



LAO PEOPLE'S DEMOCRATIC REPUBLIC
Peace Independence Democracy Unity Prosperity

The 11th High Level Round Table Meeting

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Accelerating MDG Achievement and Inclusive Development

Report to the HL-RTM

Ministry of Planning and Investment
Department of International Cooperation

EXECUTIVE SUMMARY

The structure of this Background Document reflects the structure of the Agenda of this year's Round Table Meeting. The Background Document benefits from the availability of the 7th National Socio-economic Development Plan (NSEDP) Mid-term Review (MTR) and the Millennium Development Goals (MDG) Report 2013 as these provide authoritative records of development progress. Part A of the Document provides summaries of these reports. Part B and Part C describe progress with consolidation of the enabling environment for the achievement of NSEDP and MDG objectives, focusing on governance and partnerships for effective development. Part D provides a summary of MTR and MDG Report recommendations for priority action in the balance of the 7th NSEDP and into the 8th NSEDP. Part D also includes summaries of current approaches to Action Plans to address selected off-target MDGs – full details are available in **Annex 1**. The Document has benefited from the contributions of SWGs and RTM provincial consultations. The Round Table Meeting (RTM) November 2013 provides a timely opportunity for government and DPs to share thoughts on how the key recommendations of these two major reports (and significant issues arising since completion of the reports) can be applied in the balance of the 7th NSEDP and into the 8th NSEDP. It is intended that the Background Document facilitates this.

Assessing Progress

At the time of the completion of the 7th NSEDP MTR¹, many of the performance targets of the 7th NSEDP were being achieved: economic growth had been sustained; there was greater economic openness, particularly with increasing international trade and, along with public investment, private investment was contributing significantly to growth. MDG achievement had been prioritized, basic infrastructure extended and the quality of life for many gradually improved. Overall directions of the 7th NSEDP continue to be appropriate but it is increasingly evident that more emphasis needs to be placed on achieving sustainable growth outside natural resource exploitation. Government, with support from the development partners is already making great efforts in this respect with the aim of rapid improvement in the business environment to at least comparability with Association of South-east Asian Nations (ASEAN) partners in the medium term.

The 2013 MDG Progress Report was designed to feed into discussions on the post-2015 framework at the UN General Assembly in September 2013 and to also provide information for assessing Lao PDR's progress towards the goal of graduation from LDC status by 2020. Overall, the objective is to trigger action for accelerating progress towards the MDGs within the time remaining before the 2015 deadline, with a fourth MDG progress report envisaged in 2016 to assess the extent of achievement. At national level, Lao PDR has seen a steady reduction in the poverty rate, the poverty gap and poverty severity (MDG 1) over time but the poor in geographically disadvantaged areas are poorer than the poor elsewhere and the severity of poverty has increased amongst the poorest. Income inequality has also increased and, in consequence, more equitable and inclusive growth needs to be promoted.

The nutrition target is off track with stunting in children remaining one of the country's biggest challenges. An estimated 44 per cent of children under-five years of age are stunted with serious consequences for the quality of the country's human resource capital. Lao PDR has made steady progress towards universal primary education coverage, but low survival rates to secondary education pose a risk to MDG achievement. Lao PDR will need to address the high primary school dropout rates, low secondary enrolment rates, slow improvement in literacy rates and the quality of education. Gender parity has improved at primary level although is less evident at secondary level.

¹Before the rising budget deficit had become apparent.

Lao PDR has achieved the national MDG target for under-five mortality rate of 80 per thousand live births but still has high under-five mortality rates in the region. MDG 5 on maternal health is off-track. The current prevalence of HIV is low but the incidence is rising. Recent years have seen declines in malaria mortality and incidence, but outbreaks in the south threaten this progress. The incidence, prevalence and mortality rates of tuberculosis show steady decline. The country is challenged to achieve the targets for increased forest cover (MDG 7), but has made a good start in terms of institutions and processes. Water and sanitation coverage is on the rise.

Lao PDR continues to show progress in MDG 8: the country is undertaking trade integration, having become the WTO's 158th member in 2013. Net ODA and official aid to Lao PDR have increased in amount and in per capita terms over the past two decades, but have declined in terms of proportion of GDP, owing to Lao PDR's strong GDP growth. Support is needed to strengthen government systems for monitoring and reporting ODA while strengthening government's ability to improve the link between national planning and budgeting will require a higher degree of aid predictability. Lao PDR continues to show progress in improving access to mass media and information and communication technologies. On MDG 9, effective risk education and the clearance of high-risk areas have led to a significant reduction in casualties in recent years. However, there is an urgent need to accelerate the UXO survey, to determine the remaining level of UXO contamination and help prioritize the clearance work.

To better enable implementation of the NSEDP including MDGs, steady progress has been achieved with governance and public financial management (PFM) reform. Since adoption of the 2003 Constitution, initiatives aimed at strengthening people's representation and participation in public affairs has improved. Despite challenges the capacity of the National Assembly (NA) as the highest representative organ of the state has increased and it now has a more proactive role in rule making and government oversight. The Lao media has expanded and the foundation for developing an enabling environment for civil society organizations is being developed. There are now 118 newspapers and magazines while radio/TV reaches approximate 80% of the country. Since 2011 the number of registered Non Profit Associations (NPA) has increased to 116.

The government has adopted and promulgated many laws fundamental for governing the state and strengthening the rule-of-law. It has also ratified a number of international treaties and has incorporated many into the legal framework. Improvements to organizational arrangements and capacity in the judiciary and People's Prosecutors have contributed to improved handling and settlement of court cases involving criminal, civil, trade-related, and other types of cases. However, while there has been much progress, the legal system is not yet comprehensive and the system of laws needs to be further developed.

The Government has made significant progress in developing the foundation of an effective, accountable and responsive public administration. New legislation and amendments have been introduced to clarify ambiguity, improve the regulatory framework and facilitate the implementation of the Laws on Government and Local Administration. This includes improving the management of the civil service through a proposed Civil Service Law and the introduction of an Instruction on Civil Service Examination and other regulations to develop a more merit-based civil service. The organization of state machinery continues to be strengthened with the promulgation of decrees on the organization and operation of ministries and equivalent organizations as well as the management of village authorities. In 2012 the government launched the pilot implementation of the Sam Sang initiative to clarify the role and functions across levels of government and sub-national administration, empower local administration and bring service delivery and development closer to the people. These actions are complemented by the on-going capacity development of district administrations to deliver local public services under the District Development Fund (DDF) which currently covers 53 districts in 7 provinces.

Reforms of public financial management have proceeded in tandem. Particularly encouraging are the progress made in treasury reform, tax and custom administration, and external debt management. Progress has also been made in budget preparation, accounting and auditing while some advances have also been made in public sector procurement. While these are positive developments, there are continuing challenges in a number of areas including the treasury system, budget formulation and execution, debt management, public procurement and audit. Given capacity constraints and the long-term nature of governance and public financial management reform processes, reforms in these areas will remain prominent in the remainder of the 7th NSEDP and in the 8th NSEDP.

Development partnership is also a fundamental element to ensure the achievement of national objectives and important progress has been achieved under the agenda for effective development cooperation in Lao PDR. The recently revised Vientiane Declaration Country Action Plan (VDCAP) builds on the four principles of the Busan Partnership agreement: (i) ownership of development priorities by developing countries; (ii) focus on results; (iii) inclusive development partnerships; and (iv) transparency and accountability. In terms of ownership the NSEDP remains the basis for development cooperation but more needs to be done to analyze the degree to which funds, domestic and external are adequately targeted. At sector level, Sector Working Groups (SWGs) have contributed to further align SWG activities with national and sector plans and better align plans and budgets.

The increased use of country systems and Programme Based Approaches (PBAs) has been encouraging and enhances alignment and predictability. While challenges remain, government recognizes the need to improve country systems, not least public finance management systems and intends to develop both an action plan for increasing the use of country systems and clear guidelines for the development and implementation of PBAs. The provision of multi-year projections and commitments on a rolling basis for periods covering at least 3 years would significantly improve predictability, support long term result-based planning and more realistic costing.

The Round Table Process has played a significant role in fostering inclusive development partnerships. The role of provincial actors has been significantly enhanced through the annual provincial consultations ahead of the Round Table Implementation Meetings which have ensured that local priorities and challenges are considered. Engaging the private sector more in the development dialogue and efforts also remains a priority. The role of civil society organizations in promoting sustainable development has been acknowledged including their role in facilitating the meaningful inclusion of community development. Government is exploring ways to continuously enhance development cooperation. Accountability and transparency have also been enhanced through the revised VDCAP and online ODA database which records and categorizes ODA commitments and disbursements.

The SWGs together with SWG Chair and Co-chair mechanism are important platforms to promote and improve the development dialogue; however the mechanisms need to be strengthened to act as strategic platforms for inter- and intra-sector collaboration. This would also require a more solid focus by DPs on supporting and strengthening the SWG secretariats. Given the potential changes in development financing and the aid climate as a whole, the Lao Government is considering a Development Financing and Aid Assessment to identify alternative sources of finance and to establish stronger linkages in how different sources are utilized. This will provide valuable input for the budgeting of the 8th NSEDP and useful guidance on the implications for ODA of LDC graduation.

Looking Forward

GDP growth at a level of at least 8% per annum is anticipated with continued progress towards industrialization with associated changes in the structure of the economy. Challenges

include increasing inflation (partly as a result of the rising price of imports) exchange rate appreciation and an increasing budget deficit. Improved quality of public investment planning also remains a challenge, with a shift to three year framework likely to be instrumental in ensuring that this is within a realistic financing envelope.

The modernization of the economy as a whole with emphasis on rural development and the economy outside natural resources exploitation is a priority for achieving broader-based and more inclusive base for growth in the medium and longer term. Growth in the non-resource economy will involve accelerating support to micro and small enterprises (principally by improving the business environment and solving market failures in enterprise finance), accelerating agricultural productivity (by delivery of core agricultural public goods) and financing infrastructure development (particularly in respect of rural connectivity and electrification).

The 8th NSEDP (2016-2020) is the means of implementing the final stage of the 2020 Strategy and the Resolutions of the 10th Party Congress with graduation from LDC status a key aim of government in this plan period. Government is currently preparing the 8th NSEDP Concept Note and Technical Guidelines for 8th NSEDP preparation. The lessons learned from the implementation of the 7th Plan to date suggest that continued gains in human and economic development in the 8th NSEDP will involve a number of main directions: (i) stimulating the non-resource sector and making the private sector a cornerstone of future development; (ii) increasing the competitiveness of small and medium enterprises (SMEs) in order to be a foundation for the growth and employment as well as for poverty reduction; (iii) developing entrepreneurs' technical and professional skills by strengthening marketing capacity, mobilizing financial resources for enterprises and businesses and improving the business climate within the framework of maximizing the benefits of WTO membership and preparing for integration into ASEAN Economic Community; (iv) further development of infrastructure for small and medium enterprises and human resources, enabling the people, farmers and entrepreneurs' to access business, economic, social and cultural services; (v) assessing the impact of land concessions and land lease on agriculture sector in order to manage concessions more effectively; (vi) continue implementation of the Millennium Development Goals with special focus on the off-track MDGs. Protect the environment by focusing on environmentally friendly production; and (vii) national development requires harmonization between planning, budgeting and human resource planning in order to achieve development targets. At the same time, it calls for costing the plan and for periodic monitoring and evaluation of plan implementation.

Achieving LDC graduation will require continued public investment (funded from both domestic and external sources), in a range of sectors. In this respect, and to achieve maximum efficiency in public investment, there is a need for a predictable three-year financing framework for public investment.

Strengthened NSEDP planning and implementation will necessitate strengthening national plan implementation arrangements with emphasis on coordination between central and sub-national government (including implementation of the Sam Sang system of devolved responsibilities). In practice, this will comprise emphasizing the role of line ministries in policy and the installation of capability for analysis of policy options.

The 8th NSEDP monitoring & evaluation system should contribute to: (i) better definition and management of the outcomes of development; (ii) improvement of the efficiency and the effectiveness of public investments; (iii) the processes of de-concentrated and, eventually, decentralised administrations; and (iv) place more emphasis on qualitative targets for sustainable poverty reduction.

High Priority MDGs – Action Plan concepts for accelerated MDG achievement

The NSEDP Mid-Term Review and the 2013 MDG Report identified the MDGs which are off-track. MDGs which are off-track and which are considered highest priority include: (i) MDG 1

(malnutrition); (ii) MDG 2 (low education survival rates); (iii) MDG4 (under- 5 mortality rate; (iv) MDG 5 (maternal mortality); and (v) MDG 9 (UXO), the latter identified as the most daunting challenge for the government given the magnitude of the UXO problem in Lao PDR. These MDGs are discussed in PART D and in detail in Annex 1, in which Action Plans are described, which are intended to accelerate progress towards achievement of the currently off-track MDGs.

TABLE of CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION.....	8
PART A - ACHIEVEMENTS AND RECOMMENDATIONS IDENTIFIED IN THE 7TH NSEDP MID-TERM REVIEW AND THE MDG REPORT 2013.....	9
1 ACHIEVEMENTS AND CHALLENGES IDENTIFIED IN THE 7TH NSEDP MID-TERM REVIEW.....	10
1.1 Macro-economic Achievements and Challenges	10
1.2 Rural Development and Poverty Reduction	11
1.3 Sector Achievements	11
1.3.1 Selected Economic Sectors	11
1.3.2 Selected Social Sectors	13
1.4 Sustainable Development	15
1.5 Trade and Private Sector Development	15
2 MDG ACHIEVEMENTS AND RECOMMENDATIONS OF THE MDG REPORT 2013.....	17
2.1 Introduction	17
2.2 MDG 1 - eradicate extreme poverty and hunger	17
2.3 MDG 2 - achieve universal primary education	18
2.4 MDG 3 - promote gender equality and empower women	19
2.5 MDG 4 - reduce child mortality	20
2.6 MDG 5 - improve maternal health	20
2.7 MDG 6 - combat HIV/AIDS, malaria and other diseases.....	20
2.8 MDG 7 - ensure environmental stability	21
2.9 MDG 8 - develop a global partnership for development.....	22
2.10 MDG 9 – UXO	23
PART B - ENABLING ENVIRONMENT: GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT UPDATE	24
3 ENABLING ENVIRONMENT FOR GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT	25
3.1 Introduction	25
3.2 Achievements and Challenges	25
3.2.1 People's Representation and Participation	25
3.2.2 Rule of Law / Legal Sector	27
3.2.3 Public Service Improvement	28
3.2.4 Public Financial Management	31
3.3 Indicative Recommendations for 7th and 8th NSEDP	32
3.3.1 People's representation and participation	32
3.3.2 Legal Sector/Rule of Law	33
3.3.3 Public service improvement	34
3.3.4 Public Financial Management	34
PART C - STRENGTHENING PARTNERSHIPS FOR EFFECTIVE DEVELOPMENT COOPERATION	36
4 STRENGTHENING PARTNERSHIP FOR EFFECTIVE DEVELOPMENT COOPERATION.....	37
4.1 Progress and challenges towards effective development cooperation in Lao PDR.....	37
4.2 CONCLUSIONS AND RECOMMENDATIONS	42
PART D - IMPLEMENTING THE RECOMMENDATIONS OF THE 7TH NSEDP MTR AND MDG REPORT 2013 IN THE 7TH NSEDP AND 8TH NSEDP	44
5 IMPLEMENTING THE RECOMMENDATIONS OF THE 7TH NSEDP MTR AND MDG REPORT 2013 IN THE 7TH AND 8TH NSEDP	45
5.1 MTR Priorities for the Balance of the 7th NSEDP	45
5.1.1 Macro-economic	45
5.1.2 Rural Development and Poverty Reduction	46
5.1.3 Selected Economic Sectors	46
5.1.4 Selected Social Sectors	48
5.1.5 Sustainable Development	48
5.1.6 Trade and Private Sector Development	48
5.2 8th NSEDP Preparation	50
5.2.1 Draft Priorities	50
5.2.2 LDC Graduation	50

5.2.3	Strengthened NSEDP Planning and Implementation	51
6	<i>ACTION PLANS TO ACCELERATE PROGRESS WITH OFF-TRACK MDGS</i>	51
6.1	MDG 1 – Nutrition	52
6.2	MDG 2 – Universal Primary Education and MDG 3 Gender Parity in Education	54
6.3	MDG 4 – Under-5 Mortality Rate	57
6.4	MDG 5 – Maternal Mortality	58
6.5	MDG 9 – UXO	60

List of Table

Table 1:	7th NSEDP Funding Sources and Funding to Date	38
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INTRODUCTION

The Round Table Process serves as the primary platform for enhancing development effectiveness and aid coordination in the Lao PDR. It is led by the Government of the Lao PDR and is co-chaired by the United Nations Development Programme (UNDP). The Process and its associated Sector Working Groups (SWG) facilitate dialogue on key development issues, including aid effectiveness, strategic planning and alignment and emerging issues. It enables the sharing of knowledge and ideas, and helps bring common understanding of and collaboration on, national priorities. It promotes cooperation and understanding between government and development partners (DPs) as they work together to make the NSEDP and its implementation as effective, efficient and inclusive as possible.

The Round Table Process facilitated the formulation of the 7th National Socio Economic Development Plan (NSEDP) 2011-2015 with participation by, and consultation with, DPs, including civil society representatives. Building on this, the government and DPs have worked together to complete the 7th NSEDP Mid-term Review (MTR) and the Millennium Development Goals (MDG) Report 2013. These reports provide analyses of Lao PDR development issues and initial ideas about consequent development priorities for the balance of 7th NSEDP and for the next five year plan, the 8th NSEDP (2016-2020).

The High Level Round Table Meeting (RTM) November 2013 provides a timely opportunity for government and DPs to share thoughts on how the key recommendations of these two major reports can be applied in the balance of the 7th NSEDP. The Lao government is currently in the process of preparing a Concept Note to guide the preparation of the 8th NSEDP and the RTM is also a timely opportunity for government and DPs to be considering the process and format for the preparation of the 8th NSEDP, including the prospective orientation of the annual and medium term national NSEDPs to outcomes rather than outputs, which could bring major benefits to NSEDP effectiveness and to the precision, specification and measurability of development objectives. It is considered that in this context the RTM can be used to:

- (i) Review progress with implementation of the 7th NSEDP and achievement of MDGs, governance and public finance management and development partnerships
- (ii) Identify and agree strategic interventions to implement the recommendations of the 7th NSEDP MTR and the MDG Report 2013 in the short and medium term within the Annual Plans for the balance of the current NSEDP, FY2013-14 and FY2014-15 (Part D Chapter 5) and including Action Plans to rectify the MDGs that are rated as being off-track
- (iii) Discuss the overarching direction for the 8th NSEDP which will be based on the recommendations of the 7th NSEDP MTR, the MDG Report 2013 and the government's policy of Lao PDR graduating from Least Developed Country (LDC) status.

Parts A, B and C of this Background Document provide summaries of achievements to date in the 7th NSEDP and challenges for the balance of the plan period and for the next, 8th, NSEDP. Part D provides summaries of recommended initiatives to address the challenges in the balance of the 7th NSEDP and into the 8th NSEDP.

