations (from village immunization programmes), increased access to primary health care services, family planning, wider distribution of bed nets, and access to clean water supply. However, levels of child malnutrition remain high, measured under MDG1, and are an important determinant factor for child mortality. To continue progress with child mortality reduction, child malnutrition also must be effectively tackled. In this Background Document, this is highlighted in the discussion about MDG1 on poverty alleviation.

#### **MDG6: Combat HIV/AIDS, malaria and other diseases**

<b>Table 3: MDG 6 National Core Indicators as of June 2011</b>		<b>2010</b>
<b>HIV prevalence among general population (age 15 to 49) (Percentage)</b>		0.2%
<b>Most-at-risk population who are HIV infected (Percentage) - <i>Sex workers</i></b>		1.2%
<b>Most-at-risk population who are HIV infected (Percentage) - <i>Men who have sex with Men</i></b>		2.8%
<b>Most-at-risk population who are HIV infected (Percentage) - <i>Drug users</i></b>		1.5%
<b>Adult and children with advanced HIV infection receiving antiretroviral therapy (Percentage)</b>		92% (2009)

Source: CHAS

**The health indicators** associated with combating HIV, malaria and TB remain on course for reaching related MDG6 targets by 2015. At the end of 2010, the estimated HIV prevalence was 0.2% among the adult population (15 to 49 years old) with an increasing trend (CHAS, 2010) while the estimated number of people living with HIV was 9000 (CHAS, 2010).

The case reporting system reports a cumulative number of 4,612 HIV positive people, including 2,937 AIDS cases and 1,235 deaths by AIDS (CHAS from 1990 to June 2011).

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Based on the data collected over the last 6 months, figures related to the mode of transmission have been updated; no major changes have occurred. The result shows that 88% percent of transmission took place through heterosexual contact, while mother-to-child transmission is 5.5% and men who have sex with men represent 1.7% of the overall new infections (CHAS, June 2011). Limited information is available about People who injected drugs but available data indicate that HIV has started affecting this population sub-group.

**The national response to HIV and AIDS** - Within the framework of the National Strategic Action Plan on HIV/AIDS/STI Control and Prevention 2011-2015 (NSAP 2011-2015), a set of comprehensive interventions has been defined to prevent HIV transmission within key affected populations, including sex workers and clients, men who have sex with men, injecting drug users and other target populations engaging in risk behaviors. These interventions comprised of peer-led behavior change communication (BCC), the 100% Condom Use Programme (100%CUP), Harm Reduction, STI Services and HIV Volunteer Counseling and Testing. The Harm Reduction Programme, which has only been initiated late last year in two target provinces namely Phongsaly and Houaphan provinces, has reached 47% of the total number of 47 IDUs.

**Treatment, Care and support to People living with HIV** - In early 2011, the country embarked in reviewing its ARV treatment policy and guidelines to align with the new WHO recommendations for initiation of the treatment based on a lower CD4 threshold. Reviewing policy in order to accommodate the need of a rapidly growing number of people in need of ARV Treatment, the HIV Programme has also provided treatment-related services. The cumulative number of PLHIV under ARV treatment as of June 2011 is 1,819, out of which 813 are female and 123 are children (72 female). The survival rate of PLHIV under ARV treatment over the last 6 months was above 95% in adults and 100% in children.

### **MDG9: Reduce the impact of UXO**

MDG9 was added to the eight original MDGs during the Round Table Meeting in October 2010, when the Government and DPs signed the MDG Compact to reaffirm their commitment to achieving the MDGs. MDG 9 was included because it has a long-term negative impact on socioeconomic development, as well as functioning as a multiplier to attain other MDGs. MDG9 and the draft UXO Sector Strategy, the Safe Path Forward II, position UXO actions such as clearance, risk education and victim assistance as development issues which contribute to the 7<sup>th</sup> NSEDP.

Currently all 17 provinces of the country and about 25 percent of villages (a total of 2,500 villages) suffer from various degrees of Unexploded Ordnance (UXO) contamination. The continued presence of UXO causes significant numbers of injuries and deaths each year,

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which severely affects household livelihoods, income and poverty. UXO also restricts socioeconomic development in Lao PDR, including local development, agriculture productivity and food security, infrastructure building, and economic investment.

