

LAO PDR ECONOMIC MONITOR



THE WORLD BANK VIENTIANE OFFICE



NOVEMBER 2007

BACKGROUND

With an estimated per capita income of US\$500 in 2006 (see Table 1), the Lao People's Democratic Republic (Lao PDR) is one of the poorest countries in East Asia and is classified by the UN as a Least Developed Country (LDC). Despite this, significant poverty reduction has been achieved during the last decade. Using the Lao PDR national poverty line (of approximately US\$1.5 a day) the incidence of poverty has fallen from 46 percent in 1992/93 to around 33.5 percent in 2002/03. Social indicators have been improving too, but they remain among the worst in the region and measurement quality is low.

Lao PDR has a population of around 5.7 million (2006) and a land area of 236,800 km². It has significant natural resources, including forestry, minerals and hydro- electric power. Although its GDP share is declining, agriculture is still the largest sector in the Lao economy, contributing 42 percent to GDP in 2006 and employing nearly 80 percent of the labor force. Industry accounts for around 32 percent of GDP and services for nearly 26 percent. Landlocked and increasingly becoming land-linked, Lao PDR is in the center of the Mekong region. It shares borders with Thailand, Vietnam, Southern China, Cambodia and Myanmar and most of these neighbors are growing rapidly.

The Lao PDR economy has grown strongly for more than a decade. In 1990-2000 as well as 2001-2005, real GDP grew by an annual average rate of 6.3 percent, even though there was a sharp fall-off in growth during the regional crisis of 1997-1999. Remarkable growth was achieved in exports, agriculture, industry and services during the period.

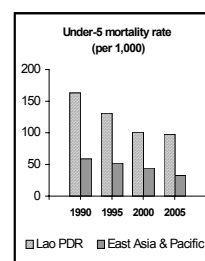
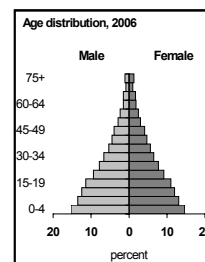
Transition to a market economy. The Government of Lao PDR (GOL) introduced the "New Economic Mechanism" (NEM) in 1986, to begin the transition from a centrally planned to a market-oriented economy. Gradually, price controls were removed, socialist cooperative farming abandoned, the exchange rate system unified, the government's monopoly on trade removed, the number of state-enterprises was

reduced and operation of private firms allowed. Reforms stalled during the regional crisis, as Laos struggled with serious macroeconomic problems. Successful stabilization began in 2000 and structural reforms revived in 2001 and have been continuing since then.

Fighting poverty. In April 2002, the GOL finalized an Interim-Poverty Reduction Strategy. Based on this and its five-year National Socio-economic Development Plan for 2001-05, the Government adopted a consultation process to prepare the National Poverty Eradication Program (NPEP). The NPEP was presented to the donors' Roundtable Meeting in September 2003, discussed by the National Assembly in October 2003 and upgraded to the National Growth and Poverty Eradication Strategy (NGPES) in early 2004. This document articulates Lao's development framework, targets and goals for poverty reduction and outlines the policy reform and public expenditure programs needed to achieve these goals. In November 2006, the Government presented the new Poverty Reduction Strategy, the National Socio-Economic Development Plan (NSED) for 2006-2010, which is expected to succeed the NGPES as a poverty reduction strategy.

Table 1. Lao PDR, EAP and Low Income Countries: Comparing Development Indicators

Key Development Indicators (2006)	East Asia & Pacific		
	Lao PDR	East Asia & Pacific	Low income
Population, mid-year (millions)	5.7	1,900	2,403
Surface area (thousand sq. km)	237	16,300	29,215
Population growth (%)	2.2	0.8	1.8
Urban population (% of total population)	27	42	30
GNI (Atlas method, US\$ billions)	2.9	3,539	1,562
GNI per capita (Atlas method, US\$)	500	1,863	650
GNI per capita (PPP, international \$)	2,050	6,821	2,698
GDP growth (%)	7.6	9.4	8.0
GDP per capita growth (%)	5.2	8.6	6.1
<i>(most recent estimate, 2000-2006)</i>			
Poverty headcount ratio at \$1 a day (PPP, %)	26 ^a	9	..
Poverty headcount ratio at \$2 a day (PPP, %)	74	37	..
Life expectancy at birth (years)	61	71	59
Infant mortality (per 1,000 live births)	70	26	75
Child malnutrition (% of children under 5)	40	15	..
Adult literacy, male (% of ages 15 and older)	77	95	72
Adult literacy, female (% of ages 15 and older)	61	87	50
Gross primary enrollment, male (% of age group)	124	115	108
Gross primary enrollment, female (% of age group)	109	113	96
Access to an improved water source (% of pop)	51	79	75
Access to improved sanitation facilities (% of pop)	49	51	38



Source: World Bank, World Development Indicators, 2007

ECONOMIC MONITOR – NOVEMBER 2007– The information presented in the Lao Economic Monitor covers economic developments that have occurred in Lao PDR in the last six months (between May and October 2007). It is issued twice a year (in Spring and Autumn) in both Lao and English by the World Bank team in Lao PDR. It reports on recent economic performance (Part I), progress in the implementation of the Government's policy reform agenda (Part II), and donor activities in the relevant reform areas (Part III). This issue of the Monitor was prepared by Somneuk Davading and Ekaterina Vostroknutova under overall supervision of Albert Zeufack. It is based on inputs from William Rex, Cayetano Casado, Helle Buchhave, Shabih Mohib, Viratsamay Visonnavong, Sengxay Phousinghoa, Thomas Rose, Charles Schneider, Thomas Meadley, Peter Silarszky, Soudalath Silaphet and Kheunghong Vongsaya and comments from other colleagues. We are grateful to the Government and the donors for providing information and other inputs, as well as for sharing their views with the team. We thank Sarah Murray for editing this issue of the Monitor and the staff in the World Bank Vientiane Office for their assistance in dissemination.

THE WORLD BANK TEAM APPRECIATES FEEDBACK ON THE STRUCTURE AND CONTENT OF THE MONITOR.

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	GDP	Gross Domestic Product
AFTA	ASEAN Free Trade Area	GFIS	Government Financial Information System
ANZ	Australian and New Zealand Banking Group Limited	GMS	Great Mekong Sub-Region
APB	Agriculture Promotion Bank	GNI	Gross National Income
ASEAN	Association of Southeast Asian Nations	GOL	The Government of Lao PDR
ASYCUDA	Customs Automation and Modernization Program	GSM	Global System for Mobile communications
ATM	Automatic Teller Machine	GTZ	German Agency for Technical Cooperation
AusAID	Australian Government's Overseas Aid Program	IAG	International Advisory Group
BCEL	Banque Pour Le Commerce Extérieur Lao	IBA	International Banking Advisor
BOD	Board of Director	ICA	Investment Climate Assessment
BOL	Bank of Lao PDR	ICT	Information and Communication Technology
BPKP	Bolisat Phattana Khet Phoudoi	IDA	International Development Association
BPO	Business Promotion Office	IFC	International Financial Corporation
BTA	Bilateral Trade Agreement	IMF	International Monetary Fund
CBTA	Cross-Border Transport Agreement		International Organization of State Audit Institutions
CD	Capacity Development	INTOSAI	Institutions
CEPT	Common Effective Preferential Tariff	IPPs	Independent Power Producers
CIDA	Canadian International Development Agency	I-PRSP	Interim-Poverty Reduction Strategy Paper
ICQ	Immigration Custom and Quarantine	ISIC	Industrial Standard International Classification
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora	ITC	International Trade Commissions
COA	Chart of Accounts	JBIC	Japan Bank for International Cooperation
CPI	Committee for Planning and Investment		Japan Fund for Information and Communication Technology
CPI	Consumer Price Index	JFPR	Japan Fund for Poverty Reduction
CPIA	Country Policy and Institutional Assessment	JICA	Japan International Cooperation Agency
CSO	Civil Society Organization	KOICA	Korea International Cooperation Agency
DIC	Department of International Cooperation	KPL	Khaosan Pathet Lao
DIMEX	Department of Import and Export	LA	Lao Airlines
DP	Development Partners	LAT	Lao Asia Telecom
DTIS	Diagnostic Trade and Integration Study	LATA	Lao Association of Travel Agents
EAP	East Asia & Pacific	LBA	Lao Bar Association'
EC	European Commission	LBF	Lao Business Forum
EDL	Electricité du Lao	LDB	Lao Development Bank
ERIT	Economic Research Institute for Trade	LDC	Least-Developed Country
EU	European Commission		Lao National Chamber of Commerce and Industry
FAO	Food and Agriculture Organization	LNCCI	
FDI	Foreign Direct Investment	LNTA	Lao National Tourism Administration
FMCBC	Financial Management Capacity Building Credit	LTA	Lao Tourism Authority
FRP	Financial Recovery Plan	LWU	Lao Women's Union
FY	Fiscal Year	LXB	Lane Xang Bank
		MAF	Ministry of Agriculture and Forestry
		MPI	Ministry for Planning and Investment
		MDG	Millennium Development Goals

ACRONYMS AND ABBREVIATIONS

M&E	Monitoring and Evaluation	MFIs	Microfinance Institutions
MIC	Ministry of Information and Culture	PMO	Prime Minister's Office
MIH	Ministry of Industry and Handicrafts	PrMO	Procurement Management Office
MOE	Ministry of Education	PRS	Poverty Reduction Strategy
MOF	Ministry of Finance	PRSO	Poverty Reduction Support Operation
MOFA	Ministry of Foreign Affairs	PRSP	Poverty Reduction Strategy Paper
MOH	Ministry of Health	PSD	Private Sector Development
MOIC	Ministry of Industry and Commerce	SAO	State Audit Organization
MOJ	Ministry of Justice	SCBs	State Owned Commercial Banks
MOU	Memoranda of Understanding	SDC	Swiss Agency for Development and Cooperation
MPDF	Mekong Private Sector Development Facility	SECO	State Secretariat for Economic Affairs Strategic Framework for Action on Trade
MPWT	Ministry of Public Works and Transportation	SFA-TFI	Facilitation and Investment in the GMS Swedish International Development
NA	National Assembly National Academy of Politics and Public Administration	Sida	Association
NAPPA		SME	Small and Medium Enterprise
NEM	New Economic Mechanism	SNV	Netherlands Development Organization
NERI	National Economic Research Institute National Growth and Poverty Eradication Strategy	SOE	State-Owned Enterprise
NGPES		SPS	Sanitary and Phyto-Sanitary
NHDR	National Human Development Reporting	STEA	Science, Technology and Environment Agency
NIU	National Implementing Unit	SWAp	Sector Wide Approach
NPEP	National Poverty Eradication Program	TA	Technical Assistance
NPL	Non-Performing Loan	TC	Technical Cooperation
NSC	National Statistical Center	TDF	Trade Development Fund
NSEDP	National Socio-Economic Development Plan	UN	United Nations
NT2	Nam Theun 2 Project	UNCDF	United Nations Capital Development Fund United Nations Conference on Trade and Development
NTB	Non-Trade Barriers	UNCTAD	
NTFPs	Non Timber Forest Products	UNDP	United Nations Development Programme United Nations Educational, Scientific and Cultural Organization
NTR	Normal Trade Relations	UNESCO	
NUoL	National University of Lao PDR New Zealand International Aid and Development Agency	UNICEF	United Nations Children's Fund United Nations Industrial Development Organization
NZAID		UNIDO	
ODA	Official Development Assistance Organization for Economic Co-operation and Development – Development Assistance Committee	UNODC	United Nations Office on Drugs and Crime
OECD/ DAC		USBTA	US Bilateral Trade Agreement
OJT	On-the-Job Training	UXO	Unexploded Ordnance
PACSA	Public Administration and Civil Service Authority	VAT	Value Added Tax
PBA	Program Based Approach	WASA	Water and Sanitation Authority
PEM	Public Expenditure Management Public Expenditure Management Strengthening Program	WB	World Bank
PEMSP		WFP	World Food Programme
PFM	Public Financial Management	WHO	World Health Organization
PIP	Public Investment Plans	WIPO	World Intellectual Property Organization
PM	Prime Minister	WTO	World Trade Organization

SUMMARY

Lao PDR macroeconomic performance continues to be strong, and the impact of resource sector is increasing. Real GDP growth continued to be robust at 7.6 percent in 2006 and is expected to remain above 7 percent in 2007. Manufacturing and other non-resource sectors continued to grow moderately, contributing around 5 percentage points of the above growth. However, other significant part of economic growth was contributed by the resource sectors, especially by the expansion of copper extraction and construction of large hydropower projects.

The macroeconomic situation remains stable with low inflation and stabilized exchange rates. On a year-to-year basis, inflation has fallen to historical lows and was below 4 percent in recent months, due to favorable oil and food prices and the lagged impact of the exchange rate appreciation. Average inflation dropped from 6.8 percent in 2006 to currently about 4 percent, although it is likely to increase slightly in the near future due to recent change in fuel prices.

The government's fiscal performance exceeded targets during the last two fiscal years. Driven by resource and non-resource tax revenues, the Ministry of Finance (MoF) exceeded its revenue targets for the first time in FY2005/06 and is expected to repeat this performance in FY2006/07 (based on MoF's preliminary data estimates). As a result, the budget deficit has declined considerably, from above 4 percent in 2005 to an estimated 1.3 percent in FY2006/07.

The external balance has continued to improve, however creating potential inflationary pressures. The current account deficit narrowed in 2006, reflecting buoyant resource exports and rising tourism receipts. Coupled with higher foreign direct investment (FDI) and aid inflows, this resulted in a substantial surplus. Gross international reserves increased markedly to 4.6 months of non-resource imports. However, as a result reserve and broad money growth has accelerated, potentially putting upward pressure on inflation.

Reforms in various sectors have continued, however implementation lagged somewhat behind legal action. Progress has been seen in the areas of public financial management, state audit, banking and SOE reforms, trade and private sector development.

Implementation of the Public Expenditure Management Strengthening Program (PEMSP) and new budget law is ongoing. In recent months, progress continued to be made on PEMSP, including the restructuring of the MoF to ensure more effective implementation of the new Budget Law. In September, 2007 the government promulgated a Prime Minister's Order on centralization of the customs, tax and treasury departments, and a corresponding Ministerial Instruction was issued. The new State Audit Law was recently adopted by the National Assembly (NA).

Reforms on trade and private sector development have speeded up. To move ahead on World Trade Organization (WTO) accession, the Third Working Party in Geneva has been scheduled for mid-November 2007. The final stakeholder consultation meeting was held in July 2007 to discuss implementation of the Enterprise Law, including the pre-final draft "negative list" and draft PM Instructive Order. The Ministry of Industry and Commerce (MOIC) completed the final draft of the Prime Minister's Instructive Order on the "negative list" and submitted to the Prime Minister's Office (PMO) for approval in August 2007. The first Small and Medium Enterprise (SME) development strategy was approved by the GOL in the same month. The new Accounting Law was adopted by the NA in June 2007 and the Presidential Decree on Accounting Law was issued last September.

Financial sector and SOE reforms are continuing, although lack strategic approach. The Government recently approved the draft Presidential Decree Law on Governing the Management of Foreign Exchange and Precious Metals and will submit it to the NA for endorsement in December 2007. Development of the financial sector strategy and drafting of several financial sector regulations is ongoing. Private participation in the sector has increased with recent acquisitions of majority share in Vientiane Commercial Bank by ANZ Bank (60 percent) and also IFC (10 percent) and the entry of a new local private bank - Phongsavanh Bank. State Owned Enterprise (SOE) reform is on track: restructuring of SOEs of phase 1, 2 and 3 are ongoing although with some delay.

Donor coordination and support for policy reform implementation is strengthening. This includes steps towards better coordination of sectoral support, as well as working to improve aid effectiveness following the Round Table Meeting (RTM) and the signing of the Vientiane Declaration on Aid Effectiveness. A new round of RTM has been scheduled by the GOL in early November 2007.

PART I – RECENT ECONOMIC DEVELOPMENTS

1.1 THE MACROECONOMIC SITUATION

BACKGROUND

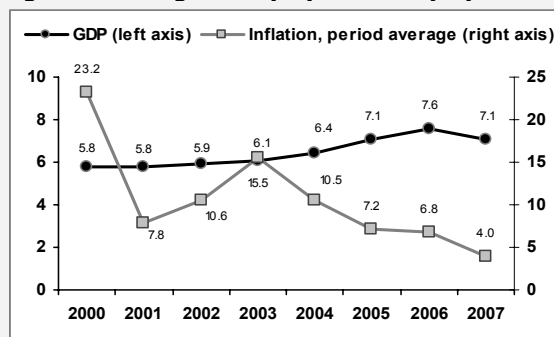
In the 1990s and early 2000s, Lao PDR grew at an annual average rate of 6.3 percent, and the incidence of poverty fell from 46 percent of the population in 1992-93 to 33.5 percent in 2002-03. The Asian economic crisis years of 1998 and 1999 saw inflation climb to an annual average of 110 percent and growth fall to 4 percent. The resolution of the crisis and Lao PDR's own macroeconomic policies helped to stabilize the economy and growth resumed at around 6 percent in the early 2000s.