PART A - ACHIEVEMENTS AND RECOMMENDATIONS IDENTIFIED IN THE 7TH NSEDP MID-TERM REVIEW AND THE MDG REPORT 2013

PART A of the RTM Background Document provides a brief overview of the Mid-term Review of the 7th National Socio-economic Development Plan and the extent of Millennium Development Goals (MDG) achievements and challenges to date, based on the MDG Report 2013.

The Mid-term Review of the 7th NSEDP has been approved by the National Assembly and copies of the Review in the Lao and English languages have been circulated by MPI. .

1 ACHIEVEMENTS AND CHALLENGES IDENTIFIED IN THE 7TH NSEDP MID-TERM REVIEW

1. Overall performance targets of the 7th NSEDP are being achieved in many respects: economic growth has been sustained, the economy continues to gradually transform into a more open economy with increasing international trade and along with public investment, private investment is contributing significantly. MDG achievement has been prioritized, basic infrastructure has been developed and expanded, and the quality of life has gradually improved. However there are areas where targets have not been achieved and where the downside of resource-led growth could be emerging.

1.1 Macro-economic Achievements and Challenges

2. Despite international economic constraints, GDP grew at an annual average rate of 8.2% for the period 2011-13. It is estimated that growth over the first 3 years of the 7th NSEDP averaged 13.7% in the industrial sector, 8.60% in the services sector and 2.9% in the agriculture and forestry sector. Total investment has reached 85,147 billion Kip, equivalent to just over 67% of the 7th NSEDP target, annual budget revenue has reached 41,832 billion Kip, 19.6% of GDP and annual budget expenditure has reached 47,302 billion Kip, 22.2% of GDP and resulting in a budget deficit of about 2.5%². GDP per capita has exceeded plan targets in two of the three financial years covered by the plan to date and is expected to exceed the planned 7th NSEDP target of USD1, 700 per capita.

3. The agriculture-forestry sector contributes 25.5% of GDP and the main achievement has been food self-sufficiency, with additional capacity for export. At the same time production of cash crops, crops suitable for processing and livestock has expanded. The industrial sector, especially energy and mining has grown rapidly at an average rate of about 13.7% annually, and contributes 30.3% of GDP. Almost 50% of the growth in the industrial sector can be attributed to the large private domestic and foreign investments in the natural resource sector (mining and mineral exploitation and hydro-electric power generation).

4. This growth in the hydropower and mining sectors has contributed in various ways to poverty reduction, including significant increases in budgetary revenue, which seem likely to have translated into poverty reduction through earmarked revenues and statutory minimum budget expenditures on health and education. The industrial sector as a whole has contributed to revenue generation and improved local development including food processing and construction materials. Electricity generation has increased on average 18.80% annually and the domestic electricity grid network has been expanded to rural remote areas - 85% of households now have access to electricity, exceeding the Five-Year plan target.

5. The services sector has also seen considerable growth, with an annual growth rate of 8.6% and contributed 44.2% of GDP. Road and air transportation infrastructure has been improved and new infrastructure built thereby allowing provision of better transport services. Financial institutions, banks, trade networks, tourism, enterprises and markets have also developed and the creation of the Lao Stock Market has facilitated the mobilization of funds as well as partial privatization.

6. However it is possible that the impetus given to the national economy by the resources sector could be linked to increasing disparities and the target of inclusiveness remains a challenge, with signs that income inequalities are widening³ (in contrast to most other ASEAN countries). Some 77% of rural households are engaged in agriculture or fisheries. Agricultural

² This budget deficit was the estimate at the time of preparation of the MTR. More detail is provided in Sections 3.2.3 and 5.1.1 below.

³ World Bank Development Indicators, World Bank 2011 (Gini Index)

development requires continuous attention, with the possibility of earmarking revenues from hydropower to agriculture as well as to health and education as a way of financing agricultural public goods. Overdependence on the resources sector at this stage of development carries risks to the whole economy, particularly if it inhibits the competitiveness of the non-resource sector through exchange appreciation and/or increased domestic wages and prices of and non-tradable goods.

1.2 Rural Development and Poverty Reduction

7. Very good progress has been made with poverty reduction: the poverty ratio has declined from 33.5% in 2002-03⁴ to 20.5% in 2012-13⁵ against a 7th NSEDP target of less than 19%. Policies for rural development and associated development of the non-resource sector are not yet showing clear results and inequalities are emerging – urban and rural, inter-regional and intra-regional. Some geographic regions continue to lag behind (GDP per capita in 2011/2012 in the northern region and in the south are both lagging significantly behind the central region). These regional inequalities also mask inequality between the one part of a region and another, with the likelihood of localised pockets of poverty.

8. As the pursuit of the MDG targets and implementation of the 7th NSEDP continues, it is increasingly evident that poverty is multi-dimensional and goes beyond income poverty to encompass deprivations in education, employment, nutrition and other factors. These deprivations are often interconnected. Income and consumption indicators are crucial to the exercise of many capabilities, but do not sufficiently reflect other dimensions affecting human well-being and human progress, such as malnutrition, a lack of education, poor health, poor environmental quality, and exclusion from mainstream society. These other measures provide a fuller picture of the nature and magnitude of poverty. The challenge in the remaining years of the NSEDP and in the 8th NSEDP is to ensure effective coordinated responses to the challenge by the various stakeholder agencies⁶.

9. Rural communities have been affected positively and negatively by cross sector developments, for example, the expansion of roads and mobile phone networks, granting of land concessions and buyers monopoly, logging and hydropower dam construction, relocation of villages and eradication of slash-and-burn farming. Although in rural communities commercial agriculture has provided necessary conditions for improving livelihoods, not all households have benefited from commercial agriculture, and improved coordination and strategic interventions are needed to address the issues. In addition, non-timber products that provide other sources of income and food security are being studied and measures to protect non-timber forest products are well recognized and are being implemented. Currently, efforts are being made through the development of rural social and economic infrastructure and other services to address the challenges, including reducing disparity, where some target groups do not receive benefits from development due to accessibility to services and markets.

1.3 Sector Achievements

1.3.1 Selected Economic Sectors

- **Agriculture and Forestry**

10. The most outstanding achievement has been food self-sufficiency, with a production surplus for export (although not for low-grade sticky rice). The improvements to food production, promotion of commercial production for domestic consumption and export and enhancement of quality have all been achieved despite the impacts of the Nok Ten and Haima typhoons. Even

⁴ Based on data from LECS III 2002

⁵ Based on data from LECS III 2002

⁶ For example please note the multi-sectoral approach taken to meeting the challenge of malnutrition which is described in Part D, Chapter 6 and in **Annex 1**.

so, the sector continues to be challenged by low productivity and lack of links to processing industries, markets and other services. There are limited services to agriculture. Extension is provided by Technical Service Centres (which receive budgetary funding, but also sometimes financial assistance from the development partners) and by district administrations. The application of sanitary and phyto-sanitary measures (SPS) is also limited; however the SPS system has been improved since 2012 (before joining WTO) and is still being developed in order to match with the WTO agreement on SPS. Lao is committed and will fully implement the SPS agreement by 2015, if not this will be obviously likely to have constraining impact on agriculture growth, development and on the integration within the ASEAN Economic Community. These are now widely regarded as constituting part of the core public goods required for agricultural development, with World Trade Organisation (WTO) agreements accordingly setting no limits on public expenditure in these areas (and, indeed, on a range of other agricultural and rural development public goods)⁷.

11. Commercial plantations have constantly expanded. The outstanding crops are coffee, cassava, maize and sugarcane. These crops have market potential, market demand and prices that are satisfactory for farmers, alongside support and promotion from the Government and private sector including enterprises investing in agriculture and agro-processing for export. Commercial livestock is also likely to meet the target set by the Five-Year Plan due to increasing industrial livestock, using improved species, especially pigs, chicken (layer), chicken (boiler), and ducks (layer), which are farmed throughout the country, particularly in big cities like Vientiane Capital, Vientiane, Luang Prabang, Khammouane, Savannakhet and Champasak province. Cattle farming on plateau and upland areas, and village cattle stock supply products to the domestic market and to neighboring countries mostly in Bokeo, Luang Namtha, Houaphanh, Luang Prabang, Vientiane, Savannakhet and Champasack province.

12. The restoration of natural forests was 263,593 ha in 2011 to 66,348 ha in 2012. Implementation over the past three years has been 329,941 ha, which is only 8.5% of the Five-Year Plan target (3.9 million ha). One of the reasons for the decline in 2012 is the decrease of income of the forest development fund, less than 60% of target that impacted on local budgets and implementation of the plan. Illegal and unplanned logging activities both large and small scale are on-going in all categories of forests all over Lao PDR, which threatens the GoL goal to achieve the target 70% forest cover by 2020. The Government has realized the need to step up law enforcement activities to be able to maintain quality of remaining forest and to over time increase the forest cover.

● **Transport**

13. Significant achievements are recorded with transport investments with an increase in the road network including linking the domestic road network to the region. At the local level the construction of district roads and roads connecting to focal areas and Kum Ban (at least one-season travel) has reached 81% of the 7th NSEDP target (in terms of road kms). Investments in transport infrastructure and, in particular, in roads are seen as having both economic and social impacts. The economic impacts include trade linkages and improved farmers and enterprises' access to markets, while better connectivity is important to achieve the MDGs through improving access to health skill development and education facilities. Currently, the Government is focusing on providing rural road connections and capacity building to achieve improved livelihoods in rural communities.

14. Coupled with widening electrification, road development is seen as providing the basis for rural growth and development, as well as improved rural human development. There has also been major progress in building national road systems linked to international transport corridors, coupled with a programme of action to improve border crossing. Combined, this is seen as a way of transforming Lao PDR into a 'land-linked' country thereby countering the negative effects of being landlocked. This remains one area of focus of ODA with recently announced support

⁷ http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm

targeting regional and international integration and improved trade facilitation to further reduce delays in trade-related border crossing.

15. Improved transport and connectivity together with roll out of the ASYCUDA automated customs system, is important for the ASEAN Economic Community preparation as a single market from 2015 onwards. In addition, the Government also focuses on connectivity with neighbouring countries, increasing domestic coverage of all-weather roads, and improved passenger and goods transportation, river transport, railways and air transport services.

16. The transport sector has been playing an important role in enhancing regional cooperation and integration of Lao PDR where it has been highlighted in the Almaty Programme of Action for Landlocked countries, the 7th Asia-Europe Parliamentary Meeting, the 9th Asia-Europe Summit, the 6th Cambodian-Lao-Myanmar-Vietnam Summit (CLMV) and the 4th Aryavady - Chaophaya-Mekong Economic Cooperation Summit (ACMEC).

1.3.2 Selected Social Sectors

● Education and Health

17. Education infrastructure for primary education⁸ has been expanded to reach almost all rural and remote areas. Sports have been progressing with an increased capacity to host regional and international sports events. Health services have been expanded to rural and remote areas and the health network reaches about 98% of villages. The Health Equity Fund has been expanded to 75% of the targeted population particularly those living in poverty. A central concern of government is making sure that high recent and predicted future economic growth rates are translated into equitable human development. Lao PDR is currently ranked 138 in the Human Development Index (HDI), out of 187 countries with comparable data. Evidence shows that, internationally, growth and human development are strongly correlated, but strengthening transmission of high growth rates into human development is crucial. The principle ways of achieving this in Lao PDR have to date been through a number of measures: (i) a strong focus on the MDGs in the 7th NESDP (with successive 5-year-plans focusing on poverty reduction); (ii) earmarking HEP revenues for education and health, thereby ensuring that the benefits of Foreign Direct Investment (FDI) and large-scale infrastructure development can potentially translate into human development; and (iii) setting legally-defined minimum budget allocations for education (18%⁹) and health (9%); and (iv) introduction and periodic increases in minimum wage.

18. Strong measures are being taken to achieve education reforms, human resource development and improve livelihoods with emphasis on the expansion of educational opportunities, the improvement of health and sanitation, and training to produce skilled workers. As noted, 17% of budgetary expenditure is allocated to education (9% to the health sector) and a proportion of revenues from hydro-power investments is earmarked to support these sectors. However, and despite effective education sector initiatives, lack of skilled workers continue to constrain Lao PDR's economic growth, especially in the SME sector and limit employment opportunities. This challenge is greater because, with around 60% of the population aged 20 years or younger, the country has an opportunity to benefit from a demographic dividend. The demand for quality and relevant education is high among employers and a workforce needing employment opportunities. The survival rate to grade 5 of primary school students reached 73.3% in FY2012-13 against a target of 95% and this is a key problem to be addressed¹⁰.

⁸ While early grades of primary school are accessible to most children, early childhood is largely restricted to urban areas. Secondary education is also limited with students from rural and remote areas needing to board informally.

⁹ The actual budget allocation by the National Assembly has been 17%.

¹⁰ Please refer to Part A Chapter 2 and to Part D Chapter 6 and Annex 1 for more details.

19. There are other on-going initiatives to raise vocational skills and, provided effective labour market forecasting underpins public vocational training provision, this should have direct benefits on enterprises' ability to find the skills they need in labour markets. Internationally, skills mismatch is a major source of unemployment and low labour force participation rates and, as result, raising skills can be expected to have beneficial impacts in both areas. In health sector, ensuring the adequate number of human resources especially at district and village level is critical. The policy to assign central government employees to assist local health personnel has been a very important initiative to gradually mobilize more graduates from ethnic groups and remote areas to work at their home town.

● **Employment and Labor Migration**

20. Worker welfare has been improved and skill development has received attention from both the public and private sectors. Labor supply has reached 42.7% of the 7th NSEDP target along with changes in the sectoral composition of labor supply in accordance with NSEDP targets. The proportion of the workforce in agriculture declined from 75.1% in 2010 to 71% in 2012, while in the industry sector labor increased from 5.5% in 2010 to 7% in 2012 and in the services sector from 19.5% in 2010 to 22% in 2012, all increases being consistent with the 7th NSEDP targets. Full and productive employment is essential to improving people's life prospects and reducing poverty. Employment is a means to ensure more equitable distribution of wealth and narrows income gaps between advantaged and disadvantaged groups, as well as widening the country's productive base through diversification and investments in human capital. And, as noted, poverty and unemployment are correlated. According to the Internal Labour Organisation (ILO) method of calculating unemployment (i.e. not registered unemployment), unemployment in Lao PDR is high. The total number of currently economically active persons of age 15+ was a little more than 79% of the 15+ population. About 78% of these were currently employed and the rest, unemployed. A little more than 20% were out of the labour force. This is very high in an economy where subsistence agriculture dominates, since subsistence agriculture is labour absorbing. This would suggest that a process of commercialization is in fact in progress in agriculture, with labour being released and either moving to other sectors or into unemployment.

21. High female labour force participation rates are probably contributory to Lao PDR high rates of economic growth. With women making up half the labour force and thereby broadening the skills base, beneficial impacts on FDI and in turn on growth can also be expected. Internationally, evidence shows that FDI is influenced not only by labour costs but also skills availability in local labour markets.

22. Despite recent economic growth, this has yet to translate into sufficient employment opportunities for decent work. Unless jobs are created to absorb the growing numbers of young entering into the workforce, these young people will tend to go abroad for economic opportunities. In addition, Lao migrants are usually found in low paid and labor intensive work and their working conditions are very hard.

23. In addition to the outflow migration of Lao workers, substantial rural-urban movement has a significant impact on employment. The rate of growth of urban populations (urbanization in Lao PDR includes estimates of current population growth in Vientiane of up to 4.8% per annum and up to 4% per annum in smaller towns, far in excess of Lao PDR's overall population growth rate of 2.2% in 2010). As elsewhere, rural-urban migration is likely to be a source of growth (as migrants move to jobs with higher labour productivity) and poverty reducing, since migrants respond to job availability and wage incentives as primary drivers. In addition, there are likely to be beneficial secondary effects as labour outflow reduces excess rural labour, drives up agricultural wages and provides a stimulus to greater agricultural efficiency including, in the medium and longer term, land sales and consolidation leading to larger farms. This would accord with the Government's prospective policy focus on agricultural commercialization.

1.4 Sustainable Development

24. The Government has been emphasizing sustainable development, especially the natural resources and environment sector, through developing and revising a number of rules, regulations and instructions and decrees related to land, forest and water resources. In this regard, the Government has also realized that unsustainable exploitation of the non-renewable resource base will increase the country's economic vulnerability and will eventually have an impact on the economy if natural resources remain a dominant source of growth and other sectors lag. This is evident if, as is obviously the case, natural resources are either finite or, as is the case in plantation agriculture based on land concessions, there are natural limits on growth. In other words, the case for broadening the base for growth is strong. This will also limit the effects of any international market volatility with attendant benefits on Gross National Income (GNI) and the Economic Vulnerability Index (EVI), both of which affect Lao PDR's graduation from the Least Developed Country (LDC) status. There is a further and obvious linkage between the natural resources sector and environment impacts.

1.5 Trade and Private Sector Development

25. Over the past few years Lao PDR has made significant reforms to the enabling environment for trade and has deepened commitments at the regional (ASEAN) and global (WTO) level. Additionally significant progress has been made to making Lao PDR a better place for doing business for both domestic and foreign business. This includes implementation of the Enterprise Law in 2006, which among other initiatives, introduced the very important concept that doing business is a right rather than a privilege of Lao citizens, as defined in the Lao Constitution. In practice, this changes the previous "permit regime" to a "registration regime". To make it easier for entrepreneurs to set up their businesses, the Law also introduced the concept of the negative list principle under which any lawful person can conduct business activities outside the so called "negative list of conditional activities" without asking for permission. To ensure alignment with the Enterprise Law, government also replaced two separate Investment Promotion Laws by one unified Investment Promotion Law, which among other things, introduces uniform regulations for business entry and investment incentives for both domestic and foreign investors.

26. Important improvements were also made in trade facilitation, including automation of the customs clearance procedures, manufacturing and trading licensing regime. A number of important regulations were introduced to improve predictability and transparency in international trade. To engage in international trade, a sectoral operating license is not required, and the manufacturing sector only requires one operating license which differs from the two sectoral licenses required by other sectoral agencies (establishment and operating licenses).

27. Despite significant improvement in business environment, there are still certain gaps between policy and implementation and without reducing this gap the potential of key economic sectors is likely to go unrealized. Partly because of its geographical location, its stage of development and the methodology used, Lao PDR doesn't perform well in almost all international benchmarking exercises, including *Doing Business*, *Index of Economic Freedom*, *Logistics Performance Index*. Overall these reports inform that gaps between Lao PDR and its regional neighbors are still huge. However, they do not inform about priority reform areas or the binding constraints for businesses at the Lao PDR current stage of economic development. Therefore, findings of these reports need to be interpreted with careful analysis of the country's situation.

28. The latest Enterprise Survey conducted by the WBG identified taxation, access to finance and an inadequately educated workforce as the three top constraints to growth by most firms in Lao. Similarly, the enterprise survey conducted by GIZ in 2009 also identified access to

finance, lack of skilled labor (management and technical personnel), high taxes and duties as major business constraints.¹¹

29. Shortage of both non-skilled and skilled labor has emerged as one of the key impediments to firms' investment and growth. While labor shortage is partly caused by rapid economic growth in the region and partly by domestic economic structure, characterized by subsistence agriculture and fast growing resource sector, much can be done to improve skills of existing workforce and reduce skill mismatch between demand and supply. In the medium term, emergence of public private partnership in skill development and training in key labor intensive sectors such as garment, construction and hospitality sectors should be encouraged and supported through voucher schemes or Enterprise Competitiveness Challenge Fund.