Interventions in the UXO sector largely involve clearing land of UXO contamination, so that it can be used without fear for productive (e.g., farming) or community purposes (e.g., schools); reducing the number of casualties from UXO; and responding to the needs of UXO victims. Key indicators for progress under MDG9 include: the number of UXO destroyed, the number of hectares per year cleared of UXO, new UXO casualties, and number of survivors receiving proper assistance.

Even with an increase in efficiency and resources, complete land and UXO clearance will take decades. Although the Convention on Cluster Munitions, which entered into force on 1 August 2010, calls for completion of clearance and destruction of cluster munitions remnants, in implementation the setting of clearance prioritization is of the utmost importance, considering the limited resources. Increased attention to confirm evidence of contamination is therefore a priority. Concerning victim assistance, a better knowledge of survivor needs is required, as well as a reinforcement of linkages between UXO victim assistance and the broader disability sector.

Operations in the UXO sector are currently implemented by UXO Lao, the only such Government institution, NGOs and commercial companies, which all work under the overall oversight of the National Regulatory Authority for the UXO Sector in Lao PDR (NRA). International cooperation is facilitated through a Sector Working Group and three technical working groups (for victim assistance, risk education and clearance). Progress is monitored by the NRA Office, which has consolidated records of about 1.2 million UXO destroyed, more than 30,000 hectares of land cleared by national and international operators, and more than 50,000 UXO casualties.

In 2010, Lao PDR hosted the First Meeting of States Parties to the Convention on Cluster Munitions and held the Presidency of the Convention until September 2011, when it formally handed over to Lebanon. The Lao presidency established the foundations of the Convention's implementation structures by securing international agreement on several key documents as well as on a framework that will shape the Convention's future.

In 2010 the NRA conducted research on a post clearance impact survey. Key findings included that clearance had significantly influenced development opportunities, with additional resources contributed, and was effective in increasing people's sense of safety and optimism. In most cases, land was being used productively post-clearance. The better use of

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land depended on the existing assets of the household and other external factors such as finance, equipment, labour and knowledge.

A revised sector strategy, Safe Path Forward II 2010-2020 (SPFII), was drafted and aims to contribute more directly to the achievement of the MDGs and the other development objectives captured in the 7<sup>th</sup> NSEDP. It was guided by several important international Conventions and declarations in the sector, including the Convention on Cluster Munitions, the Convention on the Rights of People with Disabilities and the UNESCAP Declaration on the Decade of the Disabled.

Main challenges to achieving MDG9 as well as other strategies and commitments in the sector, such as SPFII and the Convention on Cluster Munitions, include identifying more accurately the scope and impact on communities of UXO contamination; increasing efficiency of clearance; reinforcing the response to the needs of UXO survivors; and mainstreaming or better coordinating with other sectors in terms of setting prioritization. In addition, it is important to prioritize clearance areas according to the criteria set out in the SPFII strategy. Likewise, it is essential to expand the number of accredited UXO clearance operators and identify low-cost alternatives using regional expertise. By building on NRA's progress in information management, national capacity will be enhanced and, in turn, longer-term work plans will be more closely aligned with development plans. Other challenges include promoting more equitable participation in the sector action process (particularly for women), as well as establishing systematic monitoring of pre- and post-clearance land use and benefits derived from such land, which will require a significant scaling up of resources and capacities until 2020.

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## CHAPTER 4

### GOVERNANCE PROGRESS TO ACHIEVE NSEDP GOALS, ESPECIALLY THE MDGS

The 7<sup>th</sup> NSEDP emphasizes the need for the public administration to be accountable, effective, transparent and responsive. This is echoed by the four elements of the 'breakthrough strategy' approved by the Ninth Party Congress in March 2011; these further affirm the clear link between good governance and the broader development programme, including the commitment to achieve the MDGs and requirements for LDC graduation.