The adoption of a stabilization program since 2000 and implementation of a phased reform program since 2001 – in public expenditure management, banking, SOEs, forestry, trade and private sector – contributed to this improvement. During 2003-05, inflation declined from 15.5 percent to 7.2 percent and real GDP growth accelerated from 6.1 percent to 7.1 percent.

The large inflows of FDI in the hydropower and mining sectors have significantly contributed to growth in recent years. However, increasing reliance on natural resources means that growth will progressively be more sensitive to the volatility of commodity prices and could impede development of other sectors. These risks will need to be prudently managed in future. Non-resource sectors (manufacturing, agriculture, and services) have also contributed to overall growth.

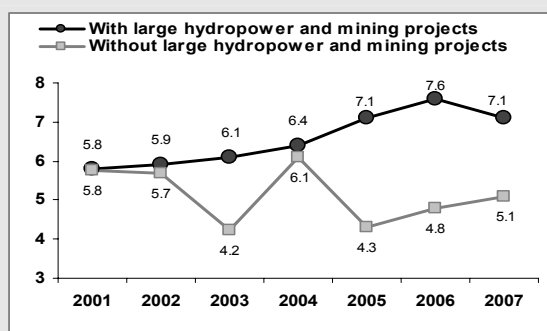
The Lao PDR's economy continued to perform well, with real GDP growing at around 7.6 percent in 2006 and projections that it will rise by 7.1 percent this year (see Figure 1). Hydropower and mining sectors continue to drive growth, although it is estimated that their contribution to GDP growth will decline slightly in 2007 to around 2 percentage points compared to 2.8 in 2006. Non-resource sectors are expected to expand relatively fast, as their overall contribution to growth is projected to increase from 4.8 percent in 2006 to around 5.1 percent in 2007 (Figure 2). Agriculture, tourism and emerging processing industries are the main drivers of non-resource sector growth. Even though growth is expected to stay robust, it is likely to slow down slightly this year reflecting lower exports growth than last year, a slow down in non-resource imports, and a decline in credit to private sector.

Figure 1. GDP growth (%) and CPI (%)



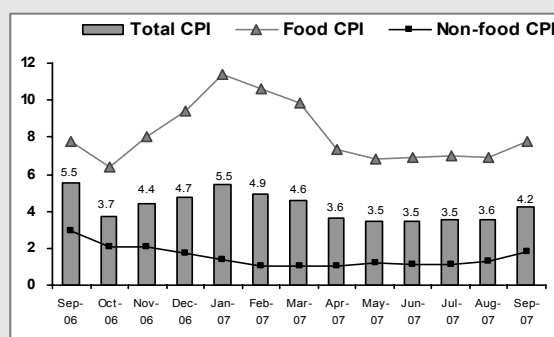
Source: Lao authorities and staffs estimates. Projections for 2007

Figure 2. Growth with and without major projects



Source: Staffs estimates. Projections for 2007

Figure 3. Food and nonfood CPI (% change)

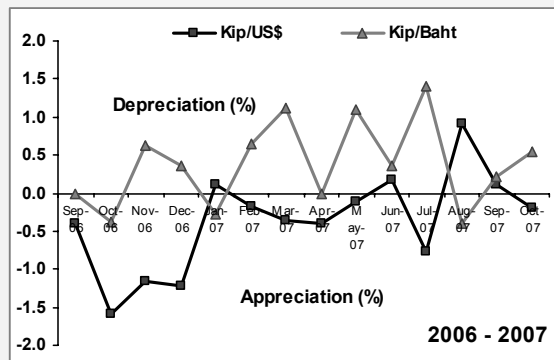


Source: Lao authorities (NSC) and staff calculations

During the last six months, monthly inflation levels have been relatively low and mostly stayed below 4 percent (see Figure 3). The average CPI in the first nine months of 2007 was about 4.1 percent with food prices at 8.3 percent and nonfood prices 1.2 percent. Overall, this year's inflation rate has been low compared to 6.8 percent in 2006, although it may increase under pressures from increasing net domestic assets as well as recent change in fuel prices, as described below.

The real exchange rate stabilized after a long appreciation. However, in the first ten months of 2007, the kip appreciated slightly against the USD (by nearly 1 percent) but largely depreciated against Thai baht (by more than 4 percent), see Figure 4. The (BCEL) exchange rates as of October 31, 2007 were at 9,597 kip per 1 US\$ and about 283 kip per 1 Thai baht.

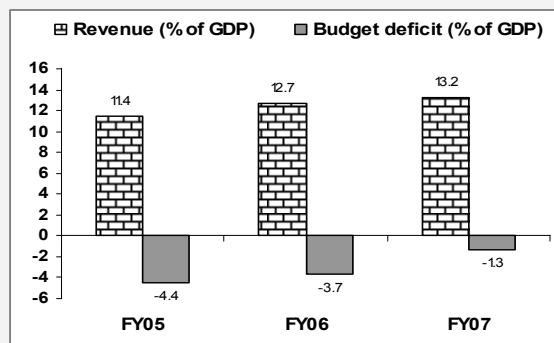
Figure 4. Lao exchange rates (monthly change)



Source: Lao authorities (BOL) and staff calculations

Recently, government fiscal revenues have increased significantly, especially during the last two fiscal years. As a share of GDP, revenues rose from 11.4 percent in 2004/05 to 12.7 percent in 2005/06, and are projected to grow to 13.2 percent in 2006/07. While these increases have been driven by resource revenues, non-resource tax collections have also improved significantly.

Figure 5. The government revenue performance

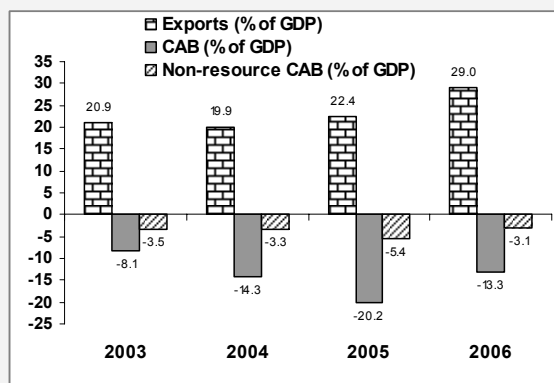


Source: Lao authorities (MoF) and staff calculations

Against this background, the GOL continued to implement a disciplined spending policy, resulting in a decline in budget deficit (including grants) from 4.4 percent in 2004/05 to 3.7 percent in 2005/06. The deficit is projected to decline even further in 2006/07 to 1.3 percent.

The current account balance (CAB) that has been showing widened deficit during the past few years -- due to high FDI inflows, particularly large FDI imports for mining and hydropower projects -- has fallen by almost a third in 2006 (see Figure 6). However, the non-resource deficit remained fairly steady between 2003 and 2006 (within the range of 3 to 5 percent of GDP).

Figure 6. Current account balance (% change)



Source: Lao authorities (BOL) and staff calculations

By mid 2007, gross international reserves had sharply increased by about 40 percent, to 3.6 months of non-resource imports. Due to this surge in reserves alongside relatively stable exchange rates, monetary aggregates also rose strongly - by more than 40 percent on a year-to-year basis. This puts upward pressure on inflation rates, representing a potential risk.

1.2 IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

BACKGROUND

The GOL aims to maintain rapid economic growth in order to improve the living conditions of the poor, graduate from its status as a LDC by 2020 and meet the Millennium Development Goals (MDGs).

Lao PDR's first full Poverty Reduction Strategy Paper (PRSP), the National Growth and Poverty Eradication Strategy (NGPES), was finalized in February 2004 and was presented to the Boards of the IMF and IDA in November 2004. The NGPES process was initially launched as a parallel to the national planning process and served as a basis for support by donors while introducing key PRSP principles to the national planning process, such as broad participation, poverty focus and result-orientation. Since 2005 efforts were made to update the PRSP/NGPES and integrate it into the 6th Five-Year National Socio Economic Development Plan (NSEDP) covering the period 2006-2010.

The development strategy of the Lao PDR was articulated in the NSEDP, which was approved by the National Assembly on June 17, 2006 and presented at the 9th Round Table Meeting on November 28, 2006. The NSEDP incorporates key elements of the NGPES, especially its geographical targeting and overall poverty focus. The NSEDP envisages the achievement of poverty reduction through a combination of broad-based growth and focused poverty-reduction interventions. In addition to maintaining a sound macroeconomic framework, the four key pillars of the plan are i) human-development-driven economic growth; ii) competitiveness, trade and regional integration; iii) social development and focused poverty reduction interventions; and iv) good governance.

The Government reported to the National Assembly in June 2007 on the progress with implementing the NSEDP, and presented a number of positive achievements made on plan targets, such as preventing the spread of avian flu; completing infrastructure projects; upgrading the skills of 2,672 teachers and educational administrators; and full accomplishment of the target to provide clean water supply (which now reaches about 70 percent of the population). The National Assembly meeting indicated a demand for more informative annual reporting on the implementation of the NSEDP, which points at some weaknesses in the monitoring and evaluation (M&E) framework of the NSEDP. Two key events during the past six months indicate progress toward strengthening the M&E framework for the NSEDP.

First, the newly endorsed Vientiane Declaration's Country Action Plan includes the goal of developing "results oriented frameworks, that both the Government of Lao PDR (GOL) and development partners (DPs) use, enable monitoring of development results and of progress toward aid effectiveness".¹ One of the agreed performance milestones for this goal is the completion of national and sectoral results frameworks for the NSEDP by end 2007/08. The potential institutionalization and use of such results frameworks in the national planning and progress reporting process would help strengthen the M&E system for the NSEDP and consolidate progress reporting systems.

Second, the Ministry for Planning and Investment (MPI) initiated two capacity building projects in the area of M&E of the NSEDP. The MPI activated the UNDP funded project which aims to pilot strengthened M&E practices for the NSEDP in three provinces: Attapeu, Khammouane and Luang Prabang. The MPI also engaged in a partnership with the World Bank to develop a training program on the basic principles of Monitoring and Evaluation Practice for the MPI, key line ministries, national assembly representatives and representatives of three provincial planning and budgeting departments (same provinces as above). The training will take place in October 2007 and will include workshops for practitioners as well as individual clinics at the sector level. The training will support the process of identifying and deciding on national and sectoral indicators for the implementation of the NSEDP (another milestone of the Country Action Plan).

(For the PRS measures taken in previous years please refer to the Annex-Box 1)

¹ Country Action Plan of the Vientiane Declaration on Aid Effectiveness 2007-2010.

1.3 INCREASING THE IMPACT OF DEVELOPMENT ASSISTANCE

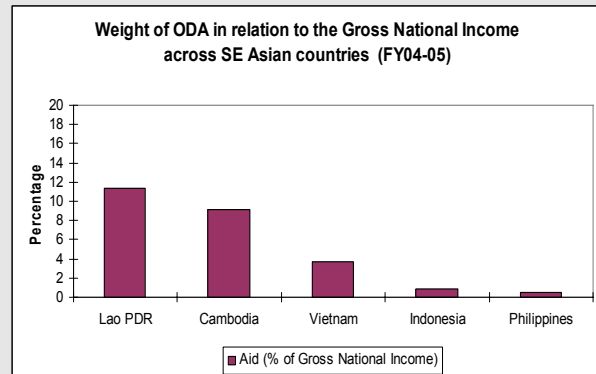
As has been discussed in the previous issues of this Monitor, one of the challenges in NSEDP implementation is mobilizing sufficient resources to fully finance it.

Overseas Development Assistance (ODA) is a key component of the GoL's strategy to finance the NSEDP. This is not surprising given that ODA resources averaged around two-thirds of the Lao PDR public investment program over the last four years. While increasing the *quantity* of ODA is one way to improve development results, increasing the *quality* of ODA – more results on the ground per Kip spent – is another.

Global experience suggests that there are many ways to increase the effectiveness of ODA, and the local OECD-DAC survey (discussed below), suggests that this is equally true in Lao PDR.

Indeed, given the relative significance of ODA to Lao PDR in comparison to some of its neighbors (see Figure 7), improving the quality of ODA is vital to ensuring the success of NSEDP implementation.

Figure 7: Weight of ODA as percentage of GNI across SE Asia in FY05



Source: World Development Indicators

A Global Agenda

The challenge of efficiently translating development aid into development impact is not unique to Lao PDR, and a large body of global knowledge has been established on practical steps for increasing aid effectiveness. This global experience was formalized by the Paris Declaration, signed by 139 countries and development partners in March 2005. The declaration is built around 5 principles:

- **Ownership:** Reinforcing the Government's leadership in the development agenda. This includes the production of sectoral strategies, creation of government-led aid coordination mechanisms, and capacity development strategies to enable the implementation of national strategies and plans.
- **Alignment:** Development partners follow Government strategies and support institutional capacity by utilizing country systems and procedures. Since some DP's are limited by internal rules, especially in fiduciary areas, many of the actions under alignment are oriented to the strengthening of country systems to acceptable standards.
- **Harmonization:** Development partners reduce administrative burden on the government by adopting common approaches to development assistance. Systematically sharing information and undertaking joint activities reduces overlap and facilitates synergies across development partner's interventions.
- **Managing for results:** Organizing resources around results-oriented strategies as opposed to more traditional input oriented plans. This would enable more accurate assessment of progress and adaptation to a changing environment.
- **Mutual accountability:** Acknowledging responsibility for the commitments acquired and preparing frameworks for its fulfillment.

The Paris Declaration commits signatories to increase the impact of aid by 2010 around 12 specific targets. Each target is linked to monitoring indicators that allow the global community to monitor progress. The OECD/DAC is responsible for monitoring progress in the implementation of the declaration through 3 surveys: a baseline survey in 2004-05, in 2006 and 2008.

The Paris Declaration was adapted to the Lao PDR context in the form of the Vientiane Declaration, which was endorsed in November 2006 by most development partners operating in the country. Since then, the GoL and development partners have agreed on a comprehensive action plan for its

implementation. The 2006 OECD-DAC survey in Lao PDR helped to establish a baseline and targets for the Vientiane Declaration's action plan, and provides a useful snapshot of where Lao PDR stands in relation to some comparator countries. The accompanying table compares Lao PDR's targets and progress against global and regional comparators.

Lao PDR agenda

Earlier this year, the GOL released the results of the first local Organisation for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) survey with the intention of monitoring progress on aid effectiveness. The survey report notes that a number of development partners did not respond, and many that did, struggled to provide all the required data on a timely basis. Despite these limitations, the survey presents the best available snapshot of current progress on aid effectiveness in Lao PDR.

Drawing from the OECD-DAC survey, the accompanying table (Table 2 below) suggests that while there are some areas where Lao PDR is doing comparatively well (such as a good record on disbursing scheduled ODA on time) there are several areas where a more concerted action is needed. These include increasing the utilization of country systems –financial management and procurement- or aligning provision of technical assistance through coordinated programs. The remainder of this section describes the key challenges ahead as well as ongoing work to address them.

Table 2. Aid effectiveness progress in Lao PDR versus global and regional comparators

Paris Declaration Indicator	Global Target	Global Baseline ²	Lao PDR target	Lao PDR Baseline	Cambodia	Vietnam
1- National Development Strategy. [5 categories: A: Substantially achieves good practice; B: Largely towards achieving good practice; C: Action taken towards achieving good practice; D: Some elements of good practice; and E: Little action towards achieving good practice.]	75% countries have category A or B strategies	17% have category A or B	Category B	Category C	Category C	Category B
2 – Quality of Public Financial Management [This indicator is globally based on the World Bank's Country Policy and Institutional Assessment (CPIA) Indicator 13 for 2005. The CPIA ranges on a scale from 1(very poor) to 6 (very good).]	Half countries score +0.5 in CPIA 13	83% score between 3-4	3.5	2.5 (05) 3.0 (06)	2.5 (05) 3.0 (06)	4 (05, 06)
3-Alignment of ODA to Budget [Extent (%) to which ODA flows are reflected in the national budget]	Halve gap of ODA not included in budget, at least 85% reported	88%	96%	92%	79%	81%
4 – Strengthen capacity by coordinated support [% of technical cooperation supporting programs that are (i) Integrated in a government led program; (ii) focus on CD or include a component focusing on CD; (iii) has assigned budget associated to it]	50% of TC though coordinated programs	48%	50%	16%	36%	85%
5a- Use of country PFM systems (ODA) [% of ODA disbursed using country PFM systems (i) Budget execution; (ii) Financial reporting; (iii) Financial auditing]	Reduce the gap by 1/3	40%	56%	27.5%	10%	32%
5a- Use of country PFM systems (donors) [Number of development partners making use of country PFM procedures for more than 10% of their ODA]	90%	N/A	90%	22.7%	38%	66%
5b- Use of country procurement systems (ODA) [% of ODA disbursed using country procurement systems]	Reduce the gap by 1/3	39%	46%	17%	6%	33%

² Baseline according to the 2006 OECD-DAC Survey on Monitoring the Paris Declaration.