30. It is also advisable to conduct an in-depth study on labor market in the country to identify root causes of the problem and develop medium term and long term strategy to address labor issue and develop labor market information system to reduce information gap and facilitate linkage between vocational training providers and private sector.

31. With rapid liberalization and expansion of the banking sector leading to significant increases in the number of fully incorporated commercial banks and branches of foreign and domestic banks, access to finance for businesses is expected to be improved in the medium and long term. However, in the short term, access to finance, especially long term finance for investment by businesses, especially SMEs can be improved by setting up specialized risk sharing facilities with selected commercial banks with an, interested in strengthening their SME market position. This could have an immediate impact on SME access to finance. In general, risk sharing facilities supported by development partners often comes with technical assistance designed to improve financial literacy of SMEs (preparation of business plans, financial reporting and projections), and building participating banks' capacity in developing and offering competitive SME loan products and services.

32. However, in the longer term, development policy should focus on developing sound and stable banking sector by improving the supervisory regulator capacity, promoting a level playing field for all players, improving and developing financial infrastructure such as credit information bureau, national payment system, ATM pooling, registry for movable assets, and non-bank financial institutions such as leasing, micro finance and mobile banking.

33. Significant improvements can be made to the taxation regime through effective implementation of the recently passed revised Tax Law and unified Investment Promotion Law. Reduction of corporate profit tax rate and abolishment of minimum tax are considered by the private sector as major improvements in the taxation regime. However, the arbitrary nature of taxing SMEs through presumptive tax system requires improvement by developing simple accounting standards for SMEs under VAT threshold and encouragement of a move toward turnover based taxation as an interim step toward more effective accounting based tax system.

34. The taxation regime for large investments, especially FDIs could be further improved by rationalizing investment incentives through conducting a comprehensive review of all incentives provided in various laws and develop appropriate solutions to reduce uncertainty, improve clarity and minimize artificial competitive advantages among businesses derived from various incentive regimes.

35. Other areas needing further improvement include further streamlining business start-up procedures by focusing on simplification of licensing procedures administered by technical agencies; reducing gaps between laws, regulations and actual implementation by improving the quality of regulations and building the capacity of business membership organizations in issue identification, research and position development and facilitating dialogue with public sector;

¹¹ The GIZ Enterprise survey covered more than 700 enterprises operating in 7 provinces.

developing targeted investment promotion and facilitation strategies to attract quality investment and review EPZ projects and relevant policies; and improve access to business development services (access to market and technology information, technical and management training, standard upgrading and market access) through establishment of Enterprise Matching Grant Scheme.

2 MDG ACHIEVEMENTS AND RECOMMENDATIONS OF THE MDG REPORT 2013

2.1 Introduction

36. The Lao PDR is actively implementing its MDG commitments and reporting obligations with the first and second MDG Progress Reports produced in, respectively, 2004 and 2008. The MDGs have formed a focus of the 5th, 6th and 7th NSEDPs. In 2010, the Government developed the 2010 Framework for accelerating progress towards the MDGs, identifying priority areas for action.

37. The 2013 MDG Progress Report was designed to feed into discussions on the post-2015 framework at the UN General Assembly in September 2013 and to also provide information for assessing Lao PDR's progress towards the goal of graduation from LDC status by 2020. Overall, the objective is to trigger action for accelerating progress towards the MDGs within the time remaining before the 2015 deadline, with a fourth MDG progress report envisaged in 2016 to assess the extent of achievement. This Section of the Background Document summarises the findings of the MDG Report 2013 as part of the context setting for the MDG Action Plans described in Part D, Chapter 6 and in detail in **Annex 1**.

2.2 MDG 1 - eradicate extreme poverty and hunger

38. **Poverty:** The national poverty rate has declined steadily, dropping by 40% over the period 1992/93 to 2007/08 while, in terms of the international poverty line, there has been a one-third decrease in poverty over the same period. The country has also seen a steady reduction in the poverty gap and in poverty severity and hence is well on track to achieving poverty target or, indeed, may have already achieved them.

39. Poverty rates have declined across nearly all population groups. Even so, the poverty rate in rural areas is still almost twice that of the urban areas, with mountainous areas and upland villages showing the highest incidence of poverty. The districts and villages targeted by the government's National Growth and Poverty Eradication Strategy have seen significant reductions in poverty. On the other hand, the poor in geographically disadvantaged areas are poorer than the poor elsewhere. In addition, while the severity of poverty has declined amongst most groups, it increased amongst the poorest in the five-year period 2002/03-2007/08. Consumption inequality increased by 5 percentage points from 1992/93 to 2007/08, with inequality increasing in practically all population groups. The share of consumption attributed to the richest quintile has driven this trend and the rate of poverty reduction would have been even higher without adverse distributional changes. Overall, therefore, the country's rapid economic growth has been beneficial for the majority of the population, decreasing not only poverty headcount ratio, but also the poverty gap and the severity of poverty at the national level. However, growth has not benefited some of the poorer groups, especially those in geographically disadvantaged areas.

40. **Employment:** Labour productivity increased between 1995 and 2010, largely because high economic growth rates outstripped employment levels suggesting that, since GDP growth in recent years has been resource-driven and capital intensive, risking the situation of jobless growth. The country has one of the highest employment-to-population ratios in the region, which means that the quality of work may be a concern. The country will be able to reap the benefits of

its demographic dividend only if it addresses the issue of low human capital whilst ensuring the availability of decent work employment opportunities for the new “youth boom.” The employment-to-population ratio is highest in remote rural areas without road access and lowest in urban areas.

41. The share of vulnerable employment is high, with own-account workers and unpaid family workers (defined by the ILO as “vulnerable employment”) constituting 84% of total employment (the remaining 16% are employers and paid employees). This is due to the predominance of the agriculture and fishery sector as well as prominence of the services sector which offers opportunities as shop and market sales workers, as well as other elementary occupations). The 2010 Child Labour Survey, the first ever undertaken by Lao PDR, highlights the government’s commitment to protecting children and implementing the ILO conventions on child labour. This findings and the new statistical information have helped planners and policy makers develop strategic interventions.

42. **Nutrition¹²**: Stunting in children remains a major challenge, with an estimated 44% of children under-five years of age stunted. Recent data suggests that the rate of decline in under-nutrition is too slow (less than 1 percentage point per year) to meet national or international MDG targets. In fact, given an annual reduction in stunting of less than 1% and an annual population growth of 1.4%, the number of stunted children is more likely to increase than to decrease. In 2006, the malnutrition ratio was 37%, Lao Social Indicator Survey (LSIS) in 2011 found that the ratio was 27% compared with the target of 22% by 2015; the prevalence of stunting children under 5 is also still lagging behind, in 2006 it was at 40%, 2011 was 38% while the target for 2015 is to reach 34%. There are sharp disparities in stunting and underweight levels between children from the poorest and the richest quintiles, with stunting more pronounced in rural areas and amongst children living in remote mountainous areas¹³.

2.3 MDG 2 - achieve universal primary education

43. Steady progress has been made towards universal primary education and Lao PDR has nearly achieved the national target of 98% net enrolment ratio for both girls and boys. However, the efficiency of the education system is quite low: primary schools have significant numbers of over-aged and under-aged pupils, because of early or late entrants and grade repetition. The survival rate to grade 5 improved from 48% in 1992 to 73.3% in fiscal 2012-2013, but is still low compared to other countries in the region. The first year of school is the most critical and is when the dropout rate is highest: most children drop out or do not progress to the next class.

44. Significant disparities exist in school attendance and survival rates. Survival rate to grade 5 is lowest in rural areas without road access, amongst children in the poorest quintile and children of mothers with no education. The learning outcomes of primary grade 5 pupils also vary by subject, with students scoring least in mathematics. The transition rate from primary to secondary education has steadily increased. The secondary gross enrolment ratio increased from just above 20% in the early 1990s to 37.4% in fiscal 2012-2013 (69% for lower secondary). One reason for the low secondary enrolment, although not the only one, is the low retention in primary school, especially in the first year. Other reasons include lack of safe access for secondary education which frustrates high demand. Literacy rates amongst young people also do not seem to have progressed in recent years, possibly because of the large proportion of children failing to complete primary schooling.

45. More recent research by Ministry of education and Sports suggests that at national level, Lao PDR is on track to achieve 99% primary net enrolment rate (NER), slightly above

¹² This aspect of MDG 1 is off-track and an Action Plan to accelerate achievement of the MDG will be presented in Part D Chapter 6 (and in detail in Annex 1).

¹³ For more detail please refer to Part D Chapter 6 and Annex 1

target, but Survival Rate to Grade 5 is off-track and is likely to achieve 75% against a target of 95% by 2015¹⁴. It may be possible to achieve a slightly higher figure (perhaps 78% - 80%) but this will be difficult unless grade 1 dropout rate is reduced. Secondary gross enrolment rate (GER) will come close (72%) to the target of 75% of the 2015 target. Literacy rate is also an international indicator for MDG2 but has not been included due to a lack of reliable and consistent data collection over the time period. There have been a number of surveys implemented but using different instruments and age groups. However, the data suggest that this indicator is not on track¹⁵.

2.4 MDG 3 - promote gender equality and empower women

46. Gender parity has steadily improved in all three levels of education and the country is well on track to achieve parity between boys and girls in primary education. In secondary education, the gender gap (in favour of boys) is more pronounced in poorer groups than in wealthier groups and amongst those whose mothers have no education. In survival rates to grade 5, girls generally have a slightly better performance than do boys. In literacy rates, gender inequality is also associated with poverty. In rural areas without road access, amongst the poorest quintiles and amongst the ethnic groups living in remote areas, females are proportionately less literate than are males. Younger people (ages 15 to 19) show less of a gender gap in literacy than do people slightly older (ages 20 to 24), possibly attributable to higher female school enrolment rates in more recent years.

47. More recent research by MoES suggests that gender parity for 3-5 year old early childhood education and primary education is on-track to be achieved by 2015. As the level of education increases, achievement of gender parity becomes more off track: The expected Gender Parity Index (GPI) for lower and upper secondary education will be 0.94 and 0.87 respectively in 2015¹⁶.

48. The share of women in wage employment in the non-agricultural sectors has increased from around 20% in 1990 to 34% by 2010, with this still-low proportion possibly attributable to the high proportion of women in unpaid work for the family. Both labour force participation rates and employment-to-population ratio are relatively high. However, this also applies to the whole population, not only to women, indicating possibly an abundance of poor quality jobs at which people work simply to survive. The male workforce is better educated than is the female workforce. Women and men account for equal proportions (50%) of the total workforce, but are distributed unequally between sectors. Sectors characterized by vulnerable employment have the greatest proportion of women, either self-employed or engaged in unpaid work for the family. Women make up a greater proportion of unpaid family workers (65%) compared to men (35%). The most prevalent form of gender discrimination in labour markets is the wage gap between male and female workers.

49. At the decision-making level, Lao PDR has amongst the highest proportions of women in national parliaments in the region. But the proportion of women in other decision-making institutions is still low (at about 5% to 6%), possibly because of having to balance family responsibilities with training and other constraints to participation.

¹⁴ An Action Plan to accelerate achievement of this aspect of MDG 2 has been prepared by the Education SWG and is presented in Part D Chapter 6 (and in detail in Annex 1)

¹⁵ It is also noted by MoES that gender parity for 5-3 year old early childhood education and primary education is on-track to be achieved by 2015. As the level of education increases, achievement of gender parity becomes more off-track. The expected Gender parity Index (GPI) for lower and upper secondary education will be 0.94 and 0.87 respectively in 2015. This has also been included in the Action Plan presented in **Part D, Chapter 6** and in **Annex 1**.

¹⁶ This has also been included in the MDG 2 Action Plan presented in Part D Chapter 6 and in Annex 1.

2.5 MDG 4 - reduce child mortality

50. From the early 1990s to 2011, there were significant declines in the infant and under-five mortality rates, with recent survey data showing that the national MDG target for under-five mortality rate of 80 per thousand live births has been met and hence a more ambitious target for 2015 can be set as Lao PDR still ranks amongst countries with the highest under-five mortality rates in the region. To achieve more ambitious child mortality targets, the current reduction rate of more than 4 percentage points a year will need to continue. To date, much of the progress in reducing under-five mortality may be attributed to improvements in socio-economic conditions and the mortality reductions amongst groups that are less poor, better educated and more receptive to interventions. Comparison with 2006 data suggests that better-off and urban families are still recording faster progress. Therefore, achieving further reductions in infant and child mortality will involve reaching the poorer segments of the population and those living in remote areas. The cost and difficulty of providing services to these groups tends to be higher.

51. Most child deaths are due to preventable and treatable conditions and an increasing number of children now have access to high-impact child survival interventions (such as immunization and oral rehydration therapy) which are known to be effective in reducing child deaths and childhood diseases. Implementing these high impacts, low-cost interventions could reduce two-thirds of child deaths. Lao PDR shows good progress on some interventions but overall, coverage is still low. Thus, immunization coverage has increased, but remains low and inequitable due to difficulty in access and a reliance on unpredictable external funding sources for health outreach, supply distribution and cold chains.

2.6 MDG 5 - improve maternal health

52. Despite positive trends in maternal and reproductive health service indicators, the country's progress towards this goal is not on track. Thus, the proportion of births assisted by trained health personnel continues to increase, but is still below 50%; the facility-based delivery rates (38%) are still low; and the percentage of pregnant women who received antenatal care by health personnel improved from 35% in 2006 to 54% in 2011/12 – an impressive achievement over 5 years. But the country still has one of the highest maternal mortality ratios in the region, although the ratio has declined to 357 per 100,000 live births. This means that for every 1,000 children born alive, four women die during pregnancy, delivery, or within two months of childbirth. The country now has basic emergency obstetric and new born care available in every district and major hospitals that can provide caesarean services and this is a significant achievement.

53. Disparities in delivery assistance and other indicators are pronounced between the different groups. Urban areas show a safe delivery rate that is twice the national average and over six times that in remote rural areas. The safe delivery rate was three times higher amongst the ethnic groups living in accessible areas than that amongst those living in remote areas. The difference in safe delivery is eight times between the richest and poorest quintiles, and about six times between women who have completed secondary education and those with no education. The Caesarean section rate is still low at 4% of all births suggesting that some women whose lives could have been saved by caesarean section were not able to have this intervention.

54. Reproductive health shows significant progress with an increase in modern contraceptive usage, consistent with the decline in fertility. The unmet need for contraception has gone down by half over the past decade, showing not only increased access to contraceptives, but also changing behaviour patterns, with a far greater proportion of women who want to use contraceptives now able to do so. Despite this, the adolescent birth rate is still high, at 94 live births per thousand adolescent women.

2.7 MDG 6 - combat HIV/AIDS, malaria and other diseases

55. **HIV and AIDS:** HIV prevalence is still low, although the number of new HIV cases has steadily increased at an estimated rate of 1,000 new cases each year. Heterosexual contact

fuels much of the epidemic, with the groups engaging in high-risk behaviour influencing the geographic spread of HIV. Such groups include men who migrate for work without families; returning migrant workers (especially females); and sex workers, who are at highest risk, especially those not working in entertainment establishments. The clients of sex workers are a heterogeneous group and are at intermediate risk of HIV. The inequities seen in other MDG areas extend to HIV, with men better informed than are women, but with little increase in knowledge levels over the past decade. The groups at higher risk of HIV exposure have greater levels of HIV knowledge. Condom use rates are high in commercial sex, but lower in casual sex. Stigma and discrimination make it much harder to control the epidemic, with only 17% of women and 14% of men surveyed expressing accepting views of people living with HIV. Anti-retroviral therapy coverage has increased, but people come for treatment only when they are sick as they are not accustomed to testing. Adherence and survival rates are reportedly good, but uptake for treatment is low.

56. **Malaria:** Recent years have seen steep declines in malaria mortality and incidence, with incidence decreased to one-third of 2000 levels. Malaria mortality per 100,000 population declined from 7.1 in 2000 to 0.3 in 2011, meaning that the country has almost achieved its 2015 MDG target. Malaria prevention strategies are also achieving success and involve the widespread use of bed nets amongst adults and children. The National Bed Net Survey found that 81% of children under five years of age slept under insecticide-treated bed nets and that 98% of children slept under any kind of bed net. Nearly all children with confirmed malaria were treated. However, since December 2011, malaria outbreaks in the five southern provinces have become a concern and there is a strong probability of drug-resistant malaria strains.

57. **Tuberculosis:** Tuberculosis incidence, prevalence and mortality rates show a steady decline, with both detection and cure rates surpassing those set for 2015. In 2010-2011, the first-ever national TB prevalence survey was completed and indicates the remaining scale of the challenge. Prevalence was found to be nearly two times higher than previously estimated, with the survey suggesting that many TB cases remain undiagnosed and untreated.

2.8 MDG 7 - ensure environmental stability¹⁷

58. **Forests and biodiversity:** Forest cover in 2012 stood at 9.5 million hectares or an estimated 40% of the area of the country. While forest cover has declined, the rate of loss seems to have slowed from that between 1992 and 2002 and is now estimated to be 1.4% lost per annum¹⁸. Forest degradation referring to loss of growing stock and commercially and biologically valuable species has also continued. The main drivers of forest degradation are unsustainable wood harvesting as a result of illegal logging, poorly regulated timber harvesting by rural households, and shifting cultivation. The main contributors to deforestation are agricultural intensification, hydropower, mining, infrastructure and urban expansion.

59. The country is rich in biodiversity, although several species are threatened with extinction. National Protected Areas now cover over 14% of the country and, if the areas under provincial and district protection are added, the coverage increases to around 20%. Likewise, Protection Forests, which are aiming at mainly watershed protection, account for 34% in total, while Production Forests represent 13% of the total land area. Sustainable forest management plans are being promoted to address deforestation, with the government committed to bringing all 51 production forest areas under sustainable forest management. In 2012, 1.3 million out of 3.1 million hectares in 16 production forest areas were under sustainable forest management with approved Forest Management Plans. The government aims to expand this into other production forest areas. The Government has also undertaken measures to compensate for the

¹⁷ This chapter summarizes the findings of the MDG Report: but it should be noted that the Amendment of the Environmental Law entered into force in 2013.

¹⁸ Please note that estimates vary and recent estimates (made available by Forestry SSWG) suggest only 0.15% per annum.

loss of forests from hydropower development, including payment for ecosystems services. The Forest Resource Development Fund established in 2005, forms the primary funding source of long term investments in sustainable forest management. Mainly funded from reforestation fees, there are also contributions from timber revenues from harvesting of production forests. This portion is set to increase considerably once the Presidential Decree 1 on sharing of timber revenue from Production Forests approved in 2012 is implemented. In general, the forestry sector remains underfunded considering the large, throughout the levels from central to district.

60. **Emissions of greenhouse gases:** The country was a net sequester of CO₂ in 1990 but, by 2000, had become a net emitter. The Government is undertaking several mitigation strategies (including reforestation and other land use changes) to reduce carbon emissions, with progress in this area thus linked to progress in reversing the loss of forests.