The draft Strategic Plan on Governance 2011-2020, to be submitted to the National Assembly for approval at the end of 2011, therefore aims to improve the functioning of the State so that it is fully guided by the rule of law on the basis of four pillars:

- People's representation and participation
- Public service improvement
- Rule of law
- Sound public financial management

A key priority for 2012 is the formulation of a governance sector 'road map' and the use of it to facilitate sector coordination, monitoring of sector progress and time-bound implementation. The definition of tasks and support required will enable all stakeholders to focus on actionable and priority areas. The road map will guide the implementation of the Strategic Plan on Governance 2011-20 to maximize the sector's crosscutting impact on achieving the MDGs; this will be done through linking results, targets and indicators directly to the NSEDP and MDG indicators, and including required resources. The National Leading Board on Governance will be established by the end of 2011 to oversee these processes.

#### **People's Representation and Participation**

People's representation and participation are recognized as vital for a well-functioning government. Elections for the National Assembly were held in 2011, and out of the 132 elected members, 90 (68 percent) are new parliamentarians, while 33 (25 percent) are female. This places Lao PDR among the highest in the region in terms of representation by women. A telephone hotline of the National Assembly continues to facilitate a closer

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relationship and interaction between citizens to the government. Hundreds of calls are recorded, shared with and discussed by National Assembly members.

The Government recognizes that transparency is a prerequisite for effective public participation. Based on laws and regulations promulgated, Ministries, Ministry-equivalent agencies and sub-national organizations are inspected and audited. The Government has widely shared information with the people through information boards and information centres, local public address systems, and broadcast of information through various media, including radio and television programmes in ethnic languages. Several volunteer-run community radios have been established in rural provinces such as Sekong and Xieng Khouang, which provide communities with access to locally relevant information in local languages.

The people have participated in monitoring the efforts of the Government and shared their comments through citizens' report cards on public services. People have actively participated in the formulation of their village and village cluster development plans. Many villages have become integrated development model villages. Several villages have crossed the poverty line and become classified as developed villages.

The Government also is increasingly recognizing the role of civil society organizations (CSOs) in poverty reduction and in achieving the MDGs, with the CSO legal and operational framework being developed. The decree on associations has been implemented for almost two years, and another decree on foundations was signed in May 2011. Through the improved legal framework, the Government wishes to promote partnership with CSOs in achieving the 7<sup>th</sup> NSEDP targets.

### **Public Service Improvement**

The Government has taken steps to make its organizational machinery simple, rational and efficient in its functioning and delivery of services. In an important step, the number of Ministries increased from 14 to 18 as of June 2011 with the addition of the Ministry of Home Affairs, formerly the Public Administration and Civil Service Authority; Ministry of Natural Resources and Environment; Ministry of Science and Technology; and Ministry of Posts and Telecommunications). Further efforts are needed with regard to coordination mechanisms between central Ministries/agencies and local administrative organizations. In this regard, the Prime Minister's Decree 01/2000 on development of provinces as strategic units, districts as oversight units and villages as development units is a guiding principle. The Decree is being revised to further assign executive roles to the districts.

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A major step to improve service delivery was achieved through the Decree on policies for working in remote areas. This Decree provides incentives for civil servants working in remote areas and directly contributes to improving availability of services, particularly in the health and education sectors. The Government's initiative to strengthen 35 district administrations has not only improved administrative capacity, but also has expanded service delivery in such remote areas. At the same time, the modest package of resources provided through District Development Funds has not only led to immediate results in relation to the health, education, agriculture, road access and economic activity – benefiting an estimated 200,000 persons – but also has improved long-term capacities to identify and address local priorities related to the 7<sup>th</sup> NSEDP and the MDGs.

During 2011, operational expenditure block grants were piloted to address gaps in operating resources for service delivery in two districts. These grants displayed a catalytic role in improving the impact on critical services of already-available infrastructure and personnel, and convincingly addressed key 'last-mile' challenges in service delivery. A simple mechanism also was developed for district administrations to utilize information being collected for national planning, for review and timely actions at the district level to facilitate service delivery.

Progress in terms of public service improvement has been recorded with the formulation of the new USD 44 million Governance and Public Administration Reform (GPAR) Programme 2012-2015. GPAR has identified 69 concrete outputs to address the sector in a holistic manner, using a programme-based approach integrating all aspects of governance reform and capacity development. The programme is a broad platform driving a wide range of reforms, reflecting the deep understanding of the interrelated nature of steps required to build a modern State and ensure optimal relationships and interaction between State and society. Outputs include local investments and human resource development to upgrade the competence of officials at national and sub-national levels, thereby improving management, governance regulations and systems. The GPAR Programme represents another important component for the 'breakthrough strategy' adopted at the recent Ninth Party Congress.