Paris Declaration Indicator	Global Target	Global Baseline ²	Lao PDR target	Lao PDR Baseline	Cambodia	Vietnam
5b- Use of country procurement systems (donors) [Number of development partners making use of country PFM procedures for more than 10% of their ODA]	90%	N/A	90%	22.7%	33%	63%
6- Avoiding parallel PIUs [Number of project implementation structures that (i) are composed of mainly consultants or civil servants with premium salaries; (ii) execute core and support project functions; (iii) reports directly to DP or Minister/V-Minister]	Reduce by 2/3 the stock of parallel PIU	1832	5	15	56	111
7- Aid is more predictable [% of scheduled ODA for a particular year recorded in government accounts as disbursed on that particular year]	Halve the gap – 85%	70%	89.5%	77%	69%	78%
8- Untying aid [% of ODA tied to procurement of donor country's goods and services]	Continued progress over time	75% of aid is untied	Cont'd progress over time	No data	86%	67% (Non LDC)
9- Common arrangements (PBA) [% of ODA disbursed through Program Based Approaches. A PBA is (i) lead by the partner country or organization; (ii) single programme and budget framework; (iii) formal process for donor coordination and harmonization; (iv) efforts to use country systems]	66%	43%	66%	5%	24%	34%
10a- Joint Missions [% of missions undertaken by 2 or more DPs jointly or by 1 DP on behalf of another]	40%	18%	40%	12%	26%	10%
10b – Joint Analytic Work [% of pieces of analytical work undertaken by 2 or more DPs jointly or by 1 DP on behalf of another]	66%	42%	66%	37%	64%	24%
11- Results-oriented frameworks [5 categories: A - Substantially achieves good practice; B - Largely towards achieving good practice; C - Action taken towards achieving good practice; D - Some elements of good practice; and E - Little action towards achieving good practice.]	Reduce by 1/3 the number of countries with Cat. A or B strategies	93% of countries do not have at least B category	B	D	C	C
12 – Mutual assessment of progress [Existence of a mechanism for mutual review of progress on aid effectiveness commitments]	All countries have mutual assessment reviews in place	41% of countries have mutual assess.	Yes	yes	yes	yes

Text Box on page 26 summarizes key principles of the Paris Declaration and describes the challenges and process of their implementation in Lao PDR.

PART II – STRUCTURAL REFORMS

Reforms in various areas has continued during the period under review, including public financial management (implementation of the PEMSP and new Budget Law), state audit (approval of the new Audit Law), SOEs restructuring, banking sector, trade and private sector development. While in some areas implementation progressed well, in other areas implementation of reforms lagged behind legislative actions. Detail discussions on recent reform actions are described below.

2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

BACKGROUND

Building on its earlier actions and technical assistance and advice provided by the World Bank, the IMF, the ADB, the UNDP and bilateral donors, the Government adopted a comprehensive medium-term PEMSP in early 2005. This Program focuses on strengthening management systems and building the capacity of the MoF and Provincial Finance Departments, through annual reform measures – all of which are fully consistent with the Government's Policy Paper on Governance and the NGPES/NSEDP.

The new Budget Law is another measure to strengthen PFM especially in the area of central-local fiscal relations. The Budget Law was promulgated in February 2007. It aims to address some of the weaknesses in the current intergovernmental fiscal relations framework that stem from decentralized management of public finances without adequate monitoring and control mechanisms by centralizing the treasury, customs and tax departments and developing a new fiscal transfer system. Together with the new Budget Law, PEMSP aims to build the fundamentals of a well functioning PFM framework. If successful, these new measures will significantly improve the intergovernmental fiscal relations framework and help the government to establish greater control of public finance resources, and align policies to the budget more clearly.

Effective implementation of the Budget Law will require significant increases in capacity, continued political commitment, technical assistance, a well developed and sequenced 3-5 year Budget Law Implementation Plan for centralization of the three departments, and the development of a revenue sharing framework. It will be particularly important to ensure that inter-linkages between these elements of the plan are carefully calibrated. Another important issue is the implementation of the Value Added Tax (VAT) – which is currently planned for October 2008. In order for this measure to be successful, close coordination will be required between the tax department, customs department and the Treasury. Particular attention will be needed to ensure that the VAT refund system is properly instituted and tested prior to the VAT's introduction and effective centralization of the Treasury. Without an effective Treasury, all other reform elements may not succeed.

Implementation of the Budget Law commenced with the restructuring of the MoF via Prime Ministerial Decree Number 80 of February 28, 2007. In September 2007 the Prime Minister issued Order No. 35 instructing the MOF to move ahead with centralization of the customs, tax and treasury departments. The MoF subsequently issued detailed instructions to departments to proceed with centralization. The GOL is working on finalizing a detailed 3-5 year implementation plan that looks at each of the main elements of the Budget Law, along with inter-linkages. The Government will require significant and untied financial support and technical assistance to develop information systems and human resource management skills. This will need to be accompanied by greater harmonization of donor support.

Fiscal policy

Recent fiscal performance indicates that the government remains committed to fiscal consolidation and fiscal sustainability. Table 3 and Table 4 present the revenue and expenditure developments between 2004/05 to 2006/07. The deficit including grants has declined in the last two years, and is projected to further decline in FY2006/07. However, the 2007/08 budget approved by NA in July 2007 budget includes a planned increase in the overall and non-resource deficits, driven by higher recurrent expenditures including wages, allowances and transfers.

Revenues have continued to perform strongly, with higher than anticipated resource revenues accruing due to high commodity prices and non-resource revenues gains from the full implementation of tax changes in 2005. Revenue collection *excluding* grants as a share of GDP is estimated to have risen from 11.4 percent of GDP in FY2004/05 to 12.7 percent of GDP in FY2005/06 - slightly exceeding the budget estimate. The revenues are expected to increase to 13.2 percent of GDP in FY2006/07.

The GOL has made efforts to reduce leakages in tax revenue by introducing a new invoice form in FY2006/07 requiring traders to disclose the identities of purchasers. Furthermore, it introduced an

electronic tax return submission system for large tax payers at the Vientiane Capital Tax Office. Once returns had been reviewed, taxpayers would directly deposit money into designated accounts in commercial banks. These measures have increased the transparency of the tax system and helped to raise tax revenue to well over the plan target of 6 percent during the first 10 months of the fiscal year. Revenue increases helped to reduce the fiscal deficit from 4.4 percent in FY2004/05 to 3.7 percent of GDP in 2005/06. The deficit further declined to an estimated 1.3 percent of GDP in FY2006/07.

Expenditures were in line with the yearly target, while external financing and grants were significantly below the annual target. Nominal recurrent expenditures, including wages and salaries have been rising as a reflection of the increase in the multiplier from 1500 in FY2004/05, to 1800 in FY2005/06 and 2000 in FY2006/07. It is expected that this trend will continue, given the GOL's plan to raise incentives/benefits for health and education sector staff in remote areas from FY2007/08. It is encouraging to see that revenue collection has once again exceeded budget projection. It is hoped that the GoL can continue this performance to supports its planned expenditure in these areas.

Table 3. Government Revenue Performance				Table 4. Government expenditures			
		est.	pre-est.		est.	pre-est.	
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
	(billions of Kip)				(billions of Kip)		
Revenue & Grants	3,886	4,962	5,435	Total expenditure	5,204	6,205	5,909
Revenue	3,387	4,266	4,941	Current expenditure	2,517	3,124	3,587
Tax Revenue	2,803	3,641	4,316	O.W. Wages & Salaries	1,058	1,263	1,560
Resource revenue	677.2	389.6	868.2	Capital Expenditures	2261	2529	1,952
Non-tax revenue	584	625	625	O.W. Domestically-Financed	468	403	517
Grants	499	696	494	Debt repayment/unallocated budget	347	348	370
	(percent of GDP)				(percent of GDP)		
Revenue & Grants	13.1	14.8	14.5	Total expenditure	17.5	18.5	15.7
Revenue	11.4	12.7	13.2	Current expenditure	8.5	9.3	9.5
Tax Revenue	9.4	10.8	11.5	O.W. Wages & Salaries	3.6	3.8	4.2
o.w.Resource revenue	0.6	1.2	2.3	Capital Expenditures	7.6	7.5	5.2
Non-tax revenue	2.0	1.9	1.7	O.W. Domestically-Financed	1.6	1.2	1.4
Grants	1.7	2.1	1.3	Debt repayment/unallocated budget	1.2	1.0	1.0
<i>Source: Preliminary staff and authorities estimates.</i>				<i>Source: Preliminary staff and authorities estimates.</i>			

Implementation of the PEMSP and the Budget Law is on-going. The GoL indicated that they will start preparing the updated PEMSP program document and annual work plan for FY2007/8 taking into account the component elements of Budget Law (centralization and revenue sharing) implementation and on-going reform programs across the PFM sector. When developing the revenue sharing framework, it is recommended that MOF ensures appropriate representation of respective sector ministries/departments in committees that are tasked this with work. This will help in reflecting sector concerns effectively in the context of the revenue sharing system that the government is developing.

The GOL continued to move ahead with implementation of the new Budget Law. In this regard, the Prime Minister issued Order No 35 on September 6, 2007 instructing the Ministry of Finance to move ahead with centralization of the customs, tax and treasury departments. On September 7, 2007 the Minister for Finance issues detailed instructions to departments to move ahead with centralization. The authorizing environment is now in place for centralization of the three departments. Technical work is now on-going on planning and implementing detailed actions in each of the three centralization areas. The government is also moving ahead with developing a new framework for revenue sharing. It is intended that all shared revenues will be pooled and managed centrally and distributed to provinces according to a simple sharing rule. Some changes in revenue assignments are expected to be implemented in FY 2007/08. However, the preparatory work on new expenditure allocation norms are still under discussion.

Implementation of the revised Chart of Accounts (COA) is on track and, with the aid of a resident advisor, is expected to be fully in place by the FY2007/08 Budget. The advisor has also been recruited to help implement a functional classification of the budget. The Government is already piloting the revised COA in the education sector.

Progress has been made to strengthen audit performance as part of the PFM agenda at the State Audit Organization (SAO). The new Audit Law was promulgated by the NA in July 2007, to allow the SAO to directly report to it instead of the Prime Minister. The GoL has approved an Audit Peer Review (APR) of the SAO to be conducted by the SAO of New Zealand, to establish a comprehensive audit capacity building program to assist the SAO to carry out external audits more effectively. In October, 2007 SAO commenced discussions with the authorities of the SAO of New Zealand on the scope, methodology and coverage of the APR.

The civil service salary payment system is being enhanced. To improve the timeliness of salary payments, the GOL is piloting an electronic salary payment system, whereby MoF staff have been issued an ATM card that is linked to their bank accounts. At the beginning of each month, funds are electronically transferred into their bank accounts, instead of manually giving cash via handwritten ledgers. Staff can then withdraw their salaries from an ATM machine located outside the MoF. If this pilot is successful, the GOL intends to extend it immediately to seven provinces with existing ATM services and to work with commercial banks to expand ATM services to all other provinces.

The GOL is moving toward developing its Civil Service Reform Strategy for enhancing performance and service delivery. PACSA is developing a Prime Minister's Decree to recruit and retain staff in remote areas and to manage contract staff. The formal review of civil servants' job descriptions is nearing completion. The GOL issued an instruction on performance management and organized a high level workshop from which to disseminate it in July, 2007. Four provinces and two ministries have been selected to pilot the new performance management system.

(For the PEM reform measures taken in previous years please refer to the Annex–Box 2)

2.2 REFORM OF STATE-OWNED ENTERPRISES

BACKGROUND

The objective of the Government's SOE reforms is to enhance transparency, reduce resource waste and increase efficiency in order to improve commercial viability and reduce their burden on the budget and state owned commercial banks (SOCBs). Reforms implemented in the early 1990s reduced the size of the sector by closing down, leasing, merging and selling a large number of SOEs. The SOEs today are not only fewer in number, but play a significantly smaller role in Lao's economy in terms of GDP share and total employment. Nevertheless, during the second half of the 1990s, several large SOEs generated a large share of non-performing loans (NPLs) in the state-owned banking system. The NPLs put the banking system at risk of instability and were ultimately funded by Government revenue.

The current round of SOE reforms were initiated in 2001 and have three objectives: (a) improving transparency and governance of the state enterprise sector; (b) restructuring the larger SOEs whose losses and accumulated debt to banks were undermining both the budget and the financial sector; and (c) rationalizing the regulatory and pricing environment for infrastructure SOEs through tariff policy reform.

Progress over the last few years has been uneven, but the GOL has improved SOE monitoring and reduced NPLs originating from the SOE sector (a much larger share of NPLs over the last 3 years have been private sector based). Five large SOEs made progress, including EdL, especially in 2003-2004 in preparing detailed time-bound restructuring plans, developing consensus on actions and taking many of the proposed actions to restructure (e.g. selling non-core assets, reducing employment, adjusting tariffs, restructuring old debt, setting up committees to continue the process and to conduct international standard audits). For all other SOEs, the GOL carried out annual assessments of their financial performance and put chronic loss-makers on a restructuring list. The pace of progress during 2005 remained slow and uneven, but the pace has increased in 2006. On occasion, many SOEs still take action that is not consistent with commercial viability objectives.

The Business Promotion Office (BPO) which operates under the auspices of the PMO, is conducting discussions on being upgraded to better equip it to lead SOE reform. It is hoped that this will generate greater momentum in the SOE reform program.

As described in the last two Monitors, Lao PDR's SOE sector is relatively small for a transition economy, and has 143 SOEs, most of which in terms of capital are owned by the central administration. Similarly, according to a recent SAMD assessment, 15 enterprises out of 35 poor performing SOEs are under the responsibility of central level agencies (see Table 5). Currently 13 out of the 15 enterprises are undergoing restructuring processes managed by the BPO.

Table 5. SOE performance for 2005

	Performance categories ³					N/A
	A	B & C	B	C	D	
100 % SOEs	19	55	5	7	30	
Joint ventures	8	3	0	0	5	
Total	27	58	5	7	35	11

Source: State Assets Management Department, MoF.

SOE Restructuring has continued albeit at a slower pace than expected. Although it has carried out quarterly monitoring and evaluation of the SOE restructuring process, overall reform progress has been delayed. Preparation to conduct independent external audits for financial accounts for 2005 and 2006 for four phase II SOEs and for three phase I SOEs are moving ahead.⁴ The BPO is also hiring external experts to help each of the Phase II SOEs to restructure. Following the financial audit, BPO will prepare detailed restructuring plans for each of the four phase II SOEs. It is expected that the restructuring plans, scheduled to be finalized by mid 2007, will inform the Government on issues and options for ownership transformation to improve commercial viability and efficiency.

Strategic planning for SOE reform remains weak. To provide strategic guidance on the restructuring process in the medium to long term, the Government intends to develop a comprehensive plan for SOE Reform. It is recommended that the forthcoming strategy covers the following:

- Measures to improve corporate governance of key strategic SOEs, as per the OECD guidelines for the corporate governance of SOEs, including: training designated state shareholders to act as proper state shareholders; establishing professional boards of directors (BOD), including some independent non-GOL directors; establishing clear accountability for BODs and Chief Executive Officers (CEO); and improving financial transparency and disclosure.
- Improve the legislative environment for SOE governance, including promulgation of relevant Enterprise Law implementing regulations
- Settlement of Government agencies arrears to SOEs through developing rules and budgetary regulations;
- Introduce independent regulatory agencies for main utilities, including water supply and power sectors;
- Define strategic relevance of business sectors in terms of national economic interests and public services under the Government's current policy of pursuing the mechanisms of a market economy;

To strengthen the MoF's role as designated state SOE shareholder, the GOL recently upgraded the unit responsible for SOEs into a new "SOE Finance Management Department". A detailed mandate for the Department is expected to be announced by the MoF in the near future. In the meantime, it will continue to collect financial data from all SOEs, and is expected to finish entering financial data by early December and prepare a consolidated report for the MoF's approval by mid-December, 2007.

³ SOEs are classified into the following categories based on their performance: A) SOEs with good financial performance; B & C) SOEs with good performance, but they are required to make improvements in organizational structure and financial reporting; B) SOEs with satisfactory performance, but they are required to make improvements in organizational structure; C) SOEs with satisfactory performance, but they are required to make improvements in financial reporting; and D) SOEs with poor performance.