61. **Ozone-depleting substances:** The use of ozone-depleting substances declined to near-zero in 2012 in line with the phase-out under the Montreal Protocol.

62. **Drinking water and sanitation:** Access to safe drinking water has increased but will need to be accelerated to achieve 2015 targets. In 2011/12, some 70% of the population had access to improved sources of drinking water, an increase of two-and-a-half times from the coverage in 1990. Both the urban and rural areas have made steady progress, but the rural-urban gap has not decreased since 2005. The coverage by improved sanitation has increased three-fold from the 1990s. But while urban sanitation coverage has progressed rapidly to 88% of the population, rural areas lag behind. Open defecation is still commonplace (38%) and means that, even if MDG target of 60% is reached, the proportion of the population practising open defecation will still be high.

2.9 MDG 8 - develop a global partnership for development

63. **Enhancing market access:** Lao PDR has made significant progress in integration with the global trading system, becoming the 158th member of the World Trade Organization (WTO) in February 2013. It is also progressing in ASEAN integration. At the centre of many economic and transport corridors, it is the only country to border all other countries in the Greater Mekong Sub-region.

64. It has market access opportunities under unilateral and reciprocal preferences from 47 developed and developing countries. As an LDC, the country is granted unilateral tariff preferences under the Generalized System of Preferences from 36 countries, with unilateral tariff preferences under GSP from the EU. Developed market economies admit free of duty a high proportion (by value) of imports from Lao PDR and, in terms of value, virtually all agricultural products, over 85% of clothing and nearly 90% of textiles were admitted in 2010 into developed market economies free of duty. But costs for import to, and export from, Lao PDR are considered high: cross-border transactions into and out of Lao PDR took longer and were costlier to conduct compared to the average cost and time for other land-locked developing countries.

65. **Improving aid effectiveness:** In line with the international Aid Transparency Initiative, the Aid Management Platform which will soon have a public portal is the basis for monitoring and reporting on development finance. Net official development assistance (ODA) and official aid to Lao PDR have increased in amount and in per capita terms over the past two decades, but have declined in terms of the proportion of GDP and GNI, owing to Lao PDR's strong growth. Infrastructure received the most ODA funding in 2011/12, followed by education, agriculture and rural development.

66. **Addressing debt:** Debt service ratios remain comfortably within the thresholds of the debt sustainability framework set by the World Bank and International Monetary Fund (IMF), partly due to the high level of concessions of sovereign borrowing. Recent World Bank and IMF assessments noted that key indicators of Lao PDR's external public and publicly guaranteed debt

stock had improved due to strong macroeconomic performance and, accordingly, the country has been reclassified from a high risk to a moderate risk of debt distress.

67. **Benefitting from new technologies:** By 2011, 87% of the population had mobile cellular subscriptions, while the rate of the expansion of internet access has been even more rapid, having grown at an average rate of over 50% annually, reaching up to 9% of the population in 2011. After mobile telephones, television has the highest penetration, reaching 76% of the population, while radio reaches a third of the population.

2.10 MDG 9 – UXO

68. In per capita terms, Lao PDR is the most heavily bombed country in the world. Four decades after the Indochina war ended, unexploded ordnance (UXO) continues to pose a major humanitarian threat and a significant obstacle to the development of the country. Reducing the impact of UXO on communities has become the 9th MDG and is specific to Lao PDR. Effective action in this area protects citizens and contributes significantly to the achievement of other MDGs, in particular to eradicate extreme poverty and hunger. In addition to increasing safe access to valuable land for agriculture, infrastructure and commercial development, the clearance of UXO facilitates the delivery of education, health and other services, and the safe movement of people and goods throughout the nation.

69. The 2008 National UXO Survey indicated some 50,136 casualties from 1964 to 2008, with the bulk of casualties between ages 15 and 35 years. The survey recorded approximately 20,000 survivors, and there are an estimated 12,000 survivors alive today. The National Regulatory Authority for UXO/Mine Action in Lao PDR (NRA) is upgrading the UXO Survivor Tracking System. Effective risk education and the clearance of high-risk areas have contributed to a significant reduction in casualties in recent years – from an average of 300 per year up to 2008, to 56 in 2012. However, there is an urgent need to accelerate the UXO survey, to determine the remaining level of UXO contamination and help prioritize the clearance work.

70. The UXO sector is well structured, and has effective mechanisms in place to regulate and coordinate the sector under the leadership of the Government. There continues to be a need, however, for better and more extensive interaction and communication with operators and the development community. In addition to existing mechanisms such as Sector and Technical Working Groups, the NRA will initiate a policy forum for more substantive and regular communication within the UXO community, including development partners.

71. The Government wishes to significantly expand and increase the pace of survey and clearance in Lao PDR. It is targeting an annual budgetary increase for the sector from the current \$30 million per annum to \$50 million per annum. Both Government investment and additional support from the international community are required. Meeting national targets will require a significant scaling up of resources and capacities, with greater attention to the principles of the Vientiane Declaration on Aid Effectiveness. The challenge in the longer term will be to maintain national capacity whilst gradually reducing international support and mainstreaming UXO action into sustainable socio-economic development strategies and programmes.

PART B - ENABLING ENVIRONMENT: GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT UPDATE

This Part provides an update on progress and challenges in terms of Governance and Public Financial Management including progress on the Sam Sang, legislative and judicial developments, and promoting people's participation, including the role of civil society.

3 ENABLING ENVIRONMENT: GOVERNANCE AND PUBLIC FINANCIAL MANAGEMENT

3.1 Introduction

72. Since the mid-1980s when the Lao PDR Government implemented reforms to transition the economy from a centralized planning to a market oriented economy, successive Governments have embarked on comprehensive state building efforts aimed at developing the governance and public administration system to manage the various affairs of the state in an effective manner. Although progress has been achieved in varying degrees in advancing the various elements of the Government's governance reform agenda, the country faces on-going and emerging governance challenges influenced and driven both by internal political and socio-economic developments and external pressures especially by Lao PDR's transition into a more open market-based economy; its integration into the ASEAN Economic Community in 2015 as well as the country's long term objective of graduating from a least developed country status by 2020.

73. This chapter provides an update on the key achievements and challenges in governance at the mid-term point of implementation of the 7th NSEDP. The last part of this chapter identifies indicative recommendations for the remaining phase of the 7th NSEDP and for consideration for the 8th NSEDP. The discussion is organized according to the four pillars of the Strategic Plan on Governance, namely: People's Representation and Participation, Legal Reform/ Rule of Law, Public Service Improvement and Sound Public Financial Management.

3.2 Achievements and Challenges

3.2.1 People's Representation and Participation

74. Since the adoption of the 2003 Constitution the National Assembly (NA) has seen a significant increase in its mandate over the years. Over the past two years, the NA has implemented a number of initiatives to promote citizens interaction with the NA. These include: a hotline during sessions, a public petitions mechanism, constituency visits by parliamentarians and committees, the NA website, and a newsletter. These initiatives have contributed in helping to change the perception of citizens who are beginning to see the NA as an increasingly independent body. This is also reflected in the NA's more prominent role through raising issues and concerns about controversial political issues, such as land management and land concessions, where the NA has taken the lead to bring together various ministries and line departments, including civil society organizations (INGOs, academia and research institutions) in the drafting of the National Land Policy, in order to devise a coherent set of land use and management policies which seek to better balance growth with equity.

75. The proactive role of the NA has continued during the 5th Ordinary Session of the current (7th) NA with its policy directive to the Government to increase funding for poverty alleviation. In addition the NA also continued to exercise its oversight function by reviewing the activities of the Government. During the last ordinary session the NA called attention to financial commitments and expenditures incurred by the Government on development projects that are not part of the approved national budget. Relevant ministries of the Government were directed to stop similar initiatives and to draw proper guidelines to regulate the implementation and debt servicing of such development projects.

76. While there has been incremental improvement in the capacity of the NA to perform its mandate and functions, the NA faces many challenges in realizing its mandate fully. The NA's sessions in Lao PDR are comparatively short, lasting 2 weeks to one month. This short duration does not provide sufficient time for the NA to study and deliberate the long queue of pending bills awaiting enactment. The short duration of sessions and the limited number of full-time NA members also constrain the NA's engagement with the public. These impinge on their

representational function and their ability to exercise an active oversight of the government using the feedback from the public.

77. In the exercise of its law making function, the NA passed a number of new laws and amendments to existing laws during the ordinary sessions from 2011-2013. These include among others: Law on Law Making adopted in July 2012, which provides for a more transparent procedures for law making and institutionalizes public consultation during law making process; Law on Election of Members of the National Assembly enacted in June 2012; and amendments to laws including, Law on State Property, Law on Sports and Physical Activity, Law on State Audit, Law on Border Trade and the Environmental Protection Law. There was also a Decree on Civil Service and a draft Law is pending. Similarly, the NA ratified treaties and agreements that Lao PDR signed with foreign countries and, in accordance with the request from the Government, including the country's accession to the World Trade Organization. In addition a number of laws were enacted related to the granting of citizenship, changes in geographic boundaries, and transfer of municipalities.

78. Delays in the review of draft laws and the deliberation and passage of laws are mainly due to limited in-house technical skills to analyse policy issues submitted by the Government and limited specialized capacity to draft legislation. Moreover, the quality of staff remains an issue as there is still only a limited number of staff with the right qualification and experience to perform the tasks required in the NA. This is a systemic issue that affects not only the NA but the whole country in general. This also holds true for the NA's role as an oversight body given the limited expertise on budgeting and public expenditure management process. This limits the ability of the NA to scrutinize the budget, monitor public expenditure and assess the impact of these expenditures on development outcomes.

79. Over the past years there has been some growth in the media sector. There are currently 118 newspapers and magazines (of which 11 are daily newspapers) and 107 magazines, 53 radio stations and 37 TV stations. Radio signal now reaches 84% of the country while TV signal covers 75% of territorial Laos. Four community radios are now broadcasting in eight (8) different ethnic languages and reaching out to more than 11,000 people across Xieng Khouang and Sekong provinces.

80. Although public awareness towards the role of the media in Lao PDR is improving, Lao media continues to faces a number of important challenges to meet the needs of and cope with the pace of development. While the Media Law that provides the legal framework for the media sector was approved in 2008, the decree to implement the provisions of the law is still to be completed. There are still on-going challenges to timely access to information by journalists and media practitioners that contribute to delays in reporting on development of issues that are of current interest to the public. There is a need to invest in developing the capacity of journalists as well as for ensuring high quality journalism.

81. Civil society in Lao PDR is nascent and small. It is currently composed of civil society organizations (CSOs) - which generally include community-based user groups (e.g. water user groups), farmers organizations, self-help groups and locally registered groups called Non-Profit Association (NPAs), Foundations, International NGOs (INGOs) - and formal mass organizations (e.g. Lao Women Union, Youth Union, Trade Union) that are closely associated with the Party/Government. CSOs are primarily engaged in community development and service delivery activities rather than policy advocacy. The past two years have seen some important initiatives taken by the Government to strengthen the foundation for the development of civil society in the country. These initiatives include the conduct of a capacity assessment of government staff responsible for civil society matters and a strategy to address the capacity gaps.

82. Since the Decree on Associations was promulgated, the number of officially registered NPAs increased from 39 in November 2011 to 116 as of August 2013. In 2012, five (5) NPAs participated in the Round Table Implementation Meeting for the first time. This was a major development and has set the stage for the future participation of civil society in similar dialogues. In 2013, again 5 NPAs were selected through a process of self-selection and have been nominated to participate in the Round Table Meeting in November. CSOs also actively participate in different activities of Sector Working Groups as members as well as in other forum. Currently, 38 national and 78 provincial Non Profit Associations and 5 national and 1 provincial Foundations and 164 INGOs are registered with the government of Lao PDR. Lao CSOs are gaining international recognition; recently, the “Association to support the development of peasant societies” received the ASEAN award in Yogyakarta, Indonesia, based on its pre-selection from a range of competing CSOs.

83. Despite some positive strides as elaborated above, the operating environment for Lao CSOs still remains challenging, characterized by limited institutionalized mechanisms for policy engagement/ dialogue with the Government, and complex registration procedures for NPAs. There is recognition that capacity development is a cornerstone of the process to help the Government understand and support civil society growth in the country. At the same time it is equally important to recognize the limited capacity of NPAs in effectively communicating how they are contributing to national development.

3.2.2 Rule of Law / Legal Sector

84. During the last two years, the country has made a steady progress towards the establishment of a rule of law state. Some of the key achievements and challenges in the legal sector are summarized as below in accordance with the 4 Pillars of Legal Sector Master Plan: (i) Legislative Development; (ii) Institutional development; (iii) Human Resource Capacity Development; and (iv) Legal Public Awareness and Participation.

85. The Law on Law-making was adopted in 2012, providing the guidance on how laws and sub-laws can be developed systematically in Lao PDR. Together with a law dictionary that has been drafted, this is a significant step towards a more systematic law-making process. In addition several new important laws such as the Law on Lawyers in 2011, and Law on Extradition, Criminal Procedure Law and Civil Procedure Law in 2012 were adopted and amended in the recent years while development of an important legislative framework such as the civil code and criminal code is still underway.

86. While the Government has strived to develop and adopt new laws, the pace of development has not been fully aligned with the NA’s 5-year plan. Until to date only 11 new laws have been developed and adopted while 7 laws have been amended. In this regard, the legal sector faces a challenge of fully implementing the work plan and ensuring the quality and consistency of newly developed laws at the same time. While the Law on Lawyers was enacted in 2011, much of the Law remains to be implemented, including the establishment of a systematic bar examination and a 1-year internship. Similarly, the Lao Bar Association requires continuous institutional and administrative support, as there are only roughly 180 lawyer’s actively practicing law in the country.

87. During the past 2½ years the court system in Lao PDR has successfully settled a number of cases involving criminal, civil, trade related, and other types of cases submitted to the courts. In fiscal year 2012-2013, both the provincial people’s court and public prosecution system have registered improvement of over 80% of different types of cases at the first instance level. Despite its success in settling a number of cases, the court system still faces roughly 18% of cases as a backlog, increasing the workload for judges and courts staff. If not effectively addressed, this issue will undermine the credibility of the country’s justice system and inhibit foreign direct investment which is sensitive to the protection of property rights. Another challenge facing the judiciary in Lao PDR is to set up a proper follow-up/enforcement mechanism

after reaching court decisions, as the enforcement capacity of relevant ministries and agencies needs to be further strengthened.

88. In recent years the international law component has been fully incorporated into a larger framework of the Legal Sector Master Plan (LSMP) mechanism, thereby contributing to further incorporation of international legal obligations into the domestic legal framework. Several international treaties were recently ratified that include the Convention against Torture and Other Cruel, Inhuman and Degrading Treatment or Punishment, bringing Lao PDR a party to 7 out of 9 international human rights instruments. Now that the pace of signing and ratifying international treaties has accelerated significantly, Lao PDR has become increasingly responsible for full compliance with treaty bodies, including reporting requirements. Similarly, as Lao PDR employs a dualist¹⁹ approach, it needs to ensure that the domestic framework is fully in line with newly accepted legal obligations by developing new laws or amending existing laws.

89. As part of the Sam Sang initiative, the Ministry of Justice has been strengthening the capacity of local justice offices in a number of provinces and districts by establishing new offices and appointing new personnel. As the country has been experiencing rapid economic growth and increasingly integrated into the regional and international communities, there is a strong need to expand the pool of legal professionals to keep up with such developments. There is a significant shortage of legal professionals in the country, including lawyers, judges, and prosecutors. In order to strengthen institutional capacities, the Ministry of Justice, People's Supreme Court, and Office of Supreme People's Prosecutor have agreed on establishing a national judicial training institute which will train young professionals to pursue a legal career in a more systematic manner. A decree for establishing a national judicial training institute has been drafted and submitted to the Government for approval.

90. There are efforts to improve dissemination of laws amongst people at the national and local levels. Examples of such activities include dissemination of various law books, pamphlets, and CD-ROMs including all national laws as well as a useful handbook on access to the court system, all of which are distributed to local communities. Although key ministries and agencies have their own websites, there remains a sense of insufficient access of people at large to official laws and other relevant legal information.

91. From the citizens' perspective, limited capacity and knowledge is one of the main barriers to the formal justice system, as they are accustomed to resolving disputes in a customary way. There is a strong need to enhance citizens understanding of fundamental rights and obligations so that they can fully enjoy and exercise their rights when facing any issues and also comply with the existing legal framework.

3.2.3 Public Service Improvement

92. Strengthening the administrative machinery of the Government to execute the core functions of the state is a key to achieving a country's socio-economic development goals including the MDGs. Under the draft Strategic Plan on Governance 2011-2020 the Government of Lao PDR identified a number of reforms which are reflected in the 7th NSEDP as key areas underpinning the capacity of the state to deliver basic public services. These policy actions focus on developing the state administrative regulatory framework, state machinery, civil service management, and central-local relations.

¹⁹ Although the boundary is not a distinct one in reality, states see the interaction between international and national law mainly in two different ways: monist and dualist approaches. On one hand, states with a monist approach do not consider the need for translating international law into the national framework, as the internal and international legal system together form a single system of rules and guidelines. On the other hand, states employing a dualist approach (such as Lao PDR) require that international legal obligations are translated into the national framework before coming into effect.

93. Building on the earlier initiatives supported by the Governance and Public Administration Reform (GPAR) programme, the Government through the Ministry of Home Affairs (MoHA) has made steady and significant progress in developing the foundation for an effective, accountable and responsive public administration. To strengthen the administrative regulatory framework and central-local relations of the government, public consultations have been conducted to develop new legislation as well as amend a number of existing laws to clarify ambiguity, improve the regulatory framework and facilitate implementation. These include amendments to the Law on Government and Law on Local Administration. The Government recently decided to incorporate the proposed Law on City and Municipality under the revised Law on Local Administration whose submission to the NA is on hold until 2015 to enable the Government to incorporate amendments based on the results of the pilot implementation of *Sam Sang*.

94. In October 2012, the Government launched the pilot implementation of “3 Builds” initiative or *Sam Sang* (PM Order 16/2012) with the objective to improve delivery of public services by “building the province as a strategic unit, build the district as a comprehensive strengthening unit, and build the village as a development unit”. Covering all provinces; 51 pilot districts; 109 villages, and 15 ministries of the Government, *Sam Sang* involves the further transfer of responsibilities, functions and resources from central ministries to the provinces and onwards to the districts. On successful completion of the pilot, it is expected to inform the development of an overarching regulatory framework on delegation of powers to the various levels of sub-national administration. It will contribute to improved transparency and accountability in the delivery of services by clarifying the roles and responsibilities at each level of administration.

95. Complementing the on-going *Sam Sang* pilot, the Government has been systematically developing the capacity of district administrations to deliver local public services under the District Development Fund (DDF) since 2006. The DDF provides both capacity development and direct budget support (capital and operational expenditure block grants) to Districts. DDF now covers 53 districts in 7 provinces that have directly benefited 391,000 people of which 65,000 are women. Recently, a performance based grant system has been introduced that will measure comparative district performance across 21 key institutional performance indicators, in planning, financial management and implementation of service delivery.