### **Rule of Law**

Improvements in the Rule of Law include the further work on the Legal Sector Master Plan (LSMP), with the introduction of new regulations and implementation mechanisms by the Ministry of Justice based on the four pillars approved in December 2010:

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- Development of a coherent, effective and equitable legal framework
  - Development of a systematic, transparent and effective working group of law implementation/enforcement agencies
  - Capacity development of personnel in the legal and judicial sector
  - Development of increased public understanding of, as well as confidence and participation in, the legal system

Further developments comprise of the restructuring of local courts by the People's Supreme Court, aimed at improving people's access to justice at local levels, and a simultaneous restructuring of local prosecutors by the Office of the Public Prosecutor. The Lao Bar Association has provided legal advice to public and local communities, particularly to the poor and marginalized, through its Mobile Clinic and Legal Aid Clinic Offices established in Oudomxay, Vientiane Capital and Champasack. Legal awareness has considerably increased, and instances of people exercising their rights under the law have risen substantially. The One Door Service Centres, addressing widely used services such as certification of birth and marriage or permission to construct buildings/boundaries, was established in 12 districts and served more than 7,000 citizens in 2009.

The first LSMP Inter-Agency Working Committee meeting was held in June 2011 to further strengthen the LSMP implementation mechanism. The functional Secretariat operates under the leadership of the Ministry of Justice, Ministry of Public Security, People's Supreme Court, and Office of Supreme People's Prosecutor. The plan to establish a national steering committee for LSMP implementation has been integrated into a larger framework of the national Leading Board on Governance, which as noted will oversee all pillars of the governance field.

## **Public Financial Management**

Lao PDR has made steady progress on improving Public Finance Management (PFM), which is vital for sustainable economic growth. Improvements have been made in revenue collection, which has led to a gradual increase of the state budget

One of the main achievements of the past few years is implementation of the Public Finance Management Strengthening Programme (PFMSP). The programme has supported the Government's policy reform framework in this area and contributed to substantial progress in overall PFM capacity development.

The PFMSP was formulated to implement a financial management strengthening initiative identified in the Policy Paper on Governance, which states that the Government will 'work in

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close cooperation with international partners to formulate a step-by-step approach to reforming the public expenditure management process.’

The PFMSP focuses on strengthening the management systems and capacity of the Ministry of Finance and Provincial Finance Departments, supported by pilot interventions at the provincial and sector levels. The programme originally had six components, with one more component (external oversight and audit) added during the first quarter of 2011, based on a joint review with key concerned Ministries and DPs:

1. Fiscal planning and budget preparation
2. Budget execution, accounting and financial reporting
3. Revenue policy and administration
4. Local government financial management
5. Financial legislation and regulatory framework
6. Capacity building.
7. External oversight and audit

A number of achievements have occurred during programme implementation, contributing to the 6<sup>th</sup> NSEDP 2006-2010. The programme is now being implemented with immediate and medium-term priorities of ensuring that the PFMSP continues to effectively support implementation of the 7<sup>th</sup> NSEDP, and that development partners plan and align their future support to PFMSP implementation.

Specifically, key achievements and future priorities for each PFMSP component include:

**1. Fiscal planning and budget preparation:** An improved legal framework for budget management has been put in place. The budget has been made more comprehensive through bringing technical revenue and statutory funds on budget. Development and institutionalized annual updating of the long-term fiscal strategy provide a medium-term vision as a coherent basis for (1) publicly financing NSEDP implementation and formulation of policies to achieve NSEDP goals, and (2) informing the annual budgeting process.

**2. Budget execution, accounting and financial reporting** - The Ministry of Finance (MOF) has completed the administrative integration of provincial treasury units into the National Treasury. The Government has adopted a new decree on the National Treasury, providing a new legal basis for treasury operations and the integration of operations nationwide. MOF also has adopted a strategy for implementing a Treasury Single Account (TSA) in the Bank of Lao PDR (BOL); this has been done with a view to consolidating all Government cash balances in the BOL under the control of the National Treasury through transferring Government unit bank accounts to the National Treasury and improving Government banking arrangements. MOF likewise has completed the rollout of a locally developed Government Financial Information System (GFIS) to all provinces and line

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ministries. The improved Procurement Decree and Implementing Rules and Regulations (IRRPP) were enacted in 2004, while the National Standard Procurement Manual and Standard Bidding Documents were issued and disseminated in 2009. The Accounting Law was approved in 2007, adopting a principle of moving toward meeting international practices.