⁴ Phase II SOEs under restructuring include Agriculture Industry Development Import-Export State Owned Enterprise (DAI), Lao State Fuel Company (LSFC), Societe Lao Import – Export (SLIE), AND Road Construction Company (CC13).

TARIFF POLICIES FOR INFRASTRUCTURE SOES

BACKGROUND

Most infrastructure and services in Lao PDR -- electricity, water, and domestic air travel -- are provided by SOEs, although private providers deliver a high proportion of telecommunications. There are many challenges to achieving the financial sustainability of electricity and water utilities in Lao PDR. Tariffs have generally lagged behind inflation and remain below full cost-recovery levels, despite significant recent adjustments. Low and complex tariff structures have resulted in inefficient energy and water usage, and have reduced the resources available for further investment in these sectors. Major arrears are owed to utilities, including from the GOL budget, and now the utilities themselves have fallen behind on servicing their debts to the GOL.

The Government, cognizant of the need to reduce budgetary subsidies to utilities and infrastructure SOEs and to tap into the private financing of investments, has been moving to more appropriate tariffs and prices. In particular, a move toward competitive pricing has been made in telecommunications and airline services.

The GOL is implementing a strategy to lift utility tariffs to cost-recovery levels, minimize cross-subsidy among consumer categories, reduce budgetary subsidies, improve their business performance and increase private participation and investment. There has been a good deal of GOL action in this respect over recent years, including (1) actual changes in tariffs and in tariff structures; (2) announcing guiding principles to set and change tariffs; and (3) improvements to overall regulatory policies. Implementation of tariff increases has been slow in some sectors. However, achievements of cost recovery targets were ahead of schedule in the electricity sector. Telecom tariffs (wireless) and airfares are set on a commercial basis to reflect and cope with market demands and competition.

WATER

The Government promulgated the Decree on Regulation of Urban Water Supply Operations, No.191/PM, on July 1, 2005. The Ministerial Decision on the Organization and Functions of the Water Supply Authority is currently under review by the Minister, Ministry of Public Works and Transportation.

Since the last issue of Economic Monitor, the Water Supply Authority (WASA), Department of Housing and Urban Planning, Ministry of Public Works and Transportation (MPWT), have been finalizing the tariff 2008-2010 review. If its recommendations are adopted and performance expectations met, Champassack, Luangprabang and Vientiane Capital City should be able to generate positive (5%) return on capital by 2010, 6 others provinces should be able to recover full depreciation by 2010, whereas the remaining 8 are expected to recover levels of depreciation ranging from 50% to just under 100%. To achieve this, however, annual tariff increases of some 32% over the 3 year period are required.

WASA is developing private sector water supply concessions for small-scale operators in six new sites in two provinces. This is taking place under the MIREP program (Mini Reseaux d'Eau Potable) supported by Research and Technological Exchange Group (GRET). Two private sector water supply concessions have already been commissioned and working since April 2006. The tariffs have been set at 2000 Kip/m³ for domestic and 2,400 Kip/m³ for business.

MPWT is drafting and planning to submit the Water Supply Law to the National Assembly. The law was scheduled for submission to the National Assembly in the second session of 2007; but this has been delayed due to restructuring of the MCTPC into the new Ministry of Public Works and Transportation (MPWT) and ongoing sector discussions about roles and responsibilities within the sector.

ELECTRICITY

Electricité du Lao (EDL) was particularly hard hit by the Asian financial crisis and ensuing inflation in the late 1990's because of a currency mismatch: its revenues are largely in kip while the costs of debt servicing are mainly in \$US. A financial recovery plan was implemented during subsequent years and included converting government debt to equity and annual tariff adjustments of 25-50 percent. EDL is now on a reasonably good footing and has been able to pay annual dividends to Government in the order of \$3-5 million since 2003.

Profits from EDL's export operations cover the losses it incurs on the domestic market. The average domestic tariff rate is about 10 percent below the rate required for full cost recovery. Further inefficiencies are created by cross subsidization of residential and agricultural consumers by other consumer categories.

On November 22, 2005, the Ministry of Industry and Handicrafts (MIH), MOF and EDL signed the Action Plan for Financial Sustainability of the Power Sector (Financial Action Plan). This plan aims to address the major issues impeding EDL's financial sustainability, namely increasing tariffs to cost-recovery levels, eliminating the stock and avoiding future additions to the Government's payment arrears to EDL. The plan includes four main components:

- tariff adjustment, with tariffs being restructured and increased by an average of 1 percent per year in real terms until 2011 when cross-subsidy among customer categories should be minimized and full cost recovery achieved (based on the EDL tariff study – *Electrowatt*, 2004);
- settlement of accumulated arrears from Government to EDL, with agreement on a final arrears figure (as of October 31, 2005) by January 31, 2006, along with an agreement on a settlement schedule over approximately two years. This may be financed through EDL's debt service payments to Government which should go up effective January 2006 upon the expiry of a one time concession extended through a previous financial restructuring plan of EDL;
- avoiding future arrears by Government to EDL;
- operational efficiency improvement by EDL, with overall system losses reduced from about 20 percent in 2004 to around 13 percent in 2011.

The Government agencies represented by the MOF, and EDL have agreed to settle 113 billion Kip of recognized arrears accumulated during FY2005/06 and implementation of the plan has been on track; no arrangements have been made so far to settle or schedule settlement of arrears accumulated in FY2006. There are signs of better budget discipline enforced by the MOF/Treasury to ensure that budget allocations are spent on intended utility items; for FY2007/8, budget allocations have been significantly increased.

The planned actions related to establishing a system that would reduce future arrears, including conducting and incorporating results of the energy audit to the budget process, have not been progressing as well. This may further jeopardize implementation of the Financial Action Plan and therefore put EDL's financial sustainability in danger. To stay on track with Plan implementation, the following steps are expected: EdL will finalize electrical demand survey of government buildings and helps implement an energy efficiency program, and in the future MOF should provide adequate budget allocations for electricity expenditures for government Ministries and departments, based on the energy audit results.

TELECOMMUNICATIONS

Lao PDR made significant progress toward providing telecommunications services to its population and building a modern telecommunications infrastructure over the last couple of years. Availability of telecommunications services is increasing in Lao PDR particularly with the increasing availability and affordability of mobile services (GSM services are now available in most of the districts of the country) and extension of the fiber optic backbone transmission network. Tele-density is steadily increasing and is currently above 20%.

There are five authorized enterprises to provide fixed and mobile telecommunications services in Lao PDR. All of them have some share of government ownership: Lao Telecommunications Co Ltd (LTC, shareholding is GOL 51%, Shinawatra 49%); Enterprise des Telecommunications Lao (ETL, GOL 100%); Lao Asia Telecom (LAT, GOL 100%); Millicom International Cellular SA (MLL, GOL 22%, Millicom 78%); and Sky Communications Lao Ltd. (SKY, GOL 30% and private sector 70%). All provide mobile services and the first three of them provide also fixed line services. The current market structure and especially GOL's ownership stake in multiple companies is inefficient and leads to unnecessary duplicate investments by the public sector. The number of internet service providers (ISP) has increased from two firms in 1990s, to about ten, such as STEA, ETL Internet, Lao Telecom, Champalao Internet, Lanexang Internet, Sky Telecom, KPL, Unicom and MLL.com.

The entry of Millicom and SKY, the large shareholding by Shin Corp, the operations of PlaNet and the prevalence of Voice over Internet Protocol (VoIP) operators show that private investors are willing to invest in Lao PDR even under the current policy and regulatory regime. However, such investments are still primarily focused on Vientiane and major urban centers. Adjustments are needed to the current policy and regulatory framework in order to further develop the sector through continued private sector investments.

The tariffs were revised upwards in early 2004 whereby fixed line rentals and local fixed line call rates were both increased and international fixed-line calling rates were lowered in order to bring tariffs closer to real costs (re-balancing). Especially, international call fees have been reduced from US\$1.5-\$2 per min a few years ago to less than US¢ 20 per min in 2006. The mobile rates are set competitively by the operators and a sharp decrease in connection fees and per minute charges for both local and international calls were noticed after the market entry of Millicom. However, the rates are almost identical across the companies, signaling limited competition in prices.

Recently, GOL has made progress towards reducing the costs for providing telecommunication services by moving from the satellite-based services to a fiber optic cable system connecting all provinces except one (to be connected in 2008) and many districts within the country. Fiber optic connections were established between Lao PDR and its neighbors: Thailand, Vietnam and China. However, given the fixed cost associated with building fiber optic networks, in order to realize the full benefit of these investments, it is important to ensure more productive and efficient utilization of the infrastructure. International evidence suggests that independent regulation has a potential to ensure additional investment by the private sector, contribute to further expansion of service coverage, and improve the utilization of existing infrastructure.

The Lao telecommunication sector continues to grow fast. While the capacity as well as the number of telecom service providers (wireless phone, internet, etc.) has increased during the past few year, the number of population using the services have risen quickly. Based on data received from MCTPC, by mid-2007 the ratio of mobile phone users (per 1000 people) has gone up to nearly 210 compared to about 156 in mid-2006, i.e., by about 35 percent.

(For the SOE reform measures taken in previous years please refer to the Annex–Box 3)

2.3 FINANCIAL SECTOR REFORM

BACKGROUND

The Lao PDR's formal financial sector remains small, with assets at the end of 2006 at 25 percent of estimated GDP, a small increase from 22 percent in 2003. It is almost entirely populated by banks, with the three SCBs collectively dominating the banking and financial system. Between 2003 and 2006, no substantial changes were made to the financial sector's structure, except for some apparent growth in non-bank financial institutions and recent, initial moves towards market orientation by SCBs.

To date, private domestic and foreign banks have played a small role in terms of market share. Banque pour le Commerce Extérieur Lao (BCEL) retains a dominant position, accounting for nearly half of the total deposits and loans in the system. The Lao Development Bank (LDB), a merger of two SCBs - Lao May Bank and Lane Xang Bank – is much smaller. Common characteristics shared by SCBs include poor financial and operating performance (with especially weak capital bases), very high levels of NPLs, depressed profitability and an absence of credit cultures. The Agricultural Promotion Bank (APB), the state-owned policy bank which lends mainly to rural areas, has experienced similar issues.

The GOL has undertaken numerous phases of SCB restructuring and strengthening. The first round of recapitalization occurred in 1988 after the mono-bank system break-up, followed by a major capital injection (of around Kip 18 billion) to clean up SCBs balance sheets in 1994. Despite various reduction efforts, NPLs continued to grow particularly to SOEs and for policy lending. Seven SCBs were merged into three in 1998, but difficult economic conditions and striving public investment projects hindered overall improvements.

SCBs have always been susceptible to pressure to engage in non-commercial lending, which tends to burden the loan portfolio overtime. While poor credit culture and capacity constraints in credit analysis have progressively improved, SCBs remain fragile. International Banking advisors (IBAs) placed in the two SCBs under the ADB's banking reform project are an important support in the transition to a more independent management system.

Latest bank restructuring reform began in 2001 with the help of the ADB, World Bank, IMF, EC and bilateral donors and includes restructuring state banks, improving banking regulation and supervision and opening up the banking system to the private sector and foreign investors. Progress has been slow and SCBs' financial condition remains weak. Organizational structures are inadequate and lack checks and balances from external board members. Supervision and enforcement of prudential regulations by the Bank of Lao PDR (BOL) remains slow and it is limited in capacity and tools. However, positive signs of change in banking operations and performance are visible, especially significant reductions in NPLs, and strengthened regular monitoring.

Financial Sector Reform

Development of the Financial Sector Strategy (FSS). The first draft of the FSS is scheduled to be presented to the Governor of the BOL in December 2007. Before it is finalized, it will be widely discussed, including with the private sector, in February 2008. The BoL is currently discussing possible technical assistance from donors to help improve the draft and implement the FSS.

To ensure a level playing field in the banking sector, between domestic and foreign and public and private banks, the Government approved the draft Presidential Decree Law on Governing the Management of Foreign Exchange and Precious Metals - which will remove provisions that discriminate against commercial banks that are not state-owned. This is expected to be endorsed by the NA by December 2007. In the coming months, the BOL will continue to improve the legal and regulatory environment for the financial sector through the following measures.

- Developing the implementing decree for the Law on Commercial Banks and accompanying regulations, which aim to provide detailed guidelines to support implementation of the Law on Commercial Banks;
- Strengthening prudential regulations by: (1) helping to review and revise current prudential regulations and guidelines; (2) developing guidelines and instructions for supervisors and inspectors of the Banks and Financial Institutions Supervision Department of the BOL; and (3) providing training for BOL staff on supervision and inspection work and for commercial bank staff on implementing prudential regulations;
- Developing regulations on non-deposit taking financial institutions. With an objective of promoting sustainable micro finance sector, recently the Bank of Lao PDR has initiated process of developing regulation for Non-Deposit Taking Micro Finance Institutions (NDTMFI) to set "non-prudential" rules to regulate NDTMFI. Among others, the regulation intends to include the formation and operation of MFIs, consumer protection, interest rate policies, management, sources of capital, accounting system, and issue related to transformation from NDTMFIs to DTMFIs. The first two draft regulations were discussed at two stakeholders' workshops, and one more final consultation workshop is scheduled to take place by the end of this year, after which the final draft will be submitted to the Governor of BoL for approval;
- Developing the accounting system for commercial banks and micro-finance institutions.

In addition to the above, since 2005 the Lao financial and banking sector has made progress in improving its depth, resilience, and operations. Noticeable improvements have been made in the following areas.

In the financial environment:

- Opening the banking sector to foreign investment (including approval of ANZ Bank's and IFC's share acquisitions in Vientiane Commercial Bank, and the entry of Phongsavanh Bank).
- Changes in the approach of the courts to bank security, although there are very mixed views on their timeliness and approach to facilitating banks' selling of seized collateral. Legal risk in extending credit still limits bank operations and shrinks the pool of potential customers and transactions.
- A draft Securities Law (a Stock Exchange Market Decree) is being developed. While a securities market is unlikely to improve access to finance in the near-term, the required legal improvements to protect investor rights would benefit the banking and finance sector more generally.

In SCBs performance:

- Both BCEL and LDB have improved their operating performance and credit culture, based on available data, BCEL appears to have significantly reduced its NPLs and improved performance in 2006.
- There is a discussion of ownership transformation options for SCBs, including a part reduction in Government ownership, either through banks acquiring strategic partners or privatization of SCBs.
- APB has been split into a commercial and policy bank that does not take deposits. A Governance Agreement between the MoF, BoL and APB was signed in March 2007 and an International Bank Advisor is expected to be placed in APB later in 2007.
- ATM networks are gradually being introduced by some existing banks (and it is the intention of the new banks to follow suit), though their coverage of the country remains limited.

Despite this progress, a lot remains to be done to make the banking and finance sector a more sustainable and effective driver of private sector growth. In particular, this concerns a more strategic approach to the financial sector development. In the medium-term the Government should focus its efforts in the following key areas:

- Taking an integrated approach to financial sector reform;
- Strengthening the banking sector through the transformation of SCBs;
- Enhancing banking supervision and regulation; and
- Developing a diversified financial sector providing services for the fast growing market economy.

(For the reform measures taken in previous years please refer to the Annex–Box 4)

2.4 TRADE REFORM

BACKGROUND

Lao PDR has been integrating gradually into the world economy since 1989. The reform process accelerated after accession to ASEAN and joining AFTA in July 1997.

Lao PDR started to implement the AFTA Common Effective Preferential Tariff (CEPT) scheme in January 1998 and will complete the liberalization schedule by 2008 by reducing tariff on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008. The highest current import tariff rate is 40 percent (compared to about 150 percent in 1995) and for most product groups it is below 20 percent. The current tariff schedule has six tariff rates: 5, 10, 15, 20, 30 and 40 percent, with non-weighted average MFN tariff of 11.3 percent. Non-tariff and quantitative import restrictions remain and in several sub-sectors are the primary binding restrictions.

The Government announced its intention to enter WTO. Development of the legislation action plan and offers of goods and services is ongoing, with the Third Working Party meeting scheduled for mid November 2007.

The Government committed to enhancing donor harmonization and implementing a sector-wide approach to trade-related reforms based on the DTIS/IF Action Matrix⁵, which was approved at the National Validation Workshop in September 2006 by the GOL. The action matrix consists of five priority reform and assistance areas in trade and trade-related sectors:

1. Export competitiveness
2. Trade facilitation
3. Business environment
4. Trade policy, trade agreements, and global opportunities
5. Trade opportunities for the poor

The GOL continues to further progress various trade and trade-related reforms. To streamline the coordination of all trade and trade-related activities, the Prime Minister issued a PM Decree No. 123 on April 19, 2007 to upgrade the former National Steering Committee for WTO accession to the National Steering Committee for Economic Integration. The committee will oversee all trade and trade-related reform agenda in the country, including the implementation of DTIS/IF Action Matrix and WTO accession. Some other key actions taken during the last six months are discussed below.