96. Work is also underway to develop a district service delivery monitoring system for key services areas in primary health, primary education, improved water and sanitation and will be linked to a citizen feedback mechanism, e.g. citizens’ report card or community score card. These initiatives are expected to contribute to better service delivery by providing evidence-based insights to improve the planning and implementation of local services, enhance community participation and engagement, and identify areas for improving the capacity of district administrations.

97. One of the key challenges in the immediate future is the up-scaling and expansion of the *Sam Sang* initiative. The full scale implementation of *Sam Sang* presents a number of challenges. One is the need to develop capacity at the sub-national level as a result of the increased devolution of responsibilities and functions to the provinces and to districts. Increased budgetary resources to sub-national administration is also needed to enable local authorities effectively perform additional functions and responsibilities resulting from expanded scope and scale of service delivery, and bring development closer to communities. Financing the implementation of *Sam Sang* will be an important challenge given the fiscal constraints of the Government. Reforms in the PFM system will be a key to achieving the objectives of *Sam Sang*.

98. There is also steady progress in strengthening the machinery of government. During the past two years a number of decrees were promulgated on the organization and operation of ministries and equivalent organizations including those for MoHA, Ministries of Science and Technology; Environment and Natural Resources, Education and Sports amongst others. In early

2013 the government approved PM Decree 09/2013 on the expansion of the One-Door Service Centre (ODSC)²⁰ and the revision of existing ODS manual or guideline. The decree sets out the government priority and provides guidelines for expanding the implementation of ODSC at different levels. The Government views the ODSC mechanism as contributing to improving communities' access to public services by bringing these services under one roof, thereby reducing transactions costs. This is especially important for people residing in remote communities who may have to spend a significant sum of money and time to apply for certain official documents. However, in order to enhance the effectiveness of ODSCs a number of challenges need to be addressed. These include: developing standards and streamlining administrative processes, establishing a common fee schedule and funding that will enable the ODSC to adequately cover the cost of providing services; improving service orientation; improving internal governance structure; increasing the number of services, and training of ODSC staff, among others. Follow-up work aimed at addressing the various issues affecting the effective implementation of ODSC is being initiated by the MoHA.

99. Building on the work of the Public Administration and Civil Service Authority (PACSA – the predecessor of MoHA), MoHA has continued to pursue the development of a more capable public administration system through a series of initiatives aimed at strengthening the management of the civil service. Changes to the existing civil service regulation have been incorporated to a draft law Civil Service Law which has been completed and submitted to the Ministry of Justice for comments and legal check. It is expected to be submitted to the National Assembly in Dec 2013. Other regulations that have been issued or in various stages of completion include: Decree for the Standard for Administrative Position approved in 2012; Draft Decree of Code of Conduct of Civil Servants which has been agreed in principle and submitted to the Party for consideration; and an Instruction on Examination of Civil Servants has been developed and issued. The new Instruction requires applicants to pass the general civil service examination before taking the specialist examination administered by the various ministries. Some 40,000 examinees took the national examination conducted on September 14, 2013 organized by MoHA. The draft Strategy for the Promotion of Gender Equality in Public Administration: 2011-2015 has been developed and submitted to the Party for policy guidance on its implementation.

100. While the above initiatives of the Government have contributed to building the foundation for a more stable public administration and civil service system, serious capacity development challenges remain in translating and implementing the provisions of existing laws to develop a merit-based civil service. For instance, some civil service staff has been recruited without strictly following job-description requirements. This may contribute to mismatch and performance issues. Similarly, some ministries and government agencies have not yet adopted and implemented the existing performance appraisal system. This is especially the case at the sub-national level where capability is much more limited.

101. New salary and allowances for civil servants from 2013-2015 were approved. The new salary scale reflects changes in the salary index value rising from 4,800 KIP to 6,700 KIP per index in 2013-2014. The adjustment in salary complements PM Decree 468/PM approved in Nov 2010 which provides additional benefits to civil servants who work or serve full time and over 12 months continuously in far away, remote and hardship rural areas.

103. As the key organization responsible for public administration, MoHA's internal capacity is limited and overstretched given its substantially expanded scope of functions and broad responsibility as the government's principal body for public administration development, central personnel agency, and responsibility for citizens' management and civil society organizations, among others. Moreover, since the public administration reform process has progressed beyond establishing the basic legal framework, the implementation of the reform has become much more challenging. Many of the reform initiatives now focus on the specifics of developing the

²⁰ There are at present 11 ODSC at district level, 5 province level ODSC' and 1 ministry level ODSC in operation

underlying systems, procedures, processes and the requisite capacity to apply new tools and methodologies – a task that requires a higher level of competence and skill set applied to managing the public administration process across the whole of government.

3.2.4 Public Financial Management

104. A sound public financial management (PFM) system is the foundation for public accountability. The Government through the Ministry of Finance (MoF) is currently implementing a comprehensive reform programme aimed at strengthening public financial management in the country. These initiatives are supported by development partners under individual bilateral arrangement as well as through the multi-year Multi Donor Trust Fund for Public Financial Management Strengthening Programme (PFMSP).

105. A recent review²¹ of the PFMSP indicates that while progress has not been achieved as intended in the work plan for some areas, a substantial amount of work has been done by the MoF and government agencies in moving the PFMSP forward. Particularly encouraging are the progress made in treasury reform, tax and custom administration, financial legislation and regulatory and external debt management. Incremental progress has been made with regard to budget preparation, accounting and auditing while little progress has been made on public sector procurement.

106. The Government has continued with its efforts to modernize treasury operations and strengthen external debt management through the implementation of a Treasury Single Account (TSA) with the Bank of Lao PDR (BoL) and its branches as well as with the Lao Development Bank (LDB), Agriculture Promotion Bank (APB), and commercial banks. Similarly, continuing efforts are being made to bring off-budget funds and technical revenues on budget. So far the largest off-budget fund, the Road Fund, has been brought on budget, and further efforts are continuing to bring other technical revenues on-budget. This has contributed to improved resource management by the government.

107. A Debt Management System (DMFAS) has been installed and implemented, including training on the use of DMFAS. The "Presidential Ordinance on Public Debt Management" has now been approved by the Cabinet. It introduces much stronger oversight mechanisms, including clarifying the authority to borrow and to issue new debt, invest and undertaken transactions on the government's behalf, introduces debt management objections and will ensure the publication of information on public debt on a timely basis. The Ordinance is still pending endorsement by the National Assembly Standing Committee but once it is completed and put into force it will move towards strengthening the legal framework for debt management, which crucially covers both public and publicly guaranteed debt, as well as contingent liabilities.

108. While these provide positive developments, there are continuing challenges that need to be addressed in a number of areas. Of particular interest especially in relation to advancing the achievement of MDGs particularly off-track MDGs, and the Sam Sang initiatives are issues related to fiscal planning and budget preparation, and local government financial management, which are further discussed in the following paragraphs.

109. To date (2013) some progress has been achieved to align budget prioritization to support the objectives and policies contained in the 7th National Socio-Economic Development Plan (NSED). Although a Medium-Term Expenditure Framework (MTEF) is the principal tool for ensuring alignment of the priorities in the national development plan with the budget- this is yet to be approved, but government has developed a Long-Term Fiscal Strategy Development for Year 2020 and a Vision for 2030 that provides a critical input to the formulation of an MTEF, to be developed as part of DPs support to the Government. Other complementary activities aimed at improving revenue forecasting are similarly being pursued.

²¹ World Bank. MDTF Progress Report (October 1, 2011-September 30, 2012). March 2013

110. Some progress in other PFM components aimed at improving the budget formulation process is being made. As noted earlier, continuing efforts are being implemented by the government to bring both off-budget funds and technical revenues on budget. Similarly, while no formal budget allocation norms have been approved by the government, allocation norms for health and education have been introduced in the budget formulation process. In addition, the Government has implemented a school block grant in 2012 to channel resources directly to primary schools on a per student formula. These initiatives provide building blocks for improving budget preparation to provide a more coherent alignment of the plan with the budget.

111. An area where much work needs to be done in the coming years is the design of inter-governmental fiscal arrangements in Lao PDR. The budget norm and revenue sharing in the 2006 State Budget Law is too general and vague, and hence more challenging to implement. The Sam Sang initiative is currently in the first year of its pilot phase of implementing the delegation of roles and functions across levels of government and sub-national local administration. To implement the directive of Sam Sang, the MoF issued Ministerial Instruction No. 2202/MoF that provides guidelines on revenue collection responsibilities and revenue sharing between the central and local levels of sub-national administration. The Instruction provides much more detail on revenue collection responsibility and revenue sharing between the central and sub-national administrations than that provided in the State Budget Law. An important challenge faced in the design of the inter-governmental fiscal transfer arrangement is that whereas Sam Sang has identified the district as the strengthening unit responsible for the delivery of local services, the current fiscal transfer arrangement is only up to the provincial level. The provincial budget is currently consolidated, i.e. not currently disaggregated by sector, leaving the districts with no leeway or very limited leeway, to allocate resources according to local needs and priorities. This limits potential gains to Sam Sang whose intention is to bring decision-making and development activities to the grassroots. Developing an appropriate intergovernmental fiscal transfer system is a key to achieving the objectives of Sam Sang and sustaining the achievement of MDGs.

112. Other challenges in the implementation of the PFM reform are as follows: (i) limited capacity within the Government to coordinate the PFM reform given the comprehensive nature of the reform agenda which requires close collaboration and cooperation among the departments of MoF, and on the other hand, between MoF and the ministries at both the central and provincial levels, (ii) limited in-house technical expertise and knowledge to ensure that the reforms are sound and consistent with international good practice; (iii) limited capacity especially at the local level to take on the responsibility for the assigned tasks; (iv) limited resources to provide sufficient training and develop capacity for the new policies, procedures and manage the implementation of the reform initiatives.

3.3 Indicative Recommendations for 7th and 8th NSEDP

113. This section identifies and discusses some indicative recommendations in the context of the various challenges that the Government of Lao PDR will continue to face in the remaining years of the 7th NSEDP and in the next planning period.

3.3.1 People's representation and participation

114. To enhance the NA's Committee rule making function, capacity development support is needed to focus on substantive issues related to the legislative agenda, to review and deliberate draft legislation, to develop key policy priorities, to use the rules of procedures in order to increase procedural efficiency and to consult with key stakeholders, including women, marginalized groups, people living with HIV/AIDS and disabled people, to ensure any amendments or draft laws reflect the needs of citizens. To strengthen the institutional and human resource capacity of the National Assembly a staff information management systems needs to be established and staff capacities built.

115. To enhance dialogue between the NA and citizens, the following actions are proposed: (i) to increase the accessibility and transparency of the NA and its units, including among others information on draft bills, improved mechanisms should be considered such as the NA website, hotline and petition system, sharing of summaries of plenary sessions and committee meetings for parliamentarians with interested public, background information about the work of the NA and its members through wider audiences, increased visits of NA members and constituents to rural areas; (ii) develop consultation procedures on using conventional and electronic communication instruments, like structured meetings (town-hall meetings), radio talk-shows, e-consultations on legislation and policy, and online discussions. (iii) foster dialogues between NA committees and NPAs by supporting the committee departments in the collection and management of input on national governance, legal and policy issues.

116. While there are regulations that provide the legal bases for NPAs and Foundations, there is a need to develop a comprehensive legal framework that addresses the various gaps in existing regulations, including the need to speed up the current delays in registration processes. These include issues such as taxation, registration procedures, recruitment of foreign staff including volunteers, integrating the role and functions of MoHA, inter-agency coordination, amongst others.

117. Developing an institutionalized mechanism and or opportunities for civil society engagement with government in the policy process by building on the initiative on CSO participation in the Round Table Mechanism, contribute feedback in the implementation of 7th NSEDP, and in the formulation of the 8th NSEDP is an important step in the right direction. Providing such opportunity can enhance the role and contribution that CSOs play in the policy process, and in advancing the achievement of MDGs. CSOs' presence and knowledge of local context and experience on various MDG areas can provide valuable input to the central government and local administration to identify and address constraints and develop solutions.

3.3.2 Legal Sector/Rule of Law

118. As the Government is geared towards establishing a state based on rule of law by 2020, a wide range of initiatives have been implemented in the legal sector at both central and local levels. The main challenges that need to be addressed during the 7th NSEDP as well as in the 8th NSEDP are as follows:

119. There is a need to continue developing, amending, and adopting laws in accordance with the NA's 5-year work plan. In the meantime, such laws must be formulated in full compliance with the Law on Law-making enacted in 2012 which prescribes standards, and emphasizes the importance of systematic consultation process with civil society organizations and citizens at large.

120. As the Government of Lao PDR has increasingly placed high importance on administrative justice, there is a need to formulate a roadmap for establishment of administrative courts that will help set up these courts across the country.

121. Equally important is the need to accelerate the process of establishing a National Judicial Training Institute in the country to expand the pool of judicial professionals (judges, court clerks, prosecutors, and administrative staff) in the coming years.

122. To increase people's access to information about laws there is a need to develop and constantly update a one-stop website that contains relevant legal information. In the meantime, in order to make the formal justice system more accessible to the public, it is recommended that the courts set up an information kiosk to receive any inquiries from the public and that staff working at the information kiosk take occasional visits to local communities to give local residents learning opportunities about their rights and obligations. Similarly, courts need to get more involved in the mediation process at the village level in order to strengthen the linkage and

coordination between village mediation units and local courts. The core mandate of village mediation unit members needs to be clarified especially with regards to their roles as informal mediators and the roles of local courts.

123. As Lao PDR has become a party to more treaties and conventions, there is a strong need to further strengthen the reporting capacity of relevant officials at the MOFA and line ministries/agencies. International mechanisms such as the Universal Periodic Review need to be closely monitored to ensure reporting is done in an accurate and timely manner and recommendations are incorporated into on-going legal reforms.

3.3.3 Public service improvement

124. **Up-scaling of *Sam Sang*.** One of the key challenges in the remaining period of the plan and beyond is the completion of the current pilot and the subsequent up-scaling of the *Sam Sang* initiative. The up-scaling of *Sam Sang* will require addressing a number of challenges. Two of these challenges include:

- i) Development of capacity at the sub-national level resulting from the increased transfer of responsibilities and functions to the provinces and or to districts. As functions and responsibilities are redefined across different levels of administration, capacity needs to be developed and sustained accordingly.
- ii) Increased budgetary resources to sub-national administration to effectively perform additional functions and responsibilities. Incremental fiscal resources will be required to support additional personnel and or expanded scope and or scale of service delivery functions. The National Governance and Public Administration Reform program (NGPAR) experience on operational expenditure block grants points to useful lessons for the government. Increasing budgetary allocation for district operational expenditures to extend or expand service delivery outreach, if properly implemented, can contribute to improving service delivery and advance the achievement of MDGs. The development of an inter-governmental fiscal transfer system and the reforms in budget preparation and execution are complementary and important reforms in order for the *Sam Sang*'s objective of improving the delivery of services to be achieved.

125. Improving access and efficiency of public services through the One Door Service Centres should be achieved by developing standards and streamlining administrative processes, establishing a common fee schedule and funding that will enable the ODSC to adequately cover the cost of providing services; improving service orientation; improving internal governance structure; and increasing the number of services.

126. Enactment/Amendment to the Law on Government and, Law on Local Administration is important - in order for the changes in the roles and functions of sub-national administration to be formalized. Similar amendments to the various decrees that define the roles and functions of the different ministries will need to be similarly addressed. Enactment of the draft Civil Service Law and other pending subsidiary regulations is critical to civil service management, e.g. Code of Conduct.

3.3.4 Public Financial Management

127. Based on the analysis in the earlier section there are a number of pending reforms in PFM which are expected to be continuing or work-in-progress through to the next NSED planning period. Some of the indicative reforms that need continuing attention and follow-up include the following:

- i) Implement regulation to bring all off-budget and technical revenues on budget. This is of critical importance in establishing effective control on available resources and ensuring a more effective cash management operation for the government;

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

PART C - STRENGTHENING PARTNERSHIPS FOR EFFECTIVE DEVELOPMENT COOPERATION

This Part outlines key initiatives at both the global and country level in promoting and enhancing development coordination and cooperation, key trends in Lao PDR, and key lessons from the Lao context, not least the Sector Working Groups, in strengthening the effectiveness of development cooperation. Part C also suggests recommendations for how the Government of Lao PDR, together with Development Partners, may further improve and strengthen partnerships for effective development cooperation.

4 STRENGTHENING PARTNERSHIP FOR EFFECTIVE DEVELOPMENT COOPERATION

128. The Busan Partnership agreement, which resulted from the High Level Forum in Busan in 2011, has moved the development cooperation agenda from aid effectiveness to effective development cooperation, with a focus on more inclusive partnerships. The Global Monitoring Framework on the Busan Partnership agreement, launched in July 2013, and its 10 global indicators is part of a voluntary monitoring survey process to strengthen accountability under the Partnership agreement. The Government of Lao PDR has taken into account the importance of the Busan Partnership agreement and the Global Monitoring Framework in its own agenda for effective development cooperation and plans to participate in the second round of the survey anticipated for 2015.

129. The first Ministerial Meeting of the Global Partnership for Effective Development Cooperation under the Busan Partnership agreement will be held in Mexico on 16th April 2014. Regional meetings, such as that recently held in Dhaka, Bangladesh, provided regional perspectives and lessons ahead of the Ministerial Meeting. Lao PDR actively participated in the Dhaka meeting, sharing experiences from the Lao context, and will also join the first Ministerial Meeting in April 2014.

4.1 Progress and challenges towards effective development cooperation in Lao PDR

130. Lao PDR has revised the VDCAP (2012-2015) in consultation with stakeholders based on the Busan Partnership agreement and the Global Monitoring Framework. The VDCAP thus follows the four common principles of the Partnership agreement, namely a) ownership of development priorities by developing countries; b) focus on results; c) inclusive development partnerships; and d) transparency and accountability. Key progress in Lao PDR under these common principles is outlined below.

131. The National Socio-Economic Development Plan (NSED) is the Lao Government's over-arching framework for national development and the basis for effective development cooperation. As such, the 7th NSED provides the basis for development partners to align their efforts to a set of national priorities and targets. In this context, the Government of Lao PDR has prioritized public investment programmes divided by 30% for the economic sector, 35% for the social sector, and 35% for the infrastructure sector.