**3. Revenue policy and management:** Major achievements have been made in establishing central control over the revenue collection process by the end of 2009. To broaden the tax base and reduce distortion of economic activities, Lao PDR has introduced a Value Added Tax (VAT) from 1 January 2010. In addition, a start has been made toward the introduction of unique Taxpayer Identification Numbers (TINs), which eventually will apply to all taxpayers with regard to all taxes. A key reform in the customs administration is the implementation of the Automated System for Customs Data (ACYCUDA), with associated improved custom clearance procedures and processes.

**4. Local government financial management:** Progress has been made in developing a stable basis for the allocation of different revenue streams between central Government and provincial administrations. A start also has been made in enforcing at least minimum per-capita expenditure levels on education and health services in all provinces. All provinces have been connected directly to the central database of GFIS, although full compliance with its use has not yet been obtained. After the development of a revised chart of accounts and budget nomenclature for use in the GFIS, training on these new structures and procedures has taken place in financial years 2008-2009 and 2009-2010 in all provinces.

**5. Financial legislation and regulatory framework:** Significant progress has been made in amending and creating legislative frameworks since the inception of PFMSP. Key legislation includes the Budget Law 2006, Accounting Law 2007, State Audit Law 2007, Value Added Tax Law 2006, Customs Law 2005, Insurance Law 2009, and its implementing Decree 2009, Prime Minister's Decree on the National Treasury 2010, and Finance Minister's instructions of consolidation of Government accounts into National Treasury.

**6. Capacity building:** Many capacity building interventions have already been carried out in connection with different initiatives undertaken within the framework of the PFMSP. These cover key functions such as expenditure planning, budgeting, accounting, financial reporting and auditing, procurement and GFIS operations. In addition, a Human Resource Development Plan has been drafted.

**7. External budget and finance oversight and audit:** Significant progress has been made in capacity development for the State Audit Organization (SAO). MOF and the National Assembly have exhibited close cooperation and consultations on budget planning, execution and reporting. SAO's reports on budget execution are submitted to the National Assembly within three months of the receipt of the final account of budget execution from MOF.

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## **Key Challenges**

The Government also has made efforts to improve the monitoring and evaluation framework through the Public Expenditure Review (PER) and Public Expenditure Tracking Survey (PETS). DPs have been providing technical cooperation to improve the results framework for PFMSP and supported the conducting of the Public Expenditure and Financial Accountability (PEFA) assessment in 2010, as well as the Pay and Compensation Study of Civil Servants.

Progress by the Government has been steady, albeit at a slower pace than initially envisaged, primarily because of two issues: (1) inadequate funding and (2) limited implementation capacity and coordination mechanisms. The Government recognizes the need to continue improvements to its PFM systems and is optimistic that the PFMSP will further strengthen budget execution, financial reporting and auditing procedures.

Key priorities that need greater attention are (1) the annual budget, which has not been prepared with a medium-term perspective; (2) no indicative budget ceilings, which are communicated in the budget preparation process; (3) the GFIS, which has been rolled out to all provinces, but with a remaining issue of connection to systems in some provinces, thus hampering timely monitoring and reporting on budget execution; and (4) the VAT law which entered into force in January 2010 but remains uncoordinated with the general tax system. In particular, a turnover tax is still being applied for businesses below the VAT registration threshold, since the implementation of VAT remains new and is being studied by enterprises in terms of advantages and disadvantages.