Progress towards WTO accession. Following the second working party in Geneva in November 2006, the GOL/MOIC submitted the draft legislative action plan to the WTO Secretariat in mid 2007 together with answers to questionnaires from negotiating partners. The Initial Offer for services was approved by the government and then submitted to the WTO Secretariat in October 2007. The third working party is scheduled for mid November this year.

Recently, the following measures have been taken to simplify export and import procedures and enhance trade facilitation:

- PMO Notice No. 405 dated March 14, 2007 on improvement of the border checkpoint management authorized only three ICQ agencies (Immigration, Customs and Quarantine) to remain and work at the border checkpoints for the clearance of goods and services. The rest of the agencies should withdraw from the border checkpoints across the country;
- MOIC Ministerial Order No. 0453 of March 26, 2007 further streamlined import and export procedures by no longer requiring companies to submit the annual plan of imports for

⁵ The action matrix was formulated based on the recommendations of the Diagnostic Trade Integration Study (DTIS) and is implemented under the Integrated Framework (IF).

approval and all goods outside the control list shall be freely imported and exported based on market mechanisms;

- MOIC Instruction No. 1984 dated April 25, 2007 provided a detail guideline for implementing the Ministerial Order No.0453 on facilitation of import and export activities.

Trade Developments

After high growth in 2006, Lao PDR exports are expected to rise at a more moderate rate in 2007. Based on GOL/MOIC data estimates, the overall exports for the first six months of 2007 declined slightly compared to the same period in 2006 (Figure 8). The export of some product groups, such as minerals, agriculture and garments increased markedly, whereas exports of electricity and wood products declined. The mining sector (gold and copper) continued to be the driver of exports. (Figure 9).

Lao PDR's key trade partners remained unchanged and included mostly ASEAN nations (Thailand, Vietnam, and Malaysia), China, Australia and the EU.

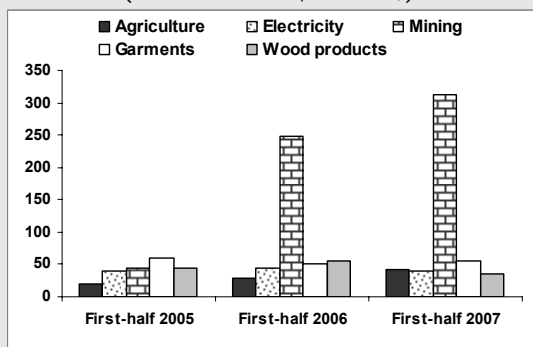
Figure 8. Lao PDR exports and imports
(first six months, mil. US\$)



Source: Staffs estimates based on authorities data.

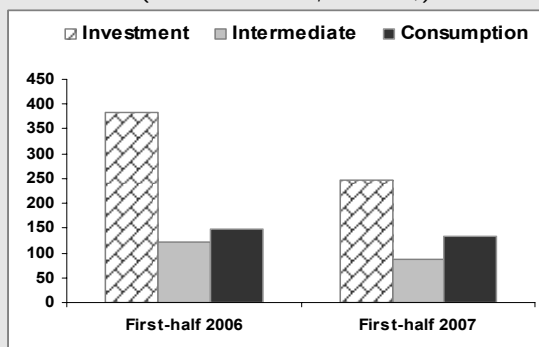
In the first six months of 2007, imports were lower by almost 30 percent compared to the same period last year. This was largely due to a big fall in the import of machinery and equipment and, to some extent, raw materials and consumption goods (Figure 10).

Figure 9. Key export commodities
(first six months, mil. US\$)



Source: Staffs estimates based on authorities data.

Figure 10. Key import commodities
(first six months, mil. US\$)



Source: Staffs estimates based on authorities data.

(For background on measures taken for private sector in previous years please refer to the Annex – Box 5)

2.5 PRIVATE SECTOR DEVELOPMENT

Background

The Lao PDR Constitution of 1991 protects state, collective and private forms of ownership. During the 1990s an active legislative program laid the foundations for developing market based rules and institutions to support private sector development. The foreign investment legislation was passed in 1988 and a legal basis for land for use and transfer began to be established in 1992-93. Today, agricultural production and most manufacturing production is in private hands and state-owned enterprises (SOEs) only cover around one percent of employment.

Nearly 97 percent of manufacturing units are small (less than 10 employees). Of the medium and large units, 35 percent are privately owned by Lao PDR citizens and 55 percent are joint ventures with foreigners. The remainder is owned by the government (including provincial governments).

In recent years, foreign investment flows into the country have increased rapidly, in both resource and non-resource sectors (hydropower, mining, agriculture, processing industries and tourism). Between FY 2003 to 2005, approvals of investment increased more than fivefold (or from around US\$470m to US\$2,700m) while actual investment increased sevenfold (or from US\$70m to about US\$500m during the same period). The main foreign investors are from Thailand, China, Australia, Malaysia, Singapore, Vietnam (ASEAN), South Korea, Taiwan, France, the Netherlands and the United States.

In 2004, the Ministry of Commerce issued PM Decree on Trade Competition that removed all restrictions on the movement of goods across provinces. This Decree, if appropriately enforced, should enhance market integration and ensure that all provinces have access to goods and services. The new five year plan (NSED 2006-2010) recognizes the importance of the PSD agenda and the need to improve the business environment and promote domestic and foreign private investments, in order to foster growth, reduce poverty and achieve MDGs.

Business Environment and GOL strategy

In recent months, some progress has been made, including further steps in implementing Enterprise and Accounting Laws, approval of the SME development strategy, and periodic public-private dialogue. However, implementation still lagged behind the legislative action.

Implementation of the Enterprise Law has continued, although at a slower pace than expected. The Enterprise Law promulgated in 2005, represents a significant step forward with respect to easing private sector entry and streamlining regulations. The PM Order No. 37/PMO (issued on October 24, 2006) introduced a time-bound action plan for the law's implementation, as well as a division of responsibilities. The MOIC was assigned to lead and coordinate relevant line ministries to implement the Enterprise Law and a timeline to develop the Negative List has been set.⁶ During the last few months, the GOL prepared a draft negative list and conducted a series of consultations among relevant government agencies.

To ensure clear identification of the business activities on the Negative list and strict determination of relevant registration procedures, the Government applied the United Nations Industrial Standard International Classification of All Economic Activities (ISIC Revision 4 – December 2005). The first consultation workshop on criteria and process of developing the negative list was organized in December 2006; the first draft list with justifications prepared by the MOIC task force was distributed to more than 20 different departments for comments. Fourteen relevant departments of various ministries sent their written comments to the MOIC task force and additional one on one consultation meetings were held between the MOIC task force and 8 additional relevant agencies. The final stakeholder consultation meeting, chaired by the Minister of MOIC took place in July 2007, where the pre-final draft “negative list” together with draft PM Instructive Order was discussed. After the final consultation workshop, the MOIC taskforce prepared the final draft PM Instructive Order on the negative list, consisting of 61 four digit activities from 9 economic sectors, and submitted it to the Prime Minister's Office for approval in August 2007.

During September 2007, the MOIC taskforce held two meetings with the Government Secretariat under the PMO to improve the wording of the draft Instructive Order. It is expected that the final draft negative list will be approved by the Government by the end of 2007.

⁶ The Article 2 of the Enterprise Law defines the negative list as a list of highly sensitive business activities (e.g., pertaining to the national security, public order, cultural traditions and the environment) in which entrepreneurs are subject to inspections by the relevant sectoral agencies before they can register a business. In effect, it is a list of conditional business activities that will continue to require prior approval from relevant government agencies before registering and starting operations. According to the Enterprise Law, all activities not on the negative list will not require such prior approvals and are only required to register with MOIC.

The Establishment License for manufacturing firms has been abolished. To simplify and shorten licensing procedures for manufacturing establishments, the Minister of MOIC issued Decision No. 1301 on regulation for manufacturing establishments.⁷ This Decision abolishes the requirement for investors to apply for an establishment license before they can start building a production facility. The previous approval process could take between 30 to 35 days. Additionally, the Decision sets out new procedures for approving operating licenses and reduces the number of days required to process the operating license from 30 days to 10 days.

The new Accounting Law has been adopted. After extensive consultations with various stakeholders, the revised draft was approved by the GOL and submitted to the NA in June 2007. The final draft was adopted by the NA during its June session and the Presidential Decree on the Accounting Law was issued in September 2007. Preparation of implementation plans by the MOF has commenced.

The GOL issued new regulations on forestry and wood related businesses for FY07-08. The new PM Order No. 30 issued in August 2007 calls for strong coordination between relevant central and local government agencies to: (1) improve the effectiveness of forestry conservation and restoration; and (2) reduce dependence on revenue generated from forest exploitation to finance development activities. The Order also sets a national wood quota for 2007-08 at 150,000 cubic meters, primarily to settle the GOL's outstanding debts and improve supply to qualified secondary wood processing industry.

The Government approved the first SME Development Strategy. The first comprehensive medium term National SME Development Strategy was approved by the Government in August 2007. The strategy outlines concrete SME promotion measures in the following key areas.

- Creating Enabling Regulatory Environment;
- Enhancing competitiveness;
- Expanding domestic and international markets;
- Improving access to finance;
- Encouraging and creating favorable conditions for establishing business membership organizations; and
- Encouraging entrepreneurial culture within society.

The second Lao Business Forum (LBF) for 2007. The next Lao Business Forum has been scheduled for November 05, 2007. It is expected that around 300 representatives from the government, private sector and donor community will participate. It is expected that progress in resolving the following key issues will be discussed:

- Simplification of fiscal obligations on wood & standardization of wood prices;
- Implementation of the 2006 PM Order on management of forestry and wood processing industry;
- Inconsistent duties and taxes imposed on imported goods;
- The low limit on certain business expenses under the Tax Law;
- Lack of enforcement of the Compulsory third party bodily injury liability insurance;
- Deficient enforcement of the Tourism Law enacted in 2005 and insufficient promotion of Lao PDR as tourism destination in the international market; and
- The Draft Mining Law.

Natural resources sector

Mining industry. The mining sector has experienced rapid growth in the last few years. To sustain growth over the longer term and encourage quality investments in the sector, the Government is developing a sector policy and will revise the current Mining Law by the end of 2008. It is expected that this will lead to improvements in relevant administrative regulations and address the following issues:

⁷ The regulation only applies to medium to large size manufacturing firms, defined as those having more than 10 workers or using machinery with more than 5 horse power.

- Introduction of a uniform and transparent fiscal regime based on international best practice;
- Security of tenure. The right to mine after a deposit is discovered through exploration is to be guaranteed in the draft Lao PDR Mining Policy and Law, with the important exception of requiring a company to demonstrate technical and financial competence through a bankable feasibility study;
- Abolition of the five year up-front royalty provision;
- Appointing a lead regulatory agency responsible for streamlining licensing procedures;
- Other issues that will bring the law to international best practice level, including exploration and mining options for multiple commodities, and cadastre systems.

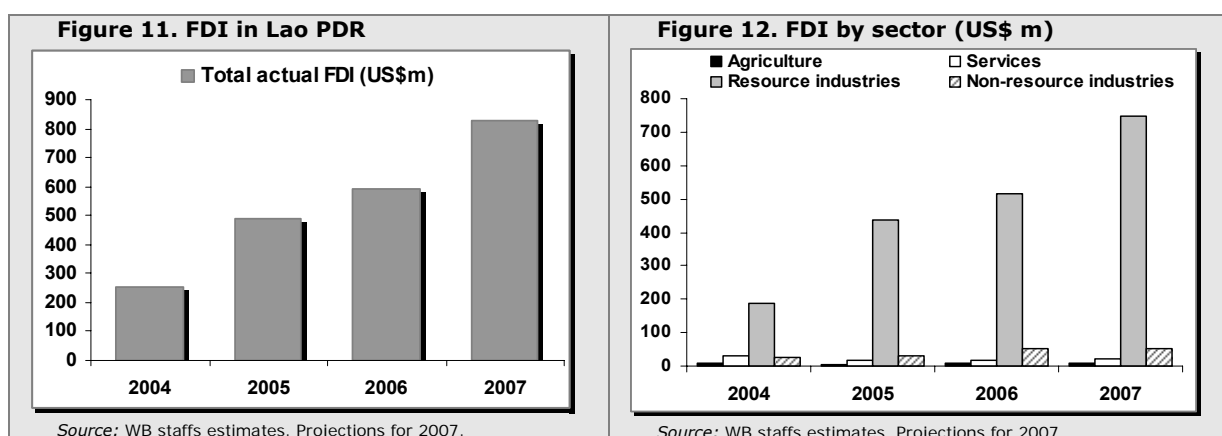
Power sector. The Government is actively encouraging private sector participation to help develop the hydropower sector. Currently, export-oriented independent power producers (IPPs) account for almost 60 percent of total installed capacity in Lao PDR, and their share is expected to increase rapidly in coming years.

The First Lao-Thai High-Level Forum. In September 2007, the governments of Lao PDR and the Royal Kingdom of Thailand held the first Lao-Thai High Level Forum to promote the sustainable hydropower development. Participants included representatives from the two Governments, private developers, commercial banks, international financial institutions and civil society groups. The main outcome of the First High Level Forum was the adoption of the *Bangkok Joint Communiqué for Sustainable Hydropower Development*, which envisions a shared stakeholder responsibility in working collectively towards sustainable hydropower development in Lao PDR. It also outlines the action plan for the next 12 months. The Nam Theun 2 project was cited as a good example of the fruitful Lao-Thai partnership, given its strong mitigation of negative environmental and social impacts.

Foreign Direct Investment (FDI)

FDI inflows to Lao PDR have been increasing during the past few years (Figure 11). Most of the FDI flow is to the natural resources sector, namely hydropower and mining (Figure 12). FDI in hydropower sector made up nearly 70 percent of the total foreign investment last year, whereas the mining industry and remainder of the economy each accounted for 16 percent. Foreign investment in other sectors, such as agriculture and services has also increased, although at much lower rates.

In 2007, the gross FDI is projected to increase almost by half, to around US\$800m compared to US\$550m in 2006. The projected rise in FDI mostly comes from the new expansion of mining operations by Phoubia Mining Ltd (this includes building a new copper plant at Phoukham Mine and ongoing construction of three hydropower projects, such as NT2, Nam Ngum 2 and Xekaman 3, as described in the previous Monitor).



(For background on measures taken for private sector in previous years please refer to the Annex – Box 6)

Text Box. Key Principles of the Paris Declaration and its Implementation in Lao PDR

OWNERSHIP

Indicator 1- Partners have operational development strategies.

Among the main challenges for the Lao PDR to increase its rating are (i) Ensure that prioritized activities in NSEDP receive the required resources (such as through a clear medium-term expenditure framework); (ii) Enhance the participation of civil society and the private sector while strengthening their capacity to do so; (iii) Improve the reliability of, and access to, monitoring and evaluation data; (iv) Scale-up partnerships in the country – there are currently no sector wide approaches, almost no program based approaches, and capacity development is not systematically approached.

Some of the ongoing actions in this area are the PEMSP, the development of a stronger country level M&E framework, and the proposed SWAp in transport.

ALIGNMENT

Indicator 2a- Reliable country public financial management (PFM) systems

Although some progress has been made in the Lao PDR in strengthening public financial management (PFM) systems in the recent years, substantial progress is still required. Key reforms required – many of which are underway – include (i) A functional classification of expenditures in the national budget; (ii) A strengthened central-local fiscal framework to make the budget more realistic; (iii) Align off-budget expenditures (mainly grants and funds) into the budget; (iv) Strengthen financial reporting; (v) Timely payments of public servant salaries and (vi) Increased auditing capacity of the State Audit Organization.

Many of these challenges are currently being addressed, especially as part of the PEMSP. The menu of remedial actions includes a revision of the current chart of accounts, a revision of the budget law, rolling out of Government financial information system to all ministries and provinces, and a peer review process for the State Audit Organisation (SAO).

Indicator 3 – Aid flows are aligned to national priorities

The Lao PDR results should be regarded carefully. As mentioned above, it is widely acknowledged that a considerable percentage of ODA is not reflected in the national budget. However, the data coming from the OECD/DAC survey suggests the opposite.

The main causes of this gap in the budget are: (i) development partners (DPs) fail to provide intended disbursements in a timely manner; (ii) DPs do not provide realistic schedules; (iii) Government fails to capture DPs information or make realistic estimates.