132. Based on current funding trends the initial funding targets for the 7th NSED are likely to be met. At the end of the first half of the financial year 2012-2013 almost 70% of the anticipated requirement had been met. Achievement against the funding targets has varied, however, across sources of funding, with ODA levels trailing somewhat behind. Over the past two and a half years, the Government of Lao PDR has received ODA of about USD 1,688 million or 43% of the 7th five-year NSED target of between USD 3,733-4,106 million (see Table 1). ODA programme/project implementation for the past two and a half years has however largely reflected the sectoral prioritization of the Lao Government, with 30% of allocations going to the economic sector, 44% to the social sector and 26% to the infrastructure sector. In addition, in 2013 INGOs contributed more than USD 82 million to development efforts in Lao PDR, with a strong focus on community level initiatives.²²

²² Figure provided by the INGO Network

Table 1: 7th NSEDP Funding Sources and Funding to Date

	Funding sources % of NSEDP budget	Required funding (USD Million)	Funding to Date (USD Million)	% ²³
Domestic Budget	10-12%	1,493-1,872	753	45%
ODA	24-26%	3,733-4,106	1,688	43%
Private Investment	50-56%	7,963-8,834	6,147	73%
Credit	10-12%	1,493-1,866	2,086	124%
TOTAL	100 %	15,801	10,674	68%

Source: 2013 Mid Term Review and MPI data (for ODA)

133. Aid and financing have been ensured and impressive progress has been made to accelerate MDG achievement. To do so there is a need to renew partnerships to meet funding requirements, boost common efforts and fast-track priority initiatives. It also underlines the need to, in some cases, reprioritize and refocus development efforts. The current trend of ODA data has shown the level of aid fragmentation; where MDG based interventions need to be mainstreamed into ODA funded activities. From the collected data ODA may not be adequately targeting the off-track MDGs or the regions and provinces most in need of fast tracking MDG achievement. About 20% of ODA in 2011/2012 appear to have been allocated to MDG2, 4, 5, and 9, four of the five off-track MDGs, with similar figures for the first half of 2012/2013. In terms of allocations across regions, the Southern region appears to have been allocated approximately 12% of ODA funding in 2011/2012 and 15% during the first half of 2012/2013. The Action Plans in Part D provides a strong first basis for doing so, and the development of the 8th NSEDP will be an important process in further aligning partnerships behind key national development priorities.

134. Despite the good prospects for a continuation, if not an increase, of current ODA levels in the medium term, the decline in ODA as a share of overall funding, as well as the global increase in south-south and triangular partnerships and financing, warrant further analysis of the potential for development aid and financing for Lao PDR. The Lao Government is currently exploring the option of commissioning an assessment of the development aid and finance for Lao PDR to better anticipate and utilize current and future flows, and identify potential alternative sources.

135. The Paris Declaration, the Busan Partnership agreement and the localized Vientiane Declaration all assert the importance of ensuring effective national oversight and leadership of national development efforts, which will require both improved quality and increased use of country systems. The 2011 Country Report of Lao PDR under the Paris Declaration Monitoring Surveys also concluded that Lao PDR had achieved great progress in improving country systems, but also concluded that while DP use of country public finance management systems had increased, the increase had not been substantial.

136. The proportion of development assistance channelled through General Budget Support (GBS) provides an indication of the degree to which DPs are willing to entrust host governments with development financing. From 2008-2011 the total general budget support gross disbursement from all DPs against total gross disbursements was about 2%.²⁴

137. The Government recognizes the need to continue improving its PFM systems and is optimistic that the Public Financial Management Strengthening Programme will further enhance budget execution, financial reporting and auditing procedures. As outlined in Part B, the Government has continued to improve country systems and progress has been evident. Monitoring of further progress will be supported by the inclusion in the new revised VDCAP 2012-

²³ Calculated based on 'Funding to Date' as a percentage of the average of the figures under 'Required funding'.

²⁴ OECD-DAC figure, drawn from the OECD-DAC Stats Extracts

2015 of indicators on both the use and the quality of country public financial management systems, recognizing this dual relationship.

138. Another modality for the provision of development aid and financing is the Programme Based Approach (PBA) which supports more predictable and harmonised funding for development in Lao PDR in the short to medium term. The utility of the PBA is being explored across SWGs and several SWGs have developed PBAs based on comprehensive sector or programme strategies that are linked with the NSEDP. In many cases DPs have made significant efforts to adjust project support to complement PBAs. PBAs have overall helped improve coordination and helped strengthen performance management and M&E frameworks.

139. Good practices towards developing and improving PBAs across sectors include The Northern Uplands Development Program (NUDP), developed with the support of the Agriculture and Rural Development SWG. Launched in July 2011, the NUDP is a Government initiative that receives financial support from a number of donors through a pool fund, as well as through parallel financing in the shape of TA. The programme represents a first attempt by the Government to prepare a comprehensive strategy for agricultural and rural development specifically for the uplands and has the potential to strengthen effective development cooperation and potentially leverage significant additional funds to support agriculture and rural development.

140. A number of other PBAs have been facilitated through the SWGs. The Education for All-Fast Track Initiative program supported by the Education SWG uses pooled funding from a number of DPs and has moved towards increased use of country systems for implementation with aligned technical support provided by different DPs. At each step, the SWG has been critical in facilitating progress. Other examples include the multi-donor trust funds project developed under the Natural Resources and Environment SWG, the national New Governance and Public Administration Reform Programme under the Governance SWG, the facilitation by the Trade and Private Sector SWG of the Trade Development Facility, and the sector wide approach (SWAP) facilitated by the Health SWG. On-going efforts to formulate a comprehensive cross-sector food and nutrition security convergence programme also holds promise.

141. SWGs have also made good progress in further aligning SWG member activities with the NSEDP and national sectoral plans and priorities. Among examples are the Trade and Private Sector SWG. The road map for this SWG, resulting from the Diagnostic Trade and Integration Study (DTIS) Update 2012, is closely aligned with the NSEDP and other broader national development frameworks. The DTIS also helped mainstream trade in Government development strategies, align DP interventions with Government priorities and raise the profile of trade and private sector development in the national development agenda. Under the Health SWG technical working groups, composed of relevant Government entities and DPs, have developed sub-sector strategies based on which also the 7th five year HSDP was developed as a single policy framework. This has allowed better alignment behind sectoral priorities.

142. Efforts have also been made by several SWGs to better align planning and budgeting. As an example, the Education Sector Development Plan includes a detailed costing with an associated financing plan that incorporates funds from the Government budget and all external financing. Based on the National Assembly's endorsed national budget, a series of Annual Costed Sector Plans (ACSEPs) were produced by the Education SWG. The SWG is now supporting the institutionalisation of ACSEPs as the sole planning process for the sector and is working to also incorporate private and community funding into the budget structure.

143. In many cases, establishing and supporting nationally led coordination entities have been a great facilitator of alignment for SWGs. As an example, for the trade sector, the National Implementation Unit (NIU) at the Ministry of Industry and Commerce acts as the secretariat to both the Trade and Private Sector SWG and the Programme Executive Committee (PEC) under the Aid for Trade programme. Support to the NIU has been a good initiative to (i) increase ownership, (ii) strengthen development cooperation, and (iii) improve transparency and

inclusiveness. The single PEC in turn offers advantages in terms of easier coordination, increased transparency and uniform reporting requirements, all of which reduces the administrative work load and time requirements for the Government.

144. Multi-year funding and pledges are crucial to achieving development results and would significantly improve the ability of the Lao Government to strengthen linkages with national strategic priorities and between the national plans and budgets. The Lao Government has used the AMP as a highly useful tool to monitor the disbursement ratio to identify and anticipate projects that need assistance in order to improve delivery. During the Lao fiscal year 2011/2012 92.8% of the planned ODA captured in the AMP was disbursed (app. USD 465 million planned and app. USD 432 million disbursed). By mid-2012/2013, 58% of the total planned amount for 586 ODA supported projects/activities for the year had been disbursed. The provision by DPs of medium- to long-term projections of support as input into the AMP would help improve predictability, but these remain a challenge to obtain. The launch of the AMP ODA geo-coding and public portal will enhance strategic planning and greater coordination. This process will also provide information on the exact location of projects.

145. The Round Table process and the SWG mechanism have played a significant role in fostering inclusive dialogue and partnership that recognises the principles of national ownership, mutual accountability and wide participation of all stakeholders to ensure the effective implementation of the NSEDP. The Government acknowledges the necessity of enhancing the enabling environment for such participation through clearer and more strategic approaches to improve the scope and quality of engagement for all partners contributing to the development efforts in Lao PDR, including civil society and the private sector. As an example, to support wider participation of all stakeholders, the Agriculture and Rural Development SWG has developed clear objectives for CSO engagement, an approach that appears to have helped improve wider participation from INGOs, NPAs and private sector. The appointment of an INGO as Co-Chair of the Land Sub-SWG under the Natural Resource and Environment SWG is unique to the Round Table Process, and could be an approach explored by other SWGs.

146. As another example of Government and broader DP partnership, in 2010 the Government signed the MDG Compact with DPs. The Compact includes the localised MDG 9 on reducing the impact from UXOs. To strengthen multi-stakeholder engagement, the UXO SWG has made use of Policy Fora held twice a year to discuss higher level policies, strategies and issues of interest across actors within the sector. The participation of multiple stakeholders, from the private sector and civil society organizations to the national government and international organisations, have highlighted the importance of developing synergic strategies and ensuring coordinated support in order to solve UXO related issues.

147. The Government of Lao PDR recognizes the important contributions from private sectors and civil society. This includes the role of civil society in facilitating the meaningful inclusion of communities in the development dialogue and in providing lessons from the field to contribute to the formulation and implementation of the NSEDP. CSOs have been important partners in building human resources, not least at the level of local authorities and communities, and in raising awareness on issues such as gender mainstreaming and inclusive community outreach. CSOs have also promoted community based health, WASH, and small and medium scale community managed infrastructures, and have helped improve access to finance and income generation/SME development and formal and informal education.

148. It also includes the role of the private sector as a great potential engine for promoting development. The government of Lao PDR has strengthened the Lao Business Forum as a mechanism for dialogue between the business sector and the government, including on how to improve Lao PDR's business environment and preparing Lao PDR for further regional and global integration, including through the WTO and the ASEAN Economic Community.

149. In addition, the role of provincial authorities and actors, as well as parliamentarians in the Round Table Process has been significantly enhanced. Provincial consultations organised ahead of the RT(I)Ms each year have proved beneficial to better engage local stakeholders in the development dialogue and ensure local priorities and challenges are considered. Since 2008, provincial consultations have been organised in the Oudomxay, Sayabouly, Sekong, and Xiengkhouang provinces respectively to discuss regional and local development priorities, challenges and resource requirements. In June 2013, the provincial consultation held in Luang Namtha focused on Nutrition and Food Security in the Northern region and highlighted the need for cross sectoral coordination. The establishment by the Lao Government of the National Nutrition Committee has been an important step towards augmenting coordination on this issue.

150. The Government of Lao PDR has committed to strengthen the effectiveness of aid implementation, development cooperation, transparency and accountability through the endorsement of the Vientiane Declaration on Aid Effectiveness. The revised VDCAP, which is based on input from line ministries, SWGs and DPs, integrates the Busan commitments and global monitoring indicators and supports a shift from aid effectiveness toward effective development cooperation.

151. In line with the International Aid Transparency Initiative Lao PDR established the Aid Management Platform (AMP) in 2012 as the basis for monitoring and reporting on development finance. The AMP is a powerful tool to track and manage ODA flows, ensuring i) centralized ODA data management and strengthened reporting capability; ii) improved coordination between the Government and DPs, iii) enhanced ability to manage ODA, and iv) support to the principles underlying the Vientiane Declaration.

152. A broader coverage by the AMP of development aid and financing would strengthen the utility of the platform as a tool for the Government to estimate the adequacy of aid and financing flows against projected targets, especially where medium- and long term projections could be provided by DPs. A strengthened AMP would also better enable the Lao Government to predict and ascertain whether funds provided to individual sectors, MDGs and geographical locations are adequate to meet the needs as outlined in annual national development plans. This would also improve the ability of planners to estimate the funding envelope to be covered through domestic funds.

153. While achievements have been made, there is some more room for improvement, in terms of planning, there is a need to set up a clear results-based monitoring framework and ensure more clearly prioritized and costed development activities as part of the NSEDP. This would also improve effective development cooperation and ensure more strategic discussions on sectoral priorities and costing, including by SWGs. While the use of country systems has been enhanced in most sectors, SWGs still experience challenges to enhancing alignment and harmonization and there is still a significant need by both DPs and the Government to ensure efficient coordination and reduce scattered interventions.

154. While promising examples of a more broad-based and cross-sector approach, with the added advantage of increasing alignment and promoting the use of country systems, the various PBAs have faced challenges. Establishing a consensus on sector priorities and harmonizing the implementation mechanisms (including for budget and finance) between DPs and the GoL remain among the greatest challenges. Coordination and alignment of resources have likewise presented some difficulties. Experiences so far also indicates challenges in the use of pooled funding approaches and country systems within sectors, where the majority of external financing is delivered via project modalities, often with semi-integrated PIUs. Pooled funds also have not overall been fully aligned with Government systems and progress towards a multi-year budget or medium term expenditure frameworks (MTEF) to identify how the strategies can be funded has been slow.

155. Despite such challenges there has been progress towards more sector-wide or cross sector collaboration, such efforts need to be further expanded, including through the increased use of sector wide or programme based approaches.

156. To improve predictability in the flow of development aid and financing and ensure funding is used more efficiently and is better aligned with national priorities; DPs should also be encouraged to increasingly provide medium- to long-term projections and commitments for funding.

4.2 CONCLUSIONS AND RECOMMENDATIONS

157. Overall, Lao PDR and development partners have made good progress towards strengthened and more effective development cooperation and partnerships. The previous sections outline a number of areas, where efforts need to be strengthened and scaled up. The indicative key recommendations are as follows:

- i) To improve alignment with national priorities more effort is needed to ensure that funding is allocated appropriately. As an immediate step, the Lao Government should review with DPs the degree to which ODA and other development aid and financing has targeted the MDGs, not least the off-track MDGs.
- ii) An Action Plan with clear short and medium term priorities on how to improve country systems should be developed and committed to by the Government and DPs, drawing on lessons from SWGs.
- iii) A clear and specific Guidance Note on PBAs should be developed. Such note should draw on experiences and best practices from SWGs, and could build on learning sessions among SWGs to discuss ways to overcome challenges faced.
- iv) A Development Financing and Aid Assessment for Lao PDR should be undertaken as a tool to identify alternative sources of finance, both domestic and external. The outcome of such assessments would also constitute valuable input for the costing exercise for the 8th NSEDP and as a guide in terms of the implications for ODA of graduating from LDC status.
- v) The roles of the SWG Chair and Co-chair mechanism should be continuously strengthened and deepened for these to truly act as a strategic platform for inter-sector and inter-SWG collaboration. Lessons thus far should be more comprehensively documented, studied and shared. In addition, the roles of the SWG secretariats should be continuously strengthened to promote alignment, harmonization and inclusive partnerships through enhanced DP support including capacity development, technical assistance and financial resources.
- vi) Ways to more systematically engage CSOs and the private sector in the SWGs and broader Round Table Process should be explored, building on progress and good practices so far.
- vii) DPs should, where possible, provide indicative multi-year projections and commitments for periods covering at least 3 years on a rolling basis in order to increase predictability, and facilitate improved planning.
- viii) The Government of Lao PDR together with DPs and other relevant actors should review the AMP tool to explore opportunities to enhance the functions and ensure broader coverage of ODA and other financing to Lao PDR. New functions should also support and capture progress monitoring under the VDCAP, the Global Monitoring Framework and funding allocation to national sectors/ line ministries and MDGs.
- ix) The utility of a long-term national Partnership Strategy should be explored. Such a strategy could help clarify the roles, responsibilities and commitments of the Government DPs and other actors in enhancing effective development cooperation. The strategy could also look at ways to address constraints in mechanisms and operational guidelines

for INGOs and NPAs to ensure development projects are planned and implemented efficiently.

PART D - IMPLEMENTING THE RECOMMENDATIONS OF THE 7TH NSEDP MTR AND MDG REPORT 2013 IN THE 7TH NSEDP AND 8TH NSEDP

Based on the 7th NSEDP Mid-term Review (MTR), and the MDG Report 2013, PART D provides: (i) a summary of recommendations being made for the balance of the 7th NSEDP and into the 8th NSEDP (Chapter 5); and (ii) a series of Action Plan concepts for the off-track MDGs which demonstrate how performance can be accelerated (Chapter 6).

5 IMPLEMENTING THE RECOMMENDATIONS OF THE 7TH NSEDP MTR AND MDG REPORT 2013 IN THE 7TH AND 8TH NSEDP

5.1 MTR Priorities for the Balance of the 7th NSEDP²⁵

5.1.1 Macro-economic

158. Economic growth at a level of at least 8% per annum is anticipated, with continued progress towards industrialization with associated changes in the structure of the economy. Challenges include the potential for increasing inflation (partly as a result of the rising price of imports) exchange rate appreciation and an increasing budget deficit. Improved public investment planning also remains a challenge, with a shift to three year framework likely to be instrumental in ensuring that this is within a realistic financing envelope. The increase in public sector salary and benefits has coincided with unexpectedly low revenue from lower than estimated prices of mineral exports and higher spending for other activities including social sector and investments and this has contributed to a high budget deficit. The government has responded to this challenge by taking measures to improve the effectiveness of revenue collection by enhancing the full compliance of revenue collection and management to the laws and regulations, as well as speeding up the modernization process. On expenditure side, the government has decided to tighten fiscal policy by cutting some expenses, in particular the suspending of benefit of 760.000 kip/person/month, in order to give more room for the budget to regain liquidity which would also allow the government to better execute other priority expenses, including social spending. Other measures include broadening the tax base and prioritizing public sector investments. These bold measures are intended to ease current fiscal tension and to improve the effectiveness of budget execution in FY 2013/2014 and in the future²⁵.

159. To address the concern that the impetus given to the national economy by the resources sector could be linked to increasing disparities and to ensure inclusiveness remedial policies will be considered in the public financial system and enhanced benefit-sharing mechanisms, with the possibility of earmarking revenues from hydropower to agriculture as well as to health and education.

160. There is a need to review and, as required, further assess feasibility of, and take decisions on, policy options for combating the existing and possible future effects of overdependence on the resources sector. Options include:

- Use of revenues to boost competitiveness and induce restructuring in lagging sectors, including agriculture and other non-resource sectors;
- Increase allocations to education and training, as a route to improved long-term competitiveness;
- Managing resource price volatility, foreign exchange rate stabilization, and avoiding large balance of payments surpluses; and
- Assessing the feasibility of an 'import-export' bank for investment in enterprises, including import substituting industries.

161. The modernization of the economy as a whole with emphasis on rural development and the non-resources sector is a priority for achieving a broader and more inclusive base for growth in the medium and longer term. Growth in non-resource sector i.e. non-hydro and non-mineral resource exploitation may involve accelerating support to micro and small enterprises (principally by improving the business environment and solving market failures in enterprise finance), accelerating agricultural productivity (by delivery of core agricultural public goods) and

²⁵ Excluding off-track MDGs which are discussed in the following chapter, PART A Chapter 2

financing infrastructure development (particularly in respect of rural connectivity and electrification).

162. It is recommended that Lao PDR continues to allocate revenues from the resource sector for more equitable and inclusive growth and for broader economic and social development as a way of ensuring that finite natural resources yield benefits which accrue for future generations.

163. The quality of return on investments needs to be improved through strengthened project appraisal. This is needed in order to have a more comprehensive view of the expected impacts of public investments. Financial appraisal is needed to take a close look at the impacts of capital investments on the budget. Environmental assessments are fundamental, as is social assessment and indeed using weights in economic appraisals to give greater emphasis to the financial and economic gains to the poor is likely to be beneficial in capital budgeting decisions. There is also a need to take a close look at gender impacts, particularly where it is known that there is an established relationship between gender inequality and growth. These analyses are valid in their own right but also in terms of all the LDC graduation criteria. There are employment supply–demand mismatches with a projection of an overall shortfall in labour supply in 2015 and with acute shortages in some employment sub-sectors.