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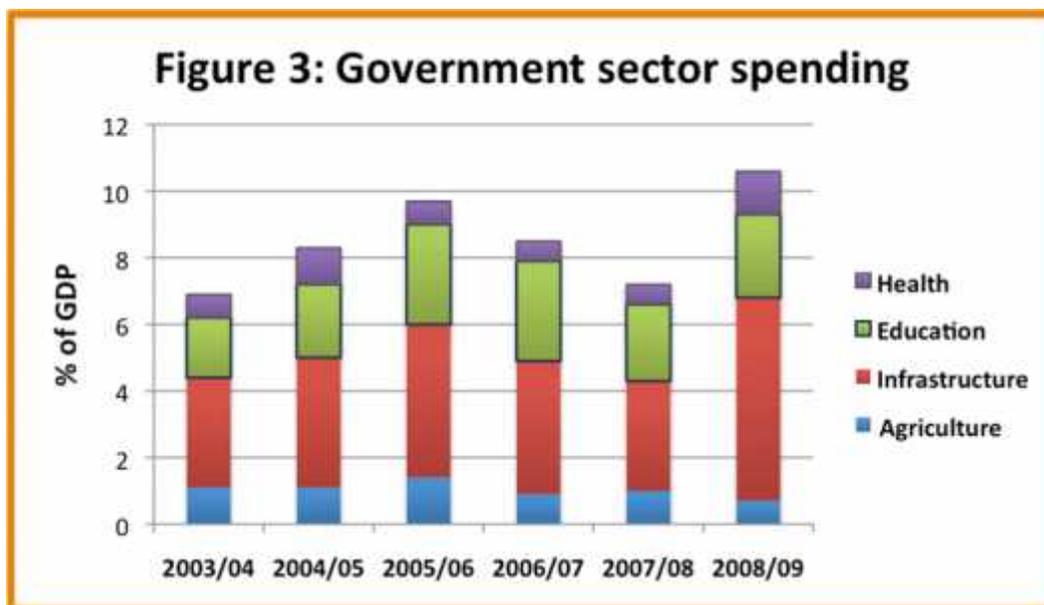
## **CHAPTER 5**

### **FINANCING FOR ACHIEVING THE 7<sup>TH</sup> NSEDP, INCLUDING THE MDGS**

Total investment requirements for 2011-2012 are about 23,300 billion kip, which is about 33 percent of GDP. ODA is expected to realize 24.5 percent and private sector investment, mainly FDI, some 53.2 percent of total investment. The balance will come from Government (9.4 percent) and banking sector credits (12.9 percent). The public investment programme in 2011-2012 will provide 30 percent of its resources to the economic sectors, 35 percent to social sectors (including education 17 percent and health 9 percent), and 35 percent to roads and housing (with roads receiving 28 percent overall). Projections for the use of public investment funds allocate 35 percent for debt servicing, 35 percent for continuing projects, 20 percent for new projects, 9.5 percent for counterpart fund contribution and 0.5 percent for research and evaluation.

The Government is aware that the quantity, quality and targeting of investment requirements has an impact on achieving the goals in the 7<sup>th</sup> NSEDP. High GDP growth will be needed. But to achieve the goals of the 7<sup>th</sup> NSEDP, GDP growth also must be inclusive, equitable and sustainable. Targeting for MDGs means that health and education sectors cannot be neglected relative to others. Figure 3 below compares public financing of health to financing of education and other sectors, and changes over time. In terms of the percentage of GDP, health financing received roughly half that of education in 2008-2009; together, they almost doubled, from 2.5 percent of GDP in 2003-2004 to 4.8 percent of GDP in 2008-2009.

While the Government continues to increase allocations to meet the needs of these two important sectors, resources remain inadequate when compared to the needs identified in sector development plans. The plans to increase allocations for recurrent expenditures and make block grants available at the district level are promising initiatives. A concerted effort is required to collectively work on mobilizing additional resources while at the same time improving utilization and effectiveness of current expenditures.



Source: Lao PDR MoF National Gazette

Based on projections for the 7<sup>th</sup> NSEDP, the required ODA inflows to the country for 2011-2015 will be about USD 800 million per year. At present ODA levels are about USD 600 million per year. For 2009/2010 as reported to the National Assembly, ODA disbursement was estimated at approximately \$585.7 out of which 20 percent was for social sector, 13 percent for economic sector, 16 per cent for infrastructure, 25 per cent for services and cross-sectoral and 26 per cent for others. In addition, to meet the 7<sup>th</sup> NSEDP target of at least 8 percent annual GDP growth between 2011 and 2015, Lao PDR aims to mobilize USD 1.6 billion of FDI per year. Underpinning these substantial State and non-State investments will be thousands of important investments by small and medium enterprises, which will require strategic deregulation and the opening up of markets to greater competition in a manner that facilitates the development of the Lao private business sector.