The ongoing Round Table project is looking at ways to strengthen the ODA database, which is intended to strengthen the predictability and reliability of ODA flows. Increasing predictability and reliability are essential for the Government to be able to include as much ODA as possible in its planning and budgeting process.

Indicator 4 – Strengthen capacity by coordinated support

Among the main challenges to improve coordination around capacity development (CD) interventions are (i) Lack of systematic approach to CD from both Government and DPs -at the moment CD is mostly developed on a project by project basis- ; (ii) Lack of mechanism to coordinate CD interventions and methodologies. Such a mechanism would be useful to link central agencies with key capacity related roles such as the Public Administration and Civil Service Authority (PACSA), National Academy of Politics and Public Administration (NAPPA), National University of Laos (NUoL), with other line ministries that require a more effective CD support.

Currently the Ministries of Education, Agriculture and Forestry, and Public Health are working towards development of a sectoral CD framework that would aim to align development partners' CD interventions around governments' key capacity priorities. The PEMSP is providing similar support to the MoF.

Indicator 5 – Use of country public financial management & procurement systems

Using country systems significantly reduces the transaction costs of development assistance for government, while providing strong incentives to improve the quality of these systems over time. Globally, the main argument for DPs not making use of country systems is that the systems in place are not up to international standards. However, results from the global OECD/DAC survey show how there is little or no correspondence between CPIA (which measures the strength of public PFM systems) and the use of country PFM systems by DPs.

In Lao PDR very few bilateral DPs use country PFM and procurement systems, reportedly because of concerns that country systems are not up to international standards. Government has embarked on a comprehensive PFM reform through the PEMSP, which will enable, in the medium term, internationally accepted standards in budget execution procedures, financial reporting and auditing, among other systems.

Indicator 6 – Avoiding Parallel Implementation Structures

Progress in this area is a major challenge in the Lao PDR due to (i) project implementation unit (PIU) staff benefits are particularly attractive in an environment of low civil service wages; (ii) DP concerns that low government

capacity will compromise the quality of project implementation; (iii) DP and Government face more incentives to “get the job done” than to build sustainable institutions. These challenges will need to be addressed particularly by multilateral organizations which account for 2/3 of the non-integrated PIUs in the country.

Indicator 7 – Aid is more predictable

Unpredictable ODA undermines government attempts to include ODA in core planning and budgeting processes, making duplication and limited ownership more likely. Unpredictable disbursements are due to: (i) Delays in project execution (document approval, recruitment); (ii) Problems with resource mobilization, including dependence on funds from other DPs, and; (iii) Fluctuating exchange rates from the point of commitment to the actual disbursement.

Unpredictable ODA is compounded by weak systems for recording disbursements accurately, due to (i) weak methodology to record disbursements (discrepancies in the figures included in the Foreign Aid Report, which is DIC/MPI’s annual report on use of ODA), (ii) weak methodology for donors to provide disaggregated data adapted to Lao FY.

The DIC is working on the improvement of their disbursement recording methodology, planning to request all DPs to provide expenditure figures on a quarterly basis, and strengthening the reliability of data in the Foreign Aid Report. The RTP looks into ways of strengthening the ODA database and ODA reporting.

Indicator 8 – Untied Aid

No systematic data for Lao PDR provided within the survey.

Indicator 9 – Use of common arrangements or procedures

Program-based approaches (PBA) are globally viewed as a more efficient and effective way of delivering ODA than traditional stand-alone projects – where circumstances are appropriate. Only the Avian Flu and Unexploded Ordnance (UXO) programs were considered as PBAs at the time of the survey in Lao PDR, but strong progress towards PBAs are being made in PFM, Trade, and Transport. The amount of ODA being provided through direct budget support, especially through the Poverty Reduction Support Operation (PRSO) series, is also scaling-up.

HARMONIZATION

Indicator 10 – Conducting joint missions and sharing analysis

The indicator is intended to track progress in reducing the overall number of missions, as too many missions (particularly single agency missions) can be a burden on government, both through the attention that each mission requires, and through promoting uncoordinated policy dialog with government. The international financial institutions tended to report far higher proportions of joint missions than did bilateral agencies and the UN system which score well below the target. The Government is taking the initiative to regulate missions and this includes “mission-free” periods, especially around budget preparation weeks. As per the Vientiane declaration action plan commitments, Development partners will improve their sharing of mission plans in advance and agree in joint missions where possible.

On the analytical assessments scene, the Vientiane declaration action plan on aid effectiveness includes provisions to identify, in a sector by sector basis, common areas of research and undertake them jointly. The objective is to promote a more coherent and strategic dialog between Government and DPs on issues of mutual concern.

MANAGING FOR RESULTS

Indicator 11 – Sound performance assessment framework

The desk review that supported the OECD-DAC survey suggested that monitoring and evaluation systems remain somewhat fragmented in Lao PDR, and the country’s capacity to implement a sound performance assessment system is weak. Among other things, the timeliness, consistency and availability of data need to improve, as do systems for feeding performance data into policy improvement and budget planning. For DPs most M&E systems appear to be project specific rather than contributing to national data and M&E systems. National workshops on strengthening M&E, as well as a new project to support NSEDP M&E systems, are underway.

MUTUAL ACCOUNTABILITY

Indicator 12 – Mutual assessment of progress

The Lao PDR has mechanism for mutual review of progress on aid effectiveness in place, which was developed as part of the Vientiane declaration action plan. The action plan includes a review and updating mechanism, setting up responsibilities on both Government and DP’s side for the accomplishment of the different goals.

PART III – DONOR ASSISTANCE TO THE REFORM AGENDA

Lao PDR is highly dependent on external support, including for significant levels of technical assistance. This Part examines technical assistance and other donor-funded support to the Government's policy reform agenda and is based on information provided by donors.

PUBLIC SECTOR GOVERNANCE. Governance attracts significant donor assistance, with more than 20 active projects supported by multilateral and bilateral donors, including ADB, Australia, EC, France, Japan, New Zealand, Singapore, SNV, Sweden, UNDP, and the WB. These projects cover various aspects of public sector governance, including public administration, capacity building for government agencies and the NA, decentralization, PFM and legal and judicial reform.

With assistance from donors, the GOL has made some improvements to public sector governance in recent years, including by more clearly articulating its intended reform agenda. In late 2006, the Government shared its new *Strategic Plan on Governance* with DPs. The plan focuses on improving public services, enhancing transparency and public participation in policy-making processes, strengthening the rule of law, and improving PFM.

Donors have helped the GOL to develop and implement the PEMSP and approve a new Budget law to improve revenue collection and strengthen public financial management systems by centralizing customs, tax and treasury administrations and improving fiscal planning and budgeting processes. The PACSA has designed a new national GPAR-SBSD program and is currently developing an approach to improve domestic civil society. The Ministry of Justice has been developing a legal sector master plan to map out a strategy framework for legal sector development.

SCBS AND FINANCIAL SECTOR. The key donors in this area include ADB, IMF, WB/IFC and others especially France, Japan and Sida. *Banking sector reform* in Lao PDR started many years ago with support from ADB, IMF, and WB. Despite these efforts, the pace of reforms has been slow. Since the Lao PDR banking sector is very small with poor and limited services, continuous support is essential to build capacity, raise quality and broaden services and improve access to credit to facilitate rapidly growing investments and trade (including for SMEs and micro businesses). However, much will depend on the commitment of the Government to reform this sector. Recently, IFC/WB has been providing support to BOL on reviews of banking regulations.

SOE reform aims to improve performance of SOEs, as well as to reduce their fiscal and quasi-fiscal impact. Currently, the WB is providing support for the SOE restructuring agenda and the ADB has given some assistance under its Rural Financial Sector Development Program. JBIC is considering support as well.

TRADE DEVELOPMENT. Trade is one of the main cross-cutting issues that covers a broad range of sectors and sub-sectors and involves many different stakeholders. As reported above, the trade development agenda in Lao PDR is seen by the GOL as the driver for growth and poverty alleviation, enabled by regional integration and WTO accession. Although there were some achievements in the past, extensive work remains to be done in the coming years, especially to create a more favorable environment for enhancing trade and investment and to accelerate preparation for AFTA and WTO accession.

After the National Validation Workshop in September 2006, the GOL continued working with donors on implementing the DTIS's Action Matrix (AM), which articulates a comprehensive trade-related policy reform actions and programs. The implementing body has been restructured. The preparation for setting-up the Trade Development Fund (TDF) is progressing well and the projects to be supported by this multi-donor trust fund are at the appraisal stage. Many donors are providing support to various aspects of trade-related work in Lao PDR (ADB, Australia, EC, ITC, SECO, UNCTAD, UNDP, US and WB), and it is hoped that their assistance will be coordinated under the IF framework and the Action Matrix.

PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM. Developments in these areas are closely linked to the trade and trade-related issues and mostly included in the DTIS Action Matrix. Although many donors, such as ADB, Germany, Japan, MPDF/IFC/WBG, SNV, Switzerland, UNCTAD, UNDP,

UNIDO, WB, provide significant support to various components of *private sector development* agenda in Lao PDR (improving environment for doing business, legal framework, capacity building for GOL and private sector, and other issues) more attention and effort is needed to ensure effective implementation of the Enterprise Law and other key PSD related policies, regulations and procedures.

Tourism development received donor support, although there are few donors providing assistance in this area (ADB, Australia, EC, Japan, NZAID and SNV). Among other donors, ADB is seen to be the most active player for developing tourism related infrastructure in Lao PDR (tourism sites, access roads and airports under Mekong Tourism Development Program). Australia supported the development of ASEAN common competency standards for tourism professionals, and is also supporting an ASEAN-wide program to combat child-sex tourism in the region. Capacity building is an area that needs more support from donors, especially skills and English language training, upgrading of hotel and hospitality management skills and improving quality of tourism and tourism-related products and services in the country.

Another important area is the *land reform*. The GOL has been implementing the land reform agenda over the last few years, mostly under the land titling program supported by WB, Australia, and Germany. The land administration work, as compared to other areas, received significant funding from the donors (WB, Australia and Germany). However, there is still a need to enhance the capacity of the GOL to absorb and accelerate the reform program, particularly the relatively new National Land Management Authority. There is also a need to develop the land policy framework, especially regulation of land concessions and rural land rights, promotion of land information coordination and the use of land titles as collaterals for bank credits, simplifying procedures for registering property and facilitating real-estate business in the country. Additional donor support on these matters is needed.

The donor assistance projects on reform agenda are described below (updated in *October 2007*).

3.1 PUBLIC SECTOR GOVERNANCE

ADB

- **Public Expenditure Planning for National Growth and Poverty Eradication Strategy** (\$0.7 million, 2005-2007). The TA provides capacity building and advisory services aimed at: (i) improved and effective allocation of public resources according to the Government's development and poverty reduction policy objectives; and (ii) improved quality of fiscal planning.
- **Improved Public Financial Management Systems** (\$0.85m, 2007-2008). The TA aims to improve the quality of public financial management for the higher levels of efficiency, accountability and transparency. The TA will support "Component B: Budget Execution, Accounting and Financial Reporting" of the PEMSP. It will focus on preparing and implementing a strategy for developing and issuing comprehensive annual financial statements, including implementing a chart of accounts that is compatible to the GFS international standards. It will also assist in the establishment of the internal audit function within finance departments of ministries and provincial offices. Lastly, it will support the State Audit Organization in (a) drafting the implementing decrees to the Audit Law and (b) in providing advisory support for the INTOSAI audit peer review which is a GOL commitment under the NT2 Revenue Management Arrangement.

Australia/AusAID

- **Asia Regional Trafficking in Persons Project – ARTIP** (A\$21m for Lao PDR, Cambodia, Myanmar, Thailand and Indonesia 2006-2011). Working with the General Police Department of the Ministry of Public Security, the goal of the project is to contribute to the prevention of human trafficking in the Asia region. The purpose of the project is to facilitate a more effective and coordinated approach to people trafficking by criminal justice systems of governments in the Asia region. The project comprises of five components: (1) Strengthened specialist and general law enforcement responses to trafficking; (2) Strengthened judicial and prosecutorial responses to trafficking; (3) Enhanced policy, legal, research and outreach capability; (4) Engagement of new Project and partner countries; (5) Project management.
- **ASEAN-Australia Development Cooperation Program – AADCP** (A\$45m, 2002-2008). **The Regional Partnerships Scheme** component supports the governance sector in areas of taxation, banking, enforcement of intellectual property rights and program and project design. The **Program Stream** component has a governance focus in areas of standards and conformity assessment, customs capacity building, legal infrastructure for E-commerce, foreign direct investment data collection and reporting, private sector competitiveness, trade-related aspects of SPS.

France

- **Strengthening the Capacity of the Ministry of Finance** (US\$0.78m and one advisor, 2005-2008). The project aims at improving the budgetary mechanism, help with capacity to implement a computerized custom

instrument (ASYCUDA/Sydonia), strengthening the monitoring and control of budgets as well as training civil servants in every department of the ministry of Finance, training of trainers and creating of an on-going training center within the ministry.

- **Capacity building in the rule of law and in international relation** (US\$1.6m and one technical assistant, 2003-2007). The purpose of the project is to strengthen the capacity of the ministry of justice (MoJ), the ministry of foreign affairs (MoFA) and the Office of Public Prosecutor in the field of governance and reforms in the rule of law. The main activities include training of trainers, seminars, study tours, scholarships, French language training and support for equipments in order to enhance capacities of MoFA's and MoJ's training centers. An international relation university degree at the National University of Laos, in partnership with a French university (Lyon III), the Lao PDR institute of foreign affairs and political institutes from the Rhône-Alpes region has also been initiated in the frame of this project. The latter is expected to continue beyond 2007 as part of a non-governmental cooperation between Rhône-Alpes and the university.
- **Preventing human trafficking in Lao PDR** (US\$0.0975m, 2006-2007). Through seminars and capacity building training, the project seeks to raise awareness of policemen and reinforce trans-national cooperation on the issue of human trafficking.
- **Strengthening the capacity of the Mekong River Commission - MRC** (US\$0.975m, 2007–2011). This project provides two advisors for the secretariat of the MRC in order to advise them on the implementation of their sector based approach programs.

Japan

- **Project for Capacity Building for Public Investment Program Management** (US\$3m, JICA; Technical Cooperation Project 2004-2007). This project aims at improving overall management of domestic PIP (implemented by the Lao PDR budget) in cooperation with the Ministry for Planning and Investment (MPI). The main activities of the project are to support (1) planning, appraisal, monitoring, and evaluation of PIP, (2) providing workshops and training (3) training officials through the implementation of the actual project in selected provinces (OJT), (4) making a "PIP project guideline," "PIP program guideline," "PIP project manual," and "PIP program manual" and (5) establishing a coordination network among concerned organizations for PIP management.
- **Local Administration Capacity Building Support to PACSA** (US\$0.3m, JICA; Advisor, 2007-2009). This technical cooperation mainly aims at assisting to draft regulations, guidelines, and procedures related to "Law on Local Administration" and other concerned rules.

New Zealand

- **English Language Training for Officials** (US\$0.284m, Ongoing). ELTO is a long standing project that is providing English language training to mid level officials. The project moved into a new phase at the beginning of 2003.

Sweden/Sida

- **Institutional capacity building for National Statistical Centre** – (US\$3.2m, 2005-2008). Cooperation between National Statistical Centre and Statistics Sweden financed by Sida since 1992, now in its final phase. The project objective is to provide users with reliable and relevant statistical information. Specific outputs to be achieved are: 1) NSC has a regular statistical production program within its area of responsibility, 2) NSC has an efficient organizational structure and working methods to manage its regular statistical production, 3) NSC has sufficient professional capacity to produce statistics that meet the defined quality, 4) NSC has an efficient organization in terms of financial management, and 5) NSC is the main coordinator of the National Statistical system.
- **Provincial Radio** – (US\$1.6m, 2005-2009) Following a pilot project for development of provincial radio in Lao PDR from July 2002 – May 2003, Sida is supporting the Lao PDR National Radio with the aim to reduce poverty and promote human rights through professional and interactive public radio services. The current objectives are: 1) enhanced ability of management and staff of Lao PDR National Radio and five provincial radio stations to deliver good quality interactive, public service radio, 2) sustainable training capacity built within LNR and the provincial radio stations to ensure continued support to interactive public service radio broadcasting, and 3) improved institutional framework for the media sector in Lao PDR through exchange views on the role of the media in society between Lao PDR and Sweden.
- **Faculty of Law** – (US\$4.5m, 2003-2009). Sida has supported the development at Faculty of Law since 2000. The overall objective of the current support is improved quality of graduate students. The specific objectives are to improve technical capacity and pedagogical knowledge among faculty teachers, to improve capacity in management and administration, and to improve motivation of students.
- **National Agriculture and Forestry Research Institute, NAFRI** - (US\$12m, 2007-2012) Sida has provided support to NAFRI through Lao Swedish Upland Agriculture and Forestry Research Programme (LSUAFRP) since 2002. The second project phase started in April 2007. The objectives are to develop productive and sustainable upland technologies and land management recommendations for poverty alleviation and to generate socio-economic knowledge relevant for national level policy making; to strengthen NAFRI to fulfill its mandate through capacity development encompassing institutional development; and to improve

management, sharing and dissemination of information to researchers and other stakeholders, particularly National Agriculture and Forestry Extension Services (NAFES).