5.1.2 Rural Development and Poverty Reduction

164. Further poverty reduction efforts need to focus on: (i) creating necessary and enabling conditions for employment and income generation for the people. Continue to encourage commercial productions especially plantation and livestock. In addition, continue to facilitate people's access to public services namely markets, funds, credits and social services; (ii) studying the socio-economic impacts of internal domestic labour migration, Lao labour migration abroad and foreign labours coming to Lao PDR. Continue building the foundation for rural development and poverty reduction by regarding the creation of villages and focal areas as the centre in accordance with the 4 concepts and 4 targets; and (iii) funding of village and focal areas where the needs are great; Actively implement various policies and projects especially relocation project, provision of stable jobs for the multi-ethnic people, village development funds, Poverty Reduction Fund and other development funds of sectors and localities more effectively.

165. As noted above, it is recommended that Lao PDR continues to allocate defined proportions or absolute amounts of revenues from the resource sector for more equitable and inclusive growth and for broader economic and social development. This is a way of ensuring that finite natural resources yield benefits which accrue for future generations. In addition, it is recommended that a review is made of the feasibility of extending the earmarking of revenues beyond education and health potentially to other areas, including delivery of agricultural public goods and actions aimed at boosting private sector competitiveness. In both cases this would have the objective of sector development, but also in mitigating the effects of Dutch disease through improved productivity.

5.1.3 Selected Economic Sectors

- **Agriculture and Forestry**

166. Given lagging growth in the agriculture sector, continued low productivity and heavy reliance on agriculture for livelihoods, agricultural growth should be stimulated through:

- Preparation of a fully costed roadmap to deliver core public agricultural public goods, as defined in the WTO agreement under green box provisions (i.e. including extension, public veterinary services, phyto sanitary, food safety and agricultural information services), coupled with commitments to ensure adequate budgetary resources. This roadmap would build on existing actions and policy in delivery of agricultural public goods including, for example, extension delivery by the Technical Service Centres;

- Ensuring public funding for the delivery of core public agricultural public goods. Experience elsewhere suggests that, in times of budgetary stress, funding for extension and other agricultural public goods is often cut back sharply, with obvious impacts on their efficacy. Hence, and given their importance in agricultural development and commercialisation and, indeed, in improving livelihoods and nutrition, determining legally-mandated minimum budgetary funding provisions and/or earmarked revenues from resource revenues for extension, veterinary, phyto-sanitary and food safety services should be considered (i.e. similar to mechanisms in place for education and health);
- Strongly promote commercial production by closely linking it with industrial processing and marketing especially agriculture production to increase value addition to agriculture sector, create jobs and incomes for the people in the rural areas in conjunction with promotion of other environmentally friendly industries. In addition focus on commercial production in the areas with potential in the large plateau areas by emphasizing food production to supply domestically and for export. Promote vegetable plantations for supply to factories; promote organic vegetables, industrial cash crops and industrial trees; promote livestock farming. Strongly encourage family and collective production to increase real incomes for the people. Research and clearly identify niche products that have potential and at the same time clearly specify the measures and provide guidance for implementation. .

167. Focus on studying the impact arising from land concessions for production especially industrial plantation, in which specially focus should be on: a) employment, b) changing structural composition of agriculture and economy such as: value chain production, development of farming groups, the changing size and production plans of farms; c) impact on poverty reduction, incomes of the people and d) social and environmental impacts.

168. A process for Forest Law Enforcement Governance and Trade (FLEGT) with the European Union to work on forest governance, timber legality and timber legality assurance systems has been initiated. The institutional set up of the FLEGT committee was established and capacity building measures conducted. The negotiation process should start in early 2014.

169. Strengthen the participatory demarcation process of protection forests and continue the process of FSC certification in production forests. Focus on the development and support for village forest establishment and supporting grass root level forest management.

170. Further develop the legal framework for Payment for Environmental Services (PES) including REDD+ to attract external climate financing and develop domestic PES schemes, focusing on watershed management and cooperation with the hydropower sector.

● **Transport**

171. To inform policy on transport sector investment (and, specifically, the relative merits of national transport corridors versus local transport systems) under the 8th Plan, an economic and social assessment (including contribution to MDG achievement and the Human Assets Index) should be made in 2013 and 2014 of (a) the impacts of investments in roads linking Lao PDR to international corridors and (b) in national and local road systems outside these corridors.

172. Conclusions in this area and findings in other sectors where there has been heavy public investment will further inform the validity of the government's wish to encourage (a) a progressive shift from technical assistance to investment financing, coupled with a scaling-up of development assistance actions to provide for critical mass; (b) embedding development assistance, whether ODA on grant terms or concessional finance, in a sound policy base; and (c) maximizing the benefits of ODA and concessional finance in the context of achievement of the MDGs and LDC graduation, the latter as part of a smooth transition process.

5.1.4 Selected Social Sectors

- **Education and Health**

173. Along with accelerated activities to achieve MDG 2 in education development of post-basic education (both public and private) must continue to ensure production of an adequately skilled workforce for a rapidly changing economic environment. In the health sector the achievement of MDG targets for MDG 1, MDG 4 and MDG 5 in particular are essential along with continued intensification of health service provision. (Please refer to Part D Chapter 6 and Annex 1).

- **Employment and Labor Migration**

174. Given spontaneous domestic migration and the evidence that there is, as might be expected, significant rural-urban migration apparently linked to urban growth, there is prima facie evidence that urban growth is significant in its own right and also in rural transformation. In view of this, an analysis is recommended of the economic impact of urban settlement and growth in Lao PDR, the ways in which urban growth can be stimulated and methods of strengthening the transmission or growth effects into rural areas.

175. Further poverty reduction effort needs to effectively target “core” poverty. This will, however, also require resolution of whether this should involve actions addressing people or place. The government’s policy is currently to focus on measures which address people, through moving them and/or encouraging relocation from remote places to less remote places. There is also evidence that people are also moving themselves spontaneously, despite legal and administrative barriers to their doing so, and that this mainly involves rural-urban migration. This latter movement almost certainly involves a response to incentives, which could involve better livelihoods in the place of destination and/or more favourable service provision. It is, nonetheless, possible that there are negative effects from this, including increasing slum housing and stress on service provision arising from demand above expected levels (notably in health and education, but also in water supply, sanitation and electricity).

176. In addition to domestic and international migration of Lao nationals, there is anecdotal evidence of unregulated in-migration of labour from neighbouring countries leading to concerns in respect of impacts on labour demand and wage levels in local domestic labour markets. The obvious fear is that this drives down domestic wage rates and limits employment opportunities for Lao nationals, who are out-competed by migrants. In fact, the opening of labour markets with ASEAN from 2015 onwards will tend to exacerbate this and hence preparedness for the free movement of labour under the ASEAN Economic Community is also an imperative.

177. It is accordingly apparent therefore that policy on domestic migration, whether planned or unplanned, needs to be further specified. As a basis for resolving policy in this area, an analysis should therefore be conducted in 2013/2014 on the economic and social impacts of (a) domestic migration within Lao PDR and (b) international migration from and to Lao PDR with a view to maximizing economic benefits and minimizing negative social externalities.

5.1.5 Sustainable Development

178. Urgently strengthen procedures and social, financial, economic and environmental criteria of project appraisal as a basis for selection and prioritization of resources sector investments. The overall aims are to ensure improved quality of resource sector investments and the promotion of inclusiveness and sustainability.

5.1.6 Trade and Private Sector Development

- **Competitiveness**

179. It is recommended that earlier analyses made of bottlenecks to private sector development for the 7th NSEDP are re-visited, as policy analysis for the 8th NSEDP, and as a

basis for: (i) building support for, and raising the profile of, policy and actions supportive of private sector development; (ii) promoting and building consensus around the role that the non-resource private sector will play in broadening the base for growth; and (iii) defining actions aimed at increasing preparedness for the competitive pressures likely to arise from the ASEAN Economic Community after 2015;

180. Accelerated efforts are needed to achieve significant and rapid improvements in the business environment leading to marked improvement in Lao PDR's ranking in international business environment 'league' tables through (a) a review of measures taken by countries which have made the most pronounced business environment gains and assess the feasibility of the adoption of similar processes in Lao PDR; (b) subject to the results of the above analysis, reviewing organisational arrangements for business environment improvement, including the feasibility of establishing a high-level government task force in this area; (c) publishing a publicly-available scorecard on progress on the various business environment indicators (to raise consciousness of the business environment in Lao PDR). Note that international experience suggests that business environment reform is heavily dependent on political will and resolving barriers. As a result, actions in this latter area will be required in parallel with actions in business environment reform;

181. Given the emphasis in the 7th Plan on rural enterprise development, conduct a rural business enterprise environment assessment to determine if the rural business environment is significantly different from the urban business environment and hence if business environment reform measures need to be modified. This would potentially highlight institutional weaknesses at the sub-national level, collateral shortages, constraints on collateral recovery (particularly in the form of farmland) and greater problems in getting electricity;

182. Given the particular problems noted in Lao PDR in getting credit, develop a strategy for addressing market failures and other barriers in enterprise and agricultural finance, such that businesses and farms have improved access to finance. As part of this, assess the feasibility of mobile banking for reducing the proportion of the population that is unbanked.

183. Make a financial and economic assessment of the impacts of SEZs. Special Economic Zones in Lao PDR range from those established some years ago (the oldest was created in 2003) to those which are still in the process of being installed. Given the prominence of the approach in economic development policy and the objectives of promoting investment, increasing exports, generating employment, and increasing budgetary revenues, a review of the performance of SEZs to date is merited. The objective would be to guide the design and management of the SEZs coming on stream and policy for any future zones. It would thus prospectively focus on: (i) effects on foreign direct investment (with special attention to additionally) and on domestic investment, including any evidence of crowding-out; (ii) agglomeration impacts and development of industry-specific supply and value chains; (iii) net budgetary impacts; (iv) employment, wage, and cost of living impacts and respect for labour standards; (v) influence of SEZ scale and proximity to other SEZs on their performance; (vi) land acquisition and compensation policies and practice; (vii) opportunity costs in terms of existing or possible economic activities in the area; (viii) effectiveness of management arrangements and services; (ix) factors determining success of the SEZ; and (x) contribution to structural transformation, including diversification, economic upgrading and technology transfer.

184. Given the international evidence available of the importance of urban growth for surrounding rural areas and given the obvious constraints and slow progress in rural enterprise development, an analysis is recommended on the economic impact of urban settlement and growth in Lao PDR, the ways in which urban growth can be stimulated and ways of strengthening the transmission or growth effects into rural areas.

5.2 8th NSEDP Preparation

185. The 8th NSEDP (2016-2020) is the means of implementing the final stage of the 2020 Strategy and the Resolutions of the 10th Party Congress. The 8th NSEDP will enable LDC graduation by 2020 by continuing the processes of industrialization and modernization and regional and international integration. The 8th NSEDP will be implemented in the context of, and will consolidate, the re-allocation of national, provincial, district and village responsibilities as specified in the Central Party Committee No. 03/CPC.

186. Government is currently preparing the 8th NSEDP Concept Note, an associated Instruction from the Prime Minister's Office and Technical Guidelines for 8th NSEDP preparation. Broadly, the aim is to distribute these documents to national and sub-national levels of government, and other stakeholders around November 2013 with responses and consultations in the first half of 2014.

5.2.1 Draft Priorities

187. The experience of the 7th Plan to date, the achievement and sustainability of the MDGs, LDC graduation and the accompanying thrust of policy goals suggest that continued gains in human and economic development in the 8th NSEDP will in practice involve focus on a number of main directions:

- Stimulating the non-resource sector and making the private sector a cornerstone of future development;
- Increasing the competitiveness of small and medium enterprises (SMEs) in order to be a foundation for growth and employment as well as for poverty reduction.
- Developing entrepreneurs' technical and professional skills by strengthening marketing capacity, mobilizing financial resources for enterprises and businesses and improving the business climate within the framework of maximizing the benefits of WTO membership and preparing for integration into ASEAN Economic Community.
- Further development of infrastructure for small and medium enterprises and human resources, enabling the people, farmers and entrepreneurs' to access business, economic, social and cultural services.
- Assessing the impact of land concessions and land lease on agriculture sector in order to manage concessions more effectively.
- Continue implementation of the Millennium Development Goals with special focus on the off-track MDGs. Protect the environment by focusing on environmentally friendly production

5.2.2 LDC Graduation

188. Graduation from LDC status by 2020 is a key long-term objective of the Government and the 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. Graduation will be determined on the basis of the three dimensions of the country's state of development: income level, stock of human assets and economic vulnerability. The Human Assets Index is based on development in nutrition, health and education. Educational development is measured by (i) the adult literacy rate and (ii) the gross secondary school enrolment rate.

189. In an assessment of progress made in 2012, UNCTAD reported that Lao PDR had achieved 86% of the requirement for graduation in terms of GNI. This is of course cause for optimism, but successful graduation also relies on achievement of the human assets or economic vulnerability criteria. Accordingly, renewed effort is need in achieving MDG targets on nutrition, health (child mortality), primary and secondary school dropout rates, as well as

ensuring a more broad-based, and inclusive economy with a stronger sustainable non-resource sector. These are aims for the balance of the 7th NSEDP and for the 8th NSEDP.

190. The 8th NSEDP directions are brought into sharp focus by the government's wish to manage the LDC graduation process for maximum gain and to minimise externalities through a smooth transition strategy. This will involve maximising the benefits of ODA and, in particular, concessional finance while Lao PDR is still classified as a LDC. This is crucial to achievement of the goals of the 7th Plan and hence realisation of the MDGs and prospectively to the 8th Plan, with its likely reorientation to LDC graduation. But both prior to and after graduation, and especially if concessional finance and ODA are negatively affected by international economic contraction, and as the trade-related implications of graduation take effect, increased recognition should be given to the crucial role to be played by domestic private sector development and FDI in providing an engine of future growth for poverty reduction. The push given to private sector development recommended for the 8th NSEDP will be crucial in this respect, both in terms domestic private sector growth but also in terms of responding to the withdrawal of trade-related benefits that have been associated with LDC status.

5.2.3 Strengthened NSEDP Planning and Implementation

191. Achieving LDC graduation will require continued public investment (funded from both domestic and external sources), in a range of sectors. In this respect, and to achieve maximum efficiency in public investment, there is a need for a predictable multi-year financing framework for public investment through a rolling, multiyear public investment programme. In order to do this, MPI and the MoF annually should prepare a three year rolling forecast of the resources available for public investment (whether from domestic resources, concessional loans and other borrowing under sovereign loan guarantees).

192. Strengthened NSEDP planning and implementation will necessitate strengthening national plan implementation arrangements with emphasis on coordination between central and sub-national government (including implementation of the Sam Sang system of devolved responsibilities). In practice, this will comprise emphasizing the role of line ministries in policy and the installation of capability for analysis of policy options. . It will also include strengthening the role of apex ministries and, in particular, the office of the Prime Minister in inter-ministerial coordination. There is much discourse on and anecdotal evidence of lack of inter-ministerial coordination. Accordingly a review of inter-ministerial coordination arrangements is recommended.

193. The 8th NSEDP monitoring & evaluation system should contribute to: (i) better definition and management of the outcomes of development; (ii) improvement of the efficiency and the effectiveness of public investments; (iii) the processes of de-concentrated and, eventually, decentralised administrations; and (iv) place more emphasis on qualitative targets for sustainable poverty reduction.

6 ACTION PLANS TO ACCELERATE PROGRESS WITH OFF-TRACK MDGS

194. As noted in Part A Chapter 1, the NSEDP Mid-Term Review and the 2013 MDG Report identified MDGs which are off-track. Of special concern²⁶, the country is off-track in: (i) MDG 1 (malnutrition); (ii) MDG 2 (low education survival rates); (iii) MDG4 (under- 5 mortality rate; (iv) MDG 5 (maternal mortality); and (v) MDG 9 (UXO). In the sub-sections below, the policies, programs and strategic contexts of each of the off-track MDGs are described and Action Plans to

²⁶ Other MDGs are not on-track i.e. MDG 7. The Action Plans in this Document have been developed for the highest priority off-track MDGs

accelerate progress with MDG achievement are presented. Please note that the full text of the following MDG Action Plans is set out in **Annex 1**.

195. The emerging budget challenges and its implications for both recurrent cost and investment funding creates a new environment for MDG achievement and, more widely, for development actions. While efforts continue to reduce public expenditure and, in parallel, to increase revenues it is nonetheless apparent that both recurrent and investment expenditure will be squeezed in the short run. This means that widely anticipated increases in budgetary expenditure as a result of continuing growth are likely to be disappointed, at least for some time to come.

196. In practice, the challenge strengthens the case for improved budgetary planning and management, preferably over a multiyear period. While a Medium Term Expenditure Framework is not fully functional, there are prospects that the multiyear rolling public investment programme will soon be installed (and indeed this was a recommendation of the mid-term review of the 7th NSEDP), thereby allowing for greatly improved budget management in this area. This is important not only because public investment is thought to represent such a large share of expenditure under the 7th NSEDP, but also because recurrent cost provisions need to be made for new public investments once they are commissioned.

197. Measures aimed at financing the budget deficit will, in the short and medium, reduce some of the downward pressure on both recurrent and investment financing, thereby lessening the constraints that the budget challenge imposes on MDG achievement. There will nonetheless of course be downstream implications associated with any loan repayment. In addition, the current budgetary pressures offer to chance to reconsider the role of ODA and potentially to focus it further on the MDGs. Analyses suggest ODA commitments to the MDGs at levels lower than might have been expected given the MDGs' prominence in the 7th NSEDP. As a result, increasing the share of ODA going to the MDGs now looks even more pertinent.

6.1 MDG 1 – Nutrition

198. The National Nutrition Committee has taken the lead in developing the Multisectoral Food and Nutrition Security Action Plan, which was initiated at the provincial RTIM in Luangnamtha in June 2013. This Action Plan represents a streamlined version of the 2008 National Nutrition Policy and the 2010-2015 National Nutrition Strategy and Plan of Action, and employs two main strategies: prioritization and convergence.

Key Priority Actions

199. The Action Plan takes the 44 Priority One interventions of the 99 interventions of NNS/NPAN, and reduces them to a more manageable selection of high-impact, evidence-based interventions in the agriculture, education, health and WASH sectors identified through active discussion and consultation. The Action Plan operates on the principle: Plan multisectorally, implement sectorally, review multisectorally. The multisectoral planning is presently underway together with the development of mechanisms for the monitoring and evaluation of Action Plan interventions. The list of identified priorities is set out below.