A downturn in the global economy would, however, negatively affect estimated FDI inflows, and potentially ODA inflows, for the 7<sup>th</sup> NSEDP. Annual progress reviews will monitor progress and make adjustments as necessary. Less ODA would require both fewer and more targeted public investments; less FDI would flow into lower Government revenues and hence expenditure plans, which would need to be offset by further enabling the development of Lao indigenous private businesses.

Substantial investments are a necessary but not sufficient condition for achieving the goals of the 7<sup>th</sup> NSEDP and the MDGs in Lao PDR. Implementation of policy and administrative reforms also are crucial, as is the quality of investments and overall socioeconomic stability, which has been highlighted in earlier chapters.

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## CHAPTER 6

### LDC GRADUATION BY 2020

Graduation from Least Developed Country status by 2020 is a key long-term objective of the Government and leadership of Lao PDR. This section reviews recent developments concerning LDC status, the criteria to be met for graduation, and how these are connected to the MDGs and the ‘breakthrough approach’ of the Ninth Party Congress.

The LDCs derive special support measures both from the donor community, including bilateral donors and multilateral organizations, as well as from the special treatment accorded them by certain multilateral and regional trade agreements. Major support measures currently extended to countries with LDC status vary among DPs and relate primarily to trade preferences and the volume of ODA.

To become eligible for graduation, a country must meet the threshold for two of the three criteria established by the United Nations Committee on Development Policy, which are predicated on addressing low income (GNI per capita); economic vulnerability; based on an Economic Diversification Index (EDI); and human capital weaknesses; based on a Human Assets Index (HAI).

The CDP reviews the data every three years, with the next occasion being in 2012. Lao PDR is likely to be eligible for review for the first time in 2015 and a second time in 2018. If the CDP is satisfied with sustained performance over the two reviews graduation could be approved in 2018 by the General Assembly of the United Nations, with a three-year transition period before final removal from the list in 2022. The three- year period would be used to implement a smooth transition strategy with DPs.

In terms of GNI per capita, Lao PDR is close to the threshold for graduation, with a three-year rolling average mean level of USD 906 in 2010. Although a new threshold is set for each review meeting, it is likely, if economic growth and poverty reduction continue at current levels, that Lao PDR will satisfy this criterion by 2015.

The Human Assets Index is based on nutrition (percentage of population undernourished), health (mortality rate for under-5 children), and education (gross secondary school enrolment ratio and adult literacy rate). With its good performance in progress toward the MDGs, Lao PDR is currently at the 95 percent level for this index. It is evident that progress toward attaining the HAI threshold is robustly linked to achieving the MDGs, in that MDG achievement will bring Lao PDR very close to LDC graduation. The priorities discussed

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under the relevant sections in the MDG chapter are therefore also relevant for LDC graduation, as well as the mentioned need for continued cooperation with DPs.

Lao PDR is, however, judged more vulnerable on exogenous shocks. This is based on an exposure index and a shock index. The former comprises four areas: population size, remoteness, economic structure (share of agriculture, forestry and fisheries, and merchandise export concentration in GDP), and environment (share of population in low elevated coastal areas). The latter includes both a trade shock index (instability of exports of goods and services) and a natural shock index (victims of natural disasters and instability of agricultural production).

LDC graduation by 2020 presents a substantial development challenge to Lao PDR, but one that is achievable with success in implementing the 7<sup>th</sup> NSEDP. The Government proposes to develop, in cooperation with DPs, a strategy for graduation that would address critical areas for support in achieving growth with equity and meeting the MDGs, while also analyzing the impact of graduation on the economy and identifying any structural, resource, and policy measures needed to address potential harmful effects.

The Government recognizes the importance of a careful, smooth transition strategy for graduation. An important challenge for the 8<sup>th</sup> NSEDP 2016-2020 will be to plan in detail for the transition phase to LDC graduation.