- **Strengthening Environment Management (SEM)** – (US\$8.7m, Phase II: 2005-2010). The objective of the current support is to strengthen STEA's position to fulfill its mandate to implement laws and regulations, in particular with regard to environmental and social impact assessment. The project also focuses on implementation and enforcement at national and provincial level of Environment Impact Assessment and Environmental Education and Awareness raising activities.
- **Forestry Strategy 2020 Implementation Promotion Project, FSIP** – (supported by Sida and JICA for 2006-2011. Sida's contribution: US\$1.2m). This support aims at strengthening MAF's capacity to carry out and coordinate Forestry Strategy 2020 implementation together with its partners (line ministries, donors, investors, provincial and district governments and civil society).

Singapore

- **Human Resource Capacity Building Programmes** (US\$10.3m, ongoing since 1992). Lao PDR has been an active participant of the Singapore Cooperation Programme (SCP). As of September 2007, a total of 5,100 Lao PDR officials have been trained under the SCP in diverse fields such as English language, IT, trade promotion and hospitality. Besides training courses and workshops, Singapore also hosted study visits by Lao PDR officials to learn about Singapore's experience in governance and public administration. The National University of Singapore Law Faculty has also partnered the UNDP in a collaborative programme to translate Lao PDR laws to English. In addition, 17 Lao PDR undergraduates have been awarded Singapore Scholarship awards (US\$1m, ongoing since 1999).
- **The Lao-Singapore Training Centre** (US\$2m, 2001-2008 in Vientiane was established by the Singapore Government in 2001, as part of the Initiative for ASEAN Integration. The Centre provides in-country courses for the Lao PDR officials in diverse areas such as IT, health, economic and finance policy planning, English language training, etc. During the period from March to September 2007, Singapore has organized training for Lao PDR officials at the Lao-Singapore Training Centre in basic English language, avian flu management, advanced productivity tools, effective negotiation, IT security, and PC networking and maintenance. Train-the-trainers courses were also held for IT managers and teachers. A workshop was conducted by the Consumers Association of Singapore for Lao PDR officials to impart the Singapore experience in consumer protection and its related legal framework. In addition, Lao PDR officials traveled to Singapore to attend an Executive Programme for the Development of Entrepreneurial Skills for Senior Officials as well as courses on financial market analysis, programming and policies.
- **Singapore Cooperation Programme** (Ongoing since 1992). This is Singapore's technical assistance programme. More than 49,000 government officials from 166 developing countries have attended the SCP programmes spanning various fields such as IT, trade facilitation, health, port management, civil aviation, disaster management. The SCP also conducts joint training programmes with more than 30 partners such as the World Bank, IMF, WTO, WIPO, Commonwealth Secretariat, JICA, AusAID, KOICA, CIDA, etc.

SNV Netherlands Development Organization

- SNV supports the UNDP project "Gender Empowerment for Poverty Reduction", building capacity for stronger policy practice. The project which started in 2006, has the medium term goal of building pro-poor and gender sensitive advocacy, planning and resource allocation skills within the Lao PDR Government in support of decision making processes and policy formulations and planning forums. In addition, SNV supports the Gender Resource and Information Development Center (GRID) of LWU in their mandate to promote gender equality in the country.

UNDP and co-financing Donors (EC, Finland, Luxembourg, SDC, Sida, and SNV)

- **Governance and Public Administration Reform Programme: Support for Better Service Delivery (GPAP: SBSB)** (US\$10.343m: UNDP - US\$0.99m; UNCDF – US\$0.7m; SDC – US\$3.5; and Luxembourg – US\$4m; Funding shortfall – US\$1.153m). The programme is multi-donor funding and financially supported by several donor countries including the Government of Switzerland, the Government of Luxembourg, UNDP Lao PDR and the United Nations Capital Development Fund (UNCDF). However, there is still a funding shortfall which welcomes for intervention of other interested donor communities to be part of the programme. Other potential partners include FAO, UNICEF, WFP, WHO and UNODC. The new SBSB programme will strengthen capacity for strategic planning, financing, management and monitoring of governance reform for more effective, accountable and transparent delivery of services. The design proposes five interrelated outputs to realize this outcome: (1) Strategic oversight, monitoring framework provides for evidence based policy and performance analysis in governance reform; (2) Improved organizational structures and systems enable the delivery of more effective accountable and transparent services; (3) Human Resource Management (HRM) & Human Resource Development (HRD) policies, procedures and capacity are strengthened; (4) Decentralized finance, planning & public expenditure management increase access to infrastructure & services for the poor and vulnerable; (5) Funding support for public service improvements.
- **The GPAP: Luang Prabang Pilot Phase II** (Total US\$3.098m: UNDP-US\$ 0.59 m; Sida-US\$2.5 m, 2005-2009). The purpose is to assist the Luang Prabang authorities in the design and implementation of a rights-based local governance system, in order to provide cost-effective services to the population. It supports the design and implementation of governance and public administration reforms related to the functioning of

provincial departments so as to improve delivery of selected basic services for rural households (primarily in the health and education sector) and facilitate entrepreneurship and pro-poor business development.

- **The GPAR: Xieng Khouang Pilot** (Total US\$2.0m: SDC-US\$1.5, UNDP-US\$0.5m and SNV: advisory services and cost sharing agreement; 2005-2008). The project sets out to strengthen the operational capacities of selected government institutions at the provincial and district levels to contribute to poverty reduction and equitable economic growth. As such the project will pilot governance and public administration reforms with emphasis on more effective and participatory services in the agricultural sector and strengthen financial management and accountability. The project will facilitate institutional change to create an enabling environment especially for farmers and local entrepreneurs, notably by enhancing people's greater involvement and ownership.
- **The GPAR Saravane project - Saravane Governance, Public Administration Reform and Decentralised Service Delivery Project.** (Total US\$2.8 million; UNCDF US\$1.9, UNDP US\$0.2, EC US\$0.6, 2005-2009) GPAR Saravane will provide substantive support in six main areas: (i) inclusive and pro-poor planning and budgeting at local levels; (ii) effective and transparent implementation of local infrastructure and service delivery; (iii) financing and financial management of local public service delivery functions; (iv) organizational strengthening at provincial, district and sub-district levels; (v) human resource management and capacity development; and (vi) informing national policy-making on the basis of project experience in Saravane Province. So far Operations of District Development Fund (DDF) are in progress for 4 districts and will expand to cover all 8 districts by 2009.
- **The GPARLSP Khammouane Preparatory assistance project (Total US\$ 1.18m: UNDP: US\$0.45m, SNV:-US\$0.15m and World Bank: US\$0.58m, 2005-2007).** The project aims to provide a sound foundation through governance reform and preparatory studies, for a longer-term provincial programme that can strengthen livelihoods and facilitate rapid economic growth in Khammouane province. The project will focus on building an appropriate vision for growth and livelihood development, taking into account the opportunities from the construction of the Nam Theun 2 dam and route 12, while strengthening governance capacity to address this agenda for action. This will serve as basis for the main project which starts in 2007.
- **The GPAR Sekong Project** (Total US\$1.7m, 2007-2010; UNDP 0.7m, other sources: US\$1m) – GPAR Sekong sets out to improve people's access to public services in the largely multi-ethnic province of Sekong. The project will rely on methods and tools developed at GPAR pilot projects to strengthen provincial oversight and capacities of government staff and institutions. Through the introduction of District Development Funds (DDF), aims in particular at developing strong decentralized governance systems at district, cluster and village levels.
- **Khoun Radio Support Project** (Total US\$0.2m, 2006-2007; UNDP 0.2m) – The project seeks to increase access to information, in particular for ethnic people and vulnerable groups in rural areas. It will also increase the voice and participation of local communities in the production of relevant information for their own community. The project is a one year pilot, which will also help provide a better understanding of what sort of information is available to people in their local communities, where do people look for information, what sort of information they want, and how to better respond to their needs.
- **Strengthening the National Assembly of Lao People's Democratic Republic** (US\$1.5m: EU – US\$1.12m and UNDP - US\$0.41m, 2004-2007). UNDP has been a strong partner of the National Assembly for several years, with a series of projects that have helped strengthen the Assembly with regard to the legislative process and oversight function. This project takes a longer-term strategic look at the areas of assistance needed to help the National Assembly implement its constitutional mandate.
- **Strengthening International Legal Instruments in Lao PDR, Phase II** (US\$1.26m: Finland – US\$0.65m, EU – US\$0.39m and UNDP – US\$0.08m, 2005-2008). The project aims to strengthen the capacity of the Department of Treaties and Legal Affairs in the Ministry of Foreign Affairs in particular to enhance dissemination, enforcement and reporting mechanisms relating to international obligations of Lao PDR.
- **Enhancing Government Partnership with Social Organizations for Poverty reduction** (US\$1.1m: UNDP – US\$0.1m; Funding shortfall – US\$1m). - The project purpose is to contribute to greater people's participation in public policy, local development and nation building through the project goal of enhanced government partnership with social organizations to deliver services in the public interest towards poverty reduction. The project will enhance the knowledge of government officials and legislators in regard to the role of social organizations to work alongside government towards poverty reduction, particularly through the sharing of experiences and best practices amongst south-south countries, in workshops held at national and province levels; provide a platform for engagement between legislators, government officials and social organisations; facilitate the development of a legal and regulatory framework in regard to the establishment and operation of social organisations, professional groups and associations; and capacitate social organisations to support government service delivery in the public interest.
- **Enhancing Access to Justice** (US\$1.8m; 2008–2010) The LBA phase II project 'Enhancing Access to Justice through the Lao PDR Bar Association' builds on achievements of the previous project. It focuses on three main areas, namely institutional capacity building, education and legal aid. As a result, the project will strive to deliver several the following outcomes i) establishment of legal aid pilot clinics in three provinces, including provision of services; ; ii) assistance in drafting the law on Lawyers and code of conduct for regulation of legal profession in Lao PDR iii) institutional strengthening of the Lao PDR Bar Association; ; iv) capacity building of the lawyers through Bar Admission and Continue Legal Education Programme v) Public legal education; vi) focused training on human rights, access to justice, environmental justice, gender justice and juvenile justice;

In addition, the project will conduct a survey to gain deeper understanding about people's perception on access to justice.

- **Support for Implementation of the Sixth Five-Year Plan** (US\$2.4m: UNDP – US\$0.8m, 2006-2010) – The project aims to assist the Government of the Lao PDR in the implementation of the Sixth Socioeconomic Development Plan (2006-2010) including the constituent poverty reduction strategy and the MDGs; and in monitoring and evaluating the results. Specifically, the project will help the Government of the Lao PDR in achieving three outcomes: (i) incorporation of the poverty reduction and MDG priorities and programmes of the Sixth Plan (2006-2010) in the annual plans and budgets of selected Ministries and three pilot provinces and implementing them; (ii) enhanced capacities of MPI, selected Ministries and three pilot provinces for improved implementation monitoring, evaluation and reporting; and (iii) establishment of a research network comprising the National Economic Research Institute (NERI) and selected Ministries and Agencies to undertake policy research to support planning, monitoring and evaluation. The Department of General Planning in MPI is the implementing partner for the project. During the latter half of 2007 the project has been focusing on reviewing and upgrading the existing national monitoring and evaluation framework; and supporting the ongoing preparation of the Focal Area Development Plans including updating the participatory planning guidelines.
- **Gender Empowerment for Poverty Reduction (GEPR)** (US\$1.7m: UNDP – US\$0.28m, 2006-2009)- The project aims to build gender equality advocacy, planning and resource allocation skills within Lao Women's Union, National Commission for the Advancement of Women, MPI and the National Assembly in support of decision-making processes and policy formulations and planning forums. In this process, the project will also build NCAW and GRID capacity to produce gendered policy analysis for use by Government decision-makers.

The World Bank (WB)

- **Support to PEMSP and Budget Law Implementation** (through the Financial Management Capacity Building Project, US\$11 million, 2002-2011) The project has been supporting three main areas of reform: financial and banking sector, SOE, and public financial management capacity building. It has recently been restructured and additional grant financing has been added to assist the GOL in the implementation of the new Budget Law. Specific areas of interventions to be financed by the additional Grant are: (i) Developing a new revenue sharing framework; (ii) Implementation of the revised Chart of Accounts and Budget Nomenclature; (iii) Support to Treasury Centralization and (iv) Strengthening External Audit capacity.
- **Poverty Reduction Support Operations - PRSO** (PRSO1, 2, and 3 during 2004-2007 were the first series of the Programmatic budget support operations of about US\$8-10m per year. PRSO2 was co-financed by Japan in the amount of \$4.2 million in 2006. Second programmatic series is planned for 2008-2011 (PRSO4, 5, 6, and 7) with yearly financing from the WB of about \$10 million, and potential co-financiers, such as EC, Japan, and Australia). The main objectives of this programmatic operation are to support NGPES/NSEDP implementation and provide additional contribution to the government budget and to policy reforms in public financial management, banking and financial sector, SOE reform, health, education, and revenue management. The PRSOs have become an important instrument in supporting policy reform in Lao PDR, as well as a vehicle for donor coordination and alignment with country systems. It is expected that PRSO4 will go for approval to the Board of the World Bank in May 2008.

3.2 REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

ADB

- **Banking Sector Reform Program** (US\$15m, 2002- December 2007). The objective of the program loan is to support the government (BOL, MOF) efforts to foster efficient intermediation of depositors' resources and ensure a sound banking sector capable of supporting private sector growth and extending rural outreach. The goals will be achieved through an improved operating environment for banking, the immediate application of commercial principles in SOCB operations, and increased diversity in forms of rural financing.
- **Strengthening Corporate Governance and Management of SOCBs II** (US\$0.9m, 2002-December 2007). The TA aims for a strengthened banking sector supported by conducive legal environment and effective judicial processes. It assists the Government to strengthen shareholder oversight of bank restructuring, including (i) strategy development; (ii) human resource (HR) development; (iii) case by case NPL resolution; and (iv) the legal and judicial framework to support NPL resolution, including establishing a commercial division of the court and strengthening the framework for commercial transactions.
- **Banking Automation to Support Outreach, Efficiency and Governance** (US\$0.65m, 2005- December 2007). The grant's development objective is to enable a sustained reduction of poverty in the Lao PDR by reducing the digital divide between the technology deficient Lao PDR banking system and that of other countries in the region in a sector that is increasingly driven by information and communication technology (ICT). Specifically, the TA assisted in the upgrade of BCEL hardware, provides training on banking automation to BOL, BCEL and LDB staff, and is presently assisting in the procurement of core banking systems and hardware for the LDB.
- **Rural Finance Sector Development Program** (a program Loan: US\$7.7m, 2006-2009). The program loan will support: (i) creating an enabling policy framework for public and private provision of rural and microfinance; (ii) creating a sound prudential regulatory and supervisory environment for public and private

rural and microfinance institutions; (iii) transforming the Agriculture Promotion Bank (APB) into a financially self-sustainable, market-oriented rural finance institution; (iv) creating a supportive non-prudential regulatory environment for rural and microfinance.

- **Rural Finance Sector Development Program** (a project loan: US\$2.3m, 2006-2009). The Project Loan will support: (i) building Bank of Lao PDR's (BOL) supervision capacity of microfinance institutions (MFIs), (ii) supporting APB to complete the risk management, accounting, and MIS components of its Restructuring Plan, and (iii) upgrading the ICT system of the Agriculture Promotion Bank (APB).
- **Institutional Strengthening for Rural Finance** (Piggy-backed TA: US\$0.700m, 2007-2009). The TA will (i) assist the Government to manage and carry out the reform agenda and (ii) assist APB to implement a key institutional strengthening component of its restructuring plan. The objective of the TA is to assist the Government to (i) coordinate and integrate rural and microfinance policy reforms and program implementation, (ii) carry through the policy lending phase out plan and performance based recapitalization of the Agriculture Promotion Bank (APB) to ensure its full transition to a commercially-oriented operations within three years; and (iii) formulate and document a simplified mechanism, policies and procedures for residual on-budget policy lending; and (iv) assist APB to build capacity in its human resources management.
- **Upgrading of ICT and MIS at the Agriculture Promotion Bank** (JFICT TA: US\$0.472m; extended to June 2009). The JFICT TA will assist APB to (i) upgrade its ICT human resources capacity to manage the ICT systems upgrade; (ii) review and confirm that the systems specifications proposed are adequate for APB's needs; (iii) plan and execute the bidding, selection, and contracting processes with the turnkey contractor and the communication infrastructure provider; (iv) monitor the turnkey installation and milestone achievement, verify that specifications have been adhered to, review data migration plans, and carry out user acceptance testing; (v) prepare and carry out a training plan; (vi) review and evaluate the effectiveness of technical and operational training provided under the turnkey contract; and (vii) plan and implement the rollout of systems to the whole APB branch network.
- **Catalyzing Microfinance for the Poor** (JFPR TA: US\$1.980m; extended to June 2010). This JFPR TA will provide grant funds for eligible microfinance institutions (MFIs) through a Microfinance Fund (MFF). The MFF will support initiatives by MFIs in the Lao PDR that will (i) contribute directly or indirectly to improved incomes, livelihoods, and opportunities for poor people; (ii) involve a product, service, system or procedure that is innovative and would be unlikely to be addressed without the support of the MFF; (iii) result (directly or indirectly) in increased access to financial services by the poor; (iv) be sustainable, or result in sustainable impact, after an MFF grant has been utilized; (v) share resource costs required for implementation between the MFF and the MFI; (vi) be implemented within 3 years, other than in exceptional circumstances; and (vii) not create unfair competition or otherwise distort markets.

International Monetary Fund (IMF)

- Annual surveillance reviews (Article IV consultations) and semi-annual macroeconomic assessments (Assessment Letters).
- Technical assistance in fiscal management (especially customs operations), central banking, and statistics.
- Training. Short-term courses for government officials on economic and financial issues in IMF Institute (Washington, DC) and regional training institutes (Singapore, Vienna), and scholarships in Australia and Japan.

Japan

- **Poverty Reduction Support Operation 2 – PRSO2** (A one-year single tranche operation, US\$ 4m, JBIC; 2007). The main objectives of this facility are to support NGPES/NSEDP implementation and to provide additional contribution to the government budget by co-financing to the PRSO 2 with the WB through the scheme of yen loan. The loan agreement was signed in February 2007.
- **Fiscal Policy and Financial Statistics Support** (Advisor and Training in Japan, US\$0.5m, JICA; 2005-2008). This technical cooperation provides an advisor to Fiscal Policy Department, Ministry of Finance, and a series of counter-part training in Japan in order to improve financial statistics and fiscal policy management of GOL.
- **Capacity Building for Public Expenditure Management Strengthening Programme (PEMSP)** (JICA; Technical Cooperation Project 2007-2011). The objective is to provide an assistance to establish a comprehensive human resource development framework in the Ministry of Finance under the framework of PEMSP and to carry out appropriate trainings based on the model.

Sweden/Sida

- **Strengthening Fiscal Management** (US\$3.20m, 2004-2008). The overall objective is to contribute to poverty alleviation by strengthening Lao PDR's ability to improve revenue collection. The project includes: tax policy and tax administration, human resource development, organization and management and ICT development.

The World Bank Group-WBG (WB, IFC-MPDF)

- **Poverty Reduction Support Operations - PRSO** (See project description in 3.1 above - World Bank).
- **Financial Management Capacity Building Program – FMCBP** (US\$11m and additional US\$0.3m financed by Japan PHRD Trust Fund, 2002-2011). The FMCBP aims to provide a comprehensive and strategic framework

for the capacity building activities to improve the financial management in Lao PDR and to provide a credit for specific technical assistance and training activities within such framework. Since the project has been operational it supported three main areas of reform: Financial and banking sector, SOE, and public financial management capacity building. This project has recently been restructured and additionally financed to support more centrally the public finance management strengthening program.

- **Financial Accountability** (IDF grant \$0.30m). This grant aims at improving Financial Accountability in SOEs and Private Enterprises. The project focuses on capacity building and introduction of international accounting and auditing standards and related training. The project also supports strengthening of LICPA and improvement of legal framework for accounting and auditing practices. Efforts are currently underway to translate international accounting standards into local language.
- **IFC-MPDF: Financial Markets Development:** Working with the Bank of Lao PDR (BOL), IFC-MPDF provided technical assistance to develop the new Law on Commercial Banks, which was promulgated in January of 2007. IFC-MPDF assisted by conducting a comprehensive review of the legal framework governing commercial banks and assisting the BOL drafting committee to prepare the draft of the new law. IFC-MPDF also assisted in the drafting of amendments to the Presidential Decree Law on Foreign Exchange and Precious Metals. The major impact of this banking legislation is to provide a level playing field for domestic and foreign banks and remove discrimination between private and state-owned banks. The establishment of this new legal framework had a major impact on encouraging ANZ to invest in Vientiane Commercial Bank, making it the first local commercial bank with a major foreign bank as a shareholder.
 - IFC-MPDF is currently supporting the BOL to develop implementing regulations for the Law on Commercial Banks as well as to review and revise its prudential regulations. IFC-MPDF will provide a resident advisor to BOL to help strengthen its capacity to carry out banking supervision and enforce prudential regulations. With the increasing number of commercial banks entering the market and the growth in lending activity, this will support the development of a sound banking system. IFC-MPDF will also support, where possible, the development of the leasing industry.
 - IFC's equity investment in ANZ Vientiane Commercial Bank will have a positive impact on the banking sector in Lao PDR by leading to new services and technology becoming available in the Lao PDR market. IFC-MPDF will contribute as well to this joint venture by providing advisory services to help ANZ Vientiane Commercial Bank to serve small businesses more effectively and share this know how with other commercial banks in Lao PDR.

3.3 TRADE REFORM

ADB

- **Regional TA on Implementing the GMS Agreement on Facilitation of Cross-Border Transport of Goods and People** (Phase II, proposed amount US\$1.8m, 2006- August 2008): the RETA aims to assist in finalizing agreement on and implementing the GMS Cross-Border Transport Agreement (CBTA) and its annexes and protocols. The TA's particular emphasis will be on supporting the GMS countries to effectively implement the CBTA.
- **Regional TA on Support to Trade Facilitation and Capacity Building in GMS** (US\$1.5m, 2006-2008). The RETA will primarily provide initial support for the implementation of the strategic framework for action on trade facilitation. This includes building capacity of the trade facilitation focal points and the core team in performing their crucial role as "drivers" of the SFA-TFI process at the national level, by assisting them, and subsequently the SFA-TFI mechanism to undertake "gap analysis" or other required analysis in the four identified areas: customs, inspection and quarantine measures, mobility of business people, and trade logistics. The RETA will also aim to provide continuous and practical support to the GMS Trade Facilitation Working Group in the exercise of its functions and responsibilities. During implementation of the RETA, continuous coordination with other donors in support of SFA-TFI will be undertaken. The RETA complements the actions initiated through the GMS Cross Border Transport Agreement.

Australia/AusAID

- **Support for the Role of Integrated Framework Facilitator** (A\$1.5 million, 2006-2008). Australia has been invited by the Lao PDR Government to serve in the role of IF Facilitator to support Lao PDR participation in the IF process. Australian funded the participation of an expert consultant in the Diagnostic Trade and Integration Study (DTIS) main mission to the Lao PDR (2005), and will continue to work with the GOL's IF Secretariat and Focal Point, as well as with the IF core agencies (led by the World Bank and UNDP), in progressing the IF agenda in a positive direction over the coming few years. Australian assistance includes funding for an IFF Specialist and targeted support for DTIS Action Matrix implementation.
- **Trade Analysis and Reform Project** (A\$5m, 2005-2008). Target countries: Lao PDR, Cambodia, Thailand, Vietnam. Project interventions will focus on building analytical and research skills in order to strengthen capacity for trade policy analysis. The project has three components: 1) to improve understanding of the role of analysis in trade policy development and the capacity to incorporate analysis into the policy development cycle; 2) to strengthen the capacity of researchers in government agencies and the research community to deliver high trade policy relevant analysis; and 3) to deliver a high quality capacity building project in cost-effective and cooperative way.

- **Sanitary and Phyto-Sanitary Capacity Building Project - SPS CBP** (A\$3.9m, 3 years (2004-2007)). The program is for support of 8 ASEAN focal countries: Philippines, Indonesia, Malaysia, Thailand, Vietnam, Cambodia, Lao PDR and Burma. The goal of the project is to enhance the capacity of the ASEAN focal countries to meet international SPS standards and the requirements of importing countries consistent with the WTO SPS Agreement. The three components focus on SPS-Trade linkages, Plant Health and Animal Health.

European Union (EU)

- **Asia Invest-Open Resource for Commerce in Horticulture aided by species Identification Systems (Orchis)** (Euro 0.3m, April 2006-March 2009). The project aims to enhance the export capabilities of Lao PDR in the valuable flora of the country by promoting best practices in trade aided by open source based IT&C tools furthering the integration of Lao PDR in information society. The project also aims at reinforcing institutional capabilities of Lao PDR to better adhere to international commitments made in conventions like CITES.
- **EC-ASEAN Intellectual Property Rights Co-operation Programme ALA/96/25** (Euro 0.5 million 2005-2007 National Component Lao PDR) The objective of this programme is the development of a modern intellectual property system in Lao PDR. This includes technical assistance in the drafting of new legislation on Patents, Copyrights, and Industrial Design. Particular attention will be paid on TRIPS compliance, the judiciary and the enforcement.
- **Open Resource on Conservation Agriculture for Trade and Development (ORCATAD)** (Euro 0.3m 2007-2009) The action aims to enhance the export capabilities of Lao PDR in eco-friendly cash crops promoting best practices in conservation agriculture aided by modern Information and Communication Technologies furthering the integration of Lao PDR in to the global information society. The action aims also at reinforcing institutional capabilities of the intermediary business organisations such as LNCCI (Lao PDR National Chamber of Commerce and Industry) by focussing on the niche market and new business opportunities for eco-friendly agriculture related products in the international market.
- **Trade Development Facility** (Euro 4.2 m 2007-2010) – Coordinate with World Bank and Australia to set up a structure and mechanism of multi-donor trust fund for implementation of Action Matrix of DTIS. Activities will be identified in consultation with other donors and GoL. Within preparation of this Facility, EC also finances two studies on import-export procedure review and a capacity assessment for the implementation of DTIS action matrix.

France

- **TrainForTrade:** Training and Capacity Building in the field of International Trade, FSP 2002-95 (US\$2.3m for Lao PDR and Cambodia, 2003-2008). The main project activities include: (1) training of trainers (ToT), (2) use of distance learning, and (3) cooperation between universities of LDCs. Operational changes will be undertaken in the economic sectors identified by decision-makers and authorities of the countries involved. The project is implemented by **UNCTAD** together with Ministry of Commerce.

International Trade Center - ITC (Funded by Swiss SECO)

- **Support to Trade Promotion and Export Development in the Lao PDR** (US\$1.704m, 2004-2007). The main objective of this project is to build up the trade promotion and export development capacities of Government, trade support institutions and exporting enterprises in the Lao PDR, in close technical cooperation with Cambodia and Vietnam, so that in turn they could induce the expansion and diversification of exports. Areas of activities include: (1) Development of export strategies at the national and sectoral levels, (2) Establishment of an operational trade support network at the national level between Government, trade support institutions, product associations and exporting enterprises, led by strengthened trade promotion organizations, (3) Improvement of knowledge, strengthening of skills and development of capacities of training institutions to provide training in trade promotion and export development to exporting enterprises, (4) establishment of a trade information capacity at the national level servicing the specific needs of trade support institutions and exporting enterprises.

Japan

- **Investment Promotion Support to MPI** (US\$0.4m, JICA: Advisor and Training, 2007-2009). This technical assistance mainly aims at promoting investment to Lao PDR smoothly, giving proper advice on the problems of investment situation in Lao PDR.
- **Second Mekong International Bridge Construction Project** (US\$34m, 2000-2007) The project aimed at the bridge construction and it has already started operation in January 2007. Supplemental construction works including Common Control Area (CCA), the facility which enables single-stop inspection by Thai and Lao PDR officials, are currently on-going. The CCA has been planned in addition to the bridge construction itself, in light of the recent progress of trade facilitation agreement. The similar construction is supposed to take place in Thai side as well.

Singapore

- **Trade related courses** (US\$1.4m, ongoing since 1992) During the period, trade/economic courses were conducted at the Lao-Singapore Training Centre in the fields of business communication, international trade finance, consumer protection and export competitiveness strategies. Lao PDR officials also attended other

trade related courses conducted in Singapore, including courses in trade and investment promotion, trade negotiation, national payment and settlement systems, and Central Bank accounting.

UNDP

- **Enabling more effective Integration of Lao PDR into the ASEAN** Phase II (UNDP – US\$0.57m, 2006-2009). This project will build on Lao PDR' successful chairmanship of the ASEAN Standing Committee and the positive achievements of the UNDP Preparatory Assistance Project. The new project, implemented by the ASEAN Department of the Ministry of Foreign Affairs aims to increase national commitment to the process of ASEAN integration, improve capacity to coordinate ASEAN affairs within the Government of Lao PDR and enhance national capacity to assess policy implications of regional integration.
- **Support for Lao PDR's Integration into the International Trading System** (US\$0.64m: AusAID – US\$0.59m and UNDP – US\$0.32m. 1999-2007). The main objectives of this project are to provide technical assistance to GOL in the areas of WTO accession, improvement of economic and trade policy formulation and integration. The project has two components: (1) support for Lao PDR accession to the WTO, including preparation of Memorandum of Accession, establishment of a minister-level "National Steering Committee and its secretariat, identification of trade focal points in line ministries, and capacity building; (2) integration impact studies in the areas of laws and regulations, which should be changed to conform with WTO agreements, customs valuations, rules of origin, technical barriers to trade, quarantine, sanitary and phytosanitary measures and land transport policies. This project will close in December 2007 but support will continue to be provided through the Window II project mentioned below.
- **Capacity Building and Technical support to Lao PDR in the WTO accession negotiation** (IF Window II funds - US\$0.3m, 2007-2009; supported by IF core agencies). The objective of the IF initiative is to promote the integration of Lao PDR into the global economy through export growth and increased competitiveness. The objective of this project is to: (I) Improve capacity of the GOL (mainly from MoIC) to prepare and negotiate a pro-poor and pro-growth WTO accession agreement and to improve capacity of the Lao PDR WTO negotiation team to coordinate the working party; (II) to improve capacity of the GOL (mainly from MoIC, MAF, STEA, and BOL) to negotiate market access in the goods and services sectors; (III) to ensure WTO accession negotiations are widely disseminated at central and provincial level.
- **Institutional strengthening of the IF coordination and implementation structures** (IF Window II funds - US\$0.22million, 2007-2008; supported by IF core agencies). The National Implementing Unit (NIU) will help remedy problems such as (i) lack of dedicated staff responsible for overlooking project management (ii) low level of project management capacity within government and (iii) weak inter-ministry and inter-department coordination systems by providing a core of dedicated staff responsible for coordinating in-country trade related activities and for implementing the DTIS Action Matrix. The key objectives of the project are to (I) Enhance institutional capacity to coordinate and implement trade related policies and projects within the Government of Lao PDR; (II) Enhance coordination management capacity with relevant line ministries involved in the IF process; (III) Enhance national capacity to assess the policy implication of trade on growth, economic development, and poverty alleviation through NIU's support and coordination.
- **Capacity Building for MOIC'S Department of Import and Export (DIMEX) in Rules of Origins (ROO), Product Specific Rules (PSR) and Operational Certification Procedures (OCP)** (IF Window II funds - US\$0.15m, 2007-2009; supported by IF core agencies). The project focuses on building capacity of DIMEX, which is a newly created department, and on strengthening technical capacity on export procedures, specifically on ROO, PSR and OCP. The project will focus on capacity building to DIMEX and technical assistance to the certificate of origin division on its various implementation commitments in ASEAN. In addition, the project will focus on developing a culture of customer service since one of DIMEX's central mandates is to provide service to the private sector.
- **Support the shift of the Garment Industry from contract manufacturing to direct export (Phase 1)** (IF Window II funds - US\$0.32m, 2007-2008; supported by IF core agencies). The project aims to support the Lao Garment Industry to address the challenges that the garment sector is facing in the market and to operate smoothly its shift from contract manufacturing to direct export. This shift would ensure a greater value addition and value retention of the sector in the Lao PDR and support the Lao PDR garment producers in gaining full management of their purchasing, production, promotion and distribution activities and therefore develop their own capacity and strengthen their position in the international market based on more reliable advantages than preferences under Generalized System of Preferences or Most-Favored-Nation
- **Strengthening capacity for National Human Development Reporting** [NHDR]: (UNDP- US\$0.778m; June 2004-December 2007). The third NHDR "International trade and human development" was successfully launched in December 2006. The report emphasizes