List of priority interventions by sectors

Health²⁷

²⁷ MCH activities, including Family Planning, Antenatal/Delivery/Postnatal Care, Care of Sick Child with Diarrhea and Pneumonia, and Growth Monitoring have not been included in the Multisectoral Food and Nutrition Security Plan since these interventions have been included in MDG 4 and MDG 5 action plans and the first phase of health reforms strategy implementation

- 1) Weekly Iron Folic Acid for women of reproductive age
- 2) Daily Iron Folic Acid to pregnant women
- 3) Vitamin A supplementation of children 6-59 mo. old
- 4) Deworming for children 12-59 mo. old
- 5) Infant and Young Child Feeding promotion and counselling
- 6) MNP distribution
- 7) Community-based nutrition counselling programs to women of reproductive age
- 8) Food supplementation (children under 2 years)
- 9) Food transfer for pregnant and lactating women utilizing health services for ANC, delivery and PNC)
- 10) Management of acute malnutrition
 - a) Inpatient
 - b) Community-based management of severe-acute malnutrition
 - c) Community-based management of moderate-acute malnutrition
- 11) Salt Iodization

WASH

- 1) Water supply in communities, health centres and schools
- 2) Improved sanitation and hygiene promotion
 - a) Community level
 - b) Schools
 - c) Health facilities
- 3) Household water treatment and storage

Agriculture

- 1) Home gardens including drip irrigation technology
- 2) Small animal raising
- 3) Animal vaccinations
- 4) Food processing, preservation, storage
- 5) Women's employment generation through agricultural value chain and non-timber forest products

Education

- 1) School meals
- 2) School gardens
- 3) Nutrition education of school children
- 4) Primary school deworming
- 5) Iron folate for secondary school girls

Enabling Activities, Challenges and Contributors

200. The plan is unique in adopting a geographical convergence model, whereby Agriculture, Health, Water and Sanitation and Education interventions will be implemented in all villages of the same targeted districts characterized by high levels of food insecurity, malnutrition and poverty. In the first phase of the Action Plan (2014-2015), it is proposed to implement convergent action in 26 districts of 7 provinces. The number and list of identified districts and provinces for both scenarios are provided in Annex 1 (Appendix 2).

Expenditure Breakdown of Additional Activities to Accelerate Performance

201. Costing and financial gaps estimation presented below is based on the best possible information that the secretariat of the National Nutrition Committee could gather during the consultation process with line ministries, provinces, districts and development partners. The review of the costing continues and further refinements are being made as more comprehensive and quality information becomes available.

202. Costing and financial gaps estimation has been applied to geographical phasing of the convergent approach as described below:

Involving 26 districts from 7 provinces for all of 2014 and 2015:

US\$

Sector	Total cost	Available resources	Financial gap
Agriculture	42,840,000	21,700,000	21,140,000
Education	9,800,000	3,650,000	6,150,000
Health	9,380,000	1,994,000	7,386,000
WASH	18,480,000	3,200,000	15,280,000
Multi-sectoral coordination, external monitoring and evaluation (1.5% of total costs)	1,207,500 ²⁸	25,000	1,182,500
Total	81,707,500	30,569,000	51,138,500

6.2 MDG 2 – Universal Primary Education and MDG 3 Gender Parity in Education

203. Although this document focuses on MDG2, it should be remembered that the education sector must balance resourcing of MDG2-related strategies with development of post-basic education in order to respond to the beginning of ASEAN integration in 2015 and the target of exiting Least Developed Country Status by 2020.

Key Priority Actions

204. The ESDP mid-term review identified a number of recommendations to improve progress to the MDG education-related goals; within the context of budgetary constraints. Among these, the First and Second Priority actions include:

First Priority Actions

- Identify strategies to improve the efficiency of teacher deployment;
- Identify interventions that will reduce high dropout rate from primary Grade 1; and

²⁸ As above

- Develop and implement appropriate support mechanisms to mitigate these causes of dropout.

Second Priority Actions

- Continue to make incomplete primary schools complete, including support to multi-grade schools to ensure that all primary schools offer all 5 years of primary education.
- Consolidate Non-formal Education, including adult literacy: efforts should continue to be made to support pilot interventions with careful monitoring of impacts. If they are to be institutionalized issues need to be addressed which include teacher training, funding norms, regulations, and systems for transfer into the formal system.
- Proceed with planned expansion and consolidation of school feeding programs based on a robust evaluation to be conducted by 2015. The GoL approach needs more time to establish and develop, but it is critical that it is evaluated before any future expansion.
- Continue implementation of school grants and scholarships, considering ways to improve targeting. In future, the allocation formula needs to take account of the needs of small schools and the need for equivalent funding for children in non-formal primary education. Monitoring of use of such funds should be strengthened to ensure that block grants are not used for investment-type activities. The allowable 'community contributions' should be monitored to ensure that schools can mobilize resources to support school development, including investment-type activities without undermining access for the poorest.
- Increase focus on instructional leadership and whole school development: over 2013-15 a clearer national framework for whole school development should be developed.
- Strengthen pre-service teacher education with revised teacher education curriculum.
- Promote and institutionalize school based in-service training and strengthen professional network through linking TEIs, PESS and DESB to improve the quality of pedagogic support to schools.
- Strengthen integration of information management systems, including for Finance (FMIS), Personnel (PMIS), Teacher Education (TMIS) and Education data (EMIS).
- Further develop the National Education Quality Standards to support progress measurement and resource targeting. Aim to achieve an inter-linked set of standards and frameworks that can be used at different levels. Frameworks should set levels to enable a sense of progress and support prioritisation.

Enabling Activities, Challenges and Contributors

Priority 1

- In order to improve the efficiency of teacher deployment, further analysis of the current teacher distribution profile at all levels will be continued, and a study of underlying causes for current inefficiency will be conducted. Once details of the budget for 2013/14 are analysed to determine wage and non-wage allocations, annual costed plans will be revised for 2013/14 to adjust to the real budget allocated, and plans for indicative budgets for 2014/15 will be developed by each province and the central level to identify how deployment of primary teachers can be made more efficient across all districts. These plans will then inform entry requirements to the various Teacher Education Institutions.
- Additional research will be undertaken to better inform the sector about key issues raised in the mid-term review. The scope of this research will be confirmed and agreed during the Joint Sector Review Mission in late 2013, but may include a study to identify interventions to reduce primary dropout, particularly at grade 1 and evaluations of the

school meals and block grant strategies. This study will need to be comprehensive and address differences across the country. It will also need to seek information from families and children as well as from school and district education staff.

- Depending upon the results of these studies, a pilot implementation of flexible school calendars to better align with the agricultural cycle may be considered; a mix of formal and non-formal approaches may be trialled; an expansion of early childhood development opportunities; or a combination of these or other strategies identified in the research study.

Priority 2

- School construction plans will also be determined to take account of available teachers. On the basis of these plans, sites for school construction and recruitment of teachers will be identified with a priority given to areas where primary dropout through lack of access to all five grades is a challenge. The Department of Planning will consolidate all plans into a single sector action plan in coordination with ESWG Focal Groups.
- An evaluation of the school meals program would inform a better understanding of how provision of school meals can improve attendance and reduce dropout from primary school. A study of the school block grant strategy would aim to inform improved targeting and distribution of the grants to further reduce cost barriers and improve the quality of learning.
- Quality improvements need to be continued in parallel to strategies to improve primary participation and completion rates since the quality and relevance of what children learn in the classroom also impacts on the value that parents attach to education and therefore the likelihood that opportunity costs for sending their children to school will be accepted. Activities to improve quality will focus on capacity building for improved instructional leadership and whole school development, including an active role for Village Education Development Committees together with further work to achieve an inter-linked set of standards and frameworks that can be used at different levels.

Expenditure Breakdown of Additional Activities to Accelerate Performance

205. The cost of these activities will be informed by the results of the analysis and research mentioned above, and will be determined by recurrent budget availability reflected in the outcomes of the annual costed plans. The costed plans will identify how deployment of primary teachers can be made more efficient across all districts and this will determine where schools and/or additional classrooms can be constructed. Investment plans will be implemented only when the required recurrent budgetary funding is available. Indicative costing developed earlier as part of ESDP suggest the following costs, although these were estimated at a time when the non-wage recurrent budget was continuing to expand:

- *Research studies:* The estimated cost of the various research studies is approximately \$0.5 million.
- *Additional infrastructure required:* At this stage, only an indicative assessment can be made for additional infrastructure cost requirements. If the survival rate to Grade 5 is to increase from 70% to 95%, many more students will remain in the system and progress to higher grades. Indicative estimates suggest up to an extra 3,700 primary classrooms will be required by 2015. Based on existing unit costs, this equates to \$33 million.
- *Recurrent implications:* The additional investment in classrooms will also require extra human resources (teachers). The current deployment of primary teachers is not efficient. If improved inefficiency cannot be achieved by 2015, then up to an extra 3,700 primary teachers will be required at an annual cost of just under \$21 million, equivalent to a 10% increase in the existing primary teacher salary bill²⁹.

²⁹ Estimates based on EDSP 2011-15 financing plan

- In order to provide quality education and abolish cost barriers to primary education, a school block grant scheme was introduced in 2011/12. The budget for this scheme was 42 billion kip in 2012/13, based on the unit cost of 50,000 kip per publically enrolled primary school. To achieve universal primary education, and assuming that repetition rates reduce to an average of 3%, the overall total enrolments will increase by about 15%. Thus the annual budget for school block grants would increase to about 48 billion kip, assuming that the unit cost remains at 50,000 kip per student per year.
- Investment implications (other than infrastructure): Due to GoL constraints in the non-wage recurrent budget, greater support will be placed on development partners for financial support to pilot implementations and quality improvements. Development partners will need to determine their responses to requests for external funding of more recurrent-type activities.

Key Priorities	Additional Funding Requirements
Research Studies	US\$0.5m
Additional Infrastructure	US\$33m
Recurrent implications	US\$21m pa (additional)
School Block Grant Scheme	Kip 6b (annual)

6.3 MDG 4 – Under-5 Mortality Rate

206. *Even though the latest information suggests that Lao PDR has achieved MDG 4, it still has one of the highest U5 Mortality rates in the region*

Key Priority Actions

- Outcome 1: To increase the proportion of children protected from vaccine-preventable diseases
- Outcome 2: To improve the nutrition status of mother and child
- Outcome 3: To increase the proportion of children with the two major causes of child mortality (pneumonia and diarrhoea) who are treated according to standard treatment
- Outcome 4: To improve basic care of neonates especially within the first 3 days after birth
- Outcome 5: To assure healthy pregnancy and un-harmful delivery care for foetuses.

207. In order to achieve these outcomes, basically four types of outputs are set up for each outcome: (i) to make the essential service available; (ii) to make it accessible; (iii) to make it affordable; and (iv) to create demand for it.

- For the first outcome, numbers of children immunized at health facilities will be increased by making immunization services always available. In order to achieve this outcome, it will be necessary to ensure adequate supply, distribution and storage of vaccines to/at health centres. Immunization service will be made available and accessible for children living in remote villages. In order to achieve this outcome, the target villages that are covered by outreach will be clearly defined by the district health offices and health centre staff will also be supported to conduct outreach visits to remote villages at least four times a year by deploying at least 3 staff and a motorbike per health centre as well as operational costs.

- For addressing the two major threats to children (pneumonia and diarrhoea) the priority is prevention by immunization and improvement of nutrition status, including promotion of good hygiene practice. However, in addition to prevention, standardized treatment will be made available as an essential primary health care service not only at all the district hospitals but also all the health centres by assuring trained staff, essential medicines and equipment. To mitigate financial barrier for poor people to access such treatment, the free service policy for children under five will be expanded to all health centres. Basic neonatal care and simple resuscitation using a bag and mask will also be provided at all the health centres and district hospitals.

208. Outcome 2 and 5 are addressed under MDG1 and MDG5, respectively.

Enablers, Challenges and Contributors

- Lao PDR has good overall policies that aim at expanding child survival interventions and reducing inequities in health services utilization among different groups.
- The health reforms prioritize the expansion of certain high priority interventions to reach the MDGs. Implementing these high-impact low-cost interventions could reduce two-thirds of child deaths. Large-scale implementation will be needed so that the interventions reach high levels of population coverage.

Expenditure Breakdown of Additional Activities to Accelerate Performance

MDG	Indicators	Targets	Cost (million US\$)		Total US\$ (Millions)
			2013/14	2014/15	
4 – Child Health	Infant Mortality Ratio (per 1000 live births)	45	20.3	22.5	42.5
	Under 5 Mortality Ratio (per 1000 live births)	70			

Source: Draft Health Sector Reform Framework 2013-2025, Ministry of Health 2013

6.4 MDG 5 – Maternal Mortality

Key Priority Actions

209. There are two main outcomes expected to reduce maternal mortality rate in Lao PDR,
- Outcome 1: To increase safe delivery up to 50% of pregnant women
 - Outcome 2: To reduce unmet need for Family Planning by 15%.
210. In order to achieve these outcome, the same logic as one for MDG4, availability/accessibility/affordability/demand, is applied to outputs for MDG5.
- For the first outcome, basic safe delivery services will be made available as close as possible to the community. This will be done by deploying skilled health staff (such as midwives) in all health centres and providing a working environment that comprises essential medicines and equipment and adequate infrastructure, as well as technical support. Such basic safe delivery services will be affordable to even poor people by expanding free delivery service. They should also be as accessible as possible to people living in rural villages by establishing a local transportation arrangement for pregnant women within a community, which requires community participation and collaboration with other sectors to create innovative solutions using existing resources or opportunities. Active efforts will be needed to have people understand the necessity to seek for safe delivery and on available and affordable services by taking any occasions such as antenatal care, outreach visits, mass media, and historically significant days or events.

Secondary, advanced safe delivery services will be made available, including caesarean section and transfusion of blood in case of high risk pregnancy or emergency by fully equipping all 27 hub district hospitals with skilled teams, necessary medicines and equipment.

- For the second outcome, family planning with modern contraceptive methods will be made available, giving priority to very remote rural villages, for which safe delivery service is hardly accessible and unmet need of contraception is highest (28%), by integrating family planning services with outreach visits for immunization and by mobilizing community health volunteers. In the other area, a wider choice of contraceptive methods will be made available, which could encourage more couples to use modern methods. There is also a need to reduce teenage pregnancy, which offers higher risk for complicated delivery and reduce survival chance of neonate. Since teenage pregnancy is rooted in not only lack of knowledge of adolescents but also some local cultural practices, collaboration between community, school, mass organization, local authority and district health office is necessary.

Enablers, Challenges and Contributors

- As for MDG 4

Expenditure Breakdown of Additional Activities to Accelerate Performance

MDG	Indicators	Targets	Cost (million US\$)		Total US\$ (Millions)
			2013/14	2014/15	
5 – Maternal Health	Maternal Mortality Ratio (per 100,000 live births)	260	18.8	22.5	41.3

Source: Draft Health Sector Reform Framework 2013-2025, Ministry of Health 2013

- **Additional Actions for MDG 4 and MDG 5**

Additional Key Priority Action for MDG 4 and MDG 5

211. Improvement of the quality of Maternal, Neonatal and Child Health (MNCH) service

- Improvement of the quality of Maternal, Neonatal and Child Health (MNCH) service - As described in the goal-specific action plans, the priority is to assure availability, accessibility and affordability of essential services, in other words, to assure the quantity. However, since the object of MDG 4 and 5 is a life of people, it is essential to pursue quality of services as well. Good quality health services are provided by health personnel who are satisfied with his/her working environment. Such good working environment at health facility will be set up by self-help endeavor of each facility such as peer supervision or 10MR³⁰ with establishing external support system including uninterrupted supply of medicines and medical product. MOH will define criteria and accredit the facilities with good quality services as a quality health facility.
- Strengthening managerial capacity of MNCH program - Health service provision and health promotion for MDG 4 and 5 requires skilled human resource, financial resource, and medicines and equipment. Accordingly, health officers need good skills to efficiently manage these various resources especially under the resource-limited condition. Localized planning at district level based on good quality of data will be strengthened. Problem-solving skill, another imperative managerial skill, will be strengthened by

³⁰ 10 MR is a performance monitoring method that has been introduced by Lao MOH in district hospitals and health centers. Each facility sets and monitors activities to meet ten minimum requirements for quality services.

establishing cascade-type of supportive supervision system and monitoring system from central to community level.

- Strengthening community health system - Since nearly 70% of the population in this country lives in rural areas, strengthening facility-based health services is not enough to reach MDG 4 and 5. We will extend our health networks beyond the health centers by expanding health model villages, training village health workers, reinforcing communication and collaboration between a health facility and communities.

6.5 MDG 9 – UXO

212. Objectives, Major Actions and Indicators of Achievement have been specified in the Sector Strategy, the Safe Path Forward II. Proposed adjustments in strategic direction are new, currently unfunded, proposed measures to accelerate performance of the UXO sector, to get it back 'on track'. They are presented below as 'Recommended Priority Actions' for each of the six key objectives for the UXO sector set out by Government in Safe Path Forward II'.

213. Please note that the Sector Working Group has identified UXO Survey in development focal areas as the foremost priority activity for expansion and acceleration, for the balance of the current NSEDP period. This is expected to result in significant increases in the amount of high-value land for development activities released each year and a reduction in poverty. At this juncture, it is very likely that acceleration of UXO Survey will remain the priority throughout the NSEDP VIII period.

Key Priority Actions

- Promote a significant increase in survey activity by all relevant operators in the UXO sector, prioritizing development focus areas.
- Expand risk education to all 17 provinces in both primary and secondary school in at risk villages and through local media broadcasting.
- Identify the requirements and services to assist UXO survivors further based on data from the UXO Survivor Tracking System.
- Finalize the NRA Victim Assistance Strategy and sector-wide strategy for the Disabled and UXO survivors.
- Increase National Regulatory Authority (NRA) capacity to measure and establish, in development terms, the rate of return on investment in the UXO sector³¹.
- Where feasible, adopt and implement the Land Release as one approach to clearance in Lao PDR³².

Enablers, Challenges and Contributors

- NRA should continue to consult closely with relevant partners at the national and provincial levels and with operators to develop annual and multi-year work-plans for the sector, and to develop institutional capacity, ensuring also a more strategic and inclusive use of the SWG and related mechanisms.
- Ensure essential elements of the new multi-year UXO Sector Work-plan are included in the 8th NSEDP, and in subsequent NSEDPs as appropriate.

³¹ As a complement to clear humanitarian benefits and meeting treaty obligations of the CCM and CRPD

³² International Mine Action Standards (IMAS) on Land Release have been developed and used as a basis for land release in other countries with good results. If adopted, this process could dramatically increase the area of land released each year to many times the current level.

- Linked to the point above, gradually mainstream UXO Sector Activity into sustainable socio-economic development strategies and programmes.
- Increase financial investment of the Lao Government and the international community in the UXO sector in Lao PDR, commensurate with ambitious targets for survey and clearance established by government and limitations on absorptive capacity by national and international operators.
- Increased support in particular to the institutional strengthening of NRA, UXO Lao and the Lao Army in humanitarian mine action.
- NRA, in collaboration with the Ministry of Justice, should commence the development of national legislation that adequately meets all CCM Treaty obligations, in order to remain compliant and a State party to the Convention on Cluster Munitions (CCM) in good standing.

Expenditure Breakdown of Additional Activities to Accelerate Performance

Key Priorities	Additional Funding Requirements 2014	Additional Funding Requirements 2015
Promote a significant increase in survey activity by all relevant operators in the UXO sector, prioritizing development focus areas.	64 Focus Areas US\$3,850,000 Output – 14,520 ha surveyed	64 Focus Areas US\$2,508,000 Output – 14,520 ha surveyed