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## **CHAPTER 7**

### **FURTHER STRENGTHENING PARTNERSHIPS AND AID EFFECTIVENESS**

The Government has greatly appreciated over the years the strong and sustained support from the international community. To achieve the ambitious goals of the 7<sup>th</sup> NSEDP, building further upon this support -- including increased ODA financial support -- will be crucial. In addition, further increasing the effectiveness of partnerships between Government, DPs and the broader development community will be essential to achieve the very ambitious goals ahead, especially the MDGs and graduation from LDC status.

The recently submitted 2011 Paris Declaration Survey builds on earlier surveys to provide a critical analysis for determining whether the targets for 2010 set in the Paris Declaration on Aid Effectiveness have been met. The results will form a key contribution to discussions at the Fourth High Level Forum on Aid Effectiveness later this year in Busan, Republic of Korea. Therefore, the existing Country Action Plan will be revised and updated taking into account the reflections on the experience with the RTP in Lao PDR and the outcome of the Busan meeting. The Country Report prepared as part of the Paris survey highlights key achievements and challenges in a number of areas for improving aid effectiveness in Lao PDR. In particular, the Country Report has highlighted that progress has been significant for VDCAP indicators where responsibility for change lies primarily with the Government. Such indicators include the development of the 7<sup>th</sup> NSEDP, strengthening national systems, and political commitment to the aid effectiveness agenda. For indicators directly related to DPs, particularly untying aid and donor harmonization, progress at national level needs support from donor headquarters.

Based on consultations between Government and DPs over the past year, as well as the results of the Paris Declaration Survey, further increasing partnership effectiveness and improving aid effectiveness to reach NSEDP goals can best be achieved by:

- i. Further aligning the RTP, including the work of the various SWGs, more directly to the goals of the 7<sup>th</sup> NSEDP, especially the MDGs and progress toward graduation from LDC status
- ii. Further strengthening the SWGs, both substantively and organizationally, through increased Government and DP support;
- iii. Creating two new SWGs in light of important emerging opportunities and challenges facing the country in the areas of (1) natural resource management

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- and the environment and (2) private sector and trade, while also taking into account recent Government organizational changes;
- iv. More systematically linking the results-based practical work of the SWGs with the annual NSEDP review and implementation process aimed at achieving NSEDP goals;
  - v. Further developing the Terms of Reference of various SWGs to better reflect more results-based practical work aimed at helping Government achieve NSEDP goals, especially the MDGs and graduation from LDC status;
  - vi. Introducing more effective linkages between the RTM/RTIM and the findings and recommendations of the Lao Business Forum;
  - vii. Introducing more effective links between the RTP and the valuable work of civil society;
  - viii. Increasing the intensity and coverage of provincial-level coordination mechanisms, including with the private sector and civil society; and developing a strategy for better supporting community-based interventions and district-level capacities;
  - ix. Enhancing the Department of International Cooperation's guidance and facilitation support of the common needs of the SWGs;
  - x. Implementing more effectively the Medium Term Expenditure Framework (MTEF), Public Investment Programme (PIP) and use of Programme Based Approaches (PBAs) and Sector Wide Approaches (SWAs) to improve alignment, coordination and effectiveness;
  - xi. Using the 2012 national MDG Report to further focus efforts at improving effectiveness in meeting the Goals by 2015;
  - xii. Develop in 2012, with the support of DPs, a strategy for a smooth graduation and transition from LDC status;
  - xiii. Collaborate with DPs in a strategic exercise on capacity development interventions, based on Lao PDR best practices, identifying priorities and establishing a common approach to provide sustained and appropriate support at all levels;
  - xiv. Building on the experience of SWGs, establish updated parameters for Project Implementation Units while at the same time identifying how to encourage greater use of national systems for ODA implementation, including procurement and financial systems;

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- xv. Identify common harmonized regulations and procedures affecting implementation of ODA projects that would benefit from applying standard operating procedures;
  - xvi. Ensure that all DPs provide access to data for inclusion in the new aid database; and
  - xvii. Further develop and update the Country Action Plan of the Vientiane Declaration on Aid Effectiveness in light of the above needs, and in light of experiences to be shared at the upcoming Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea.

With increased financial support and more effective partnerships and aid effectiveness, Lao PDR can 'break through' to the MDGs by 2015 and achieve substantial progress toward graduation from LDC status by 2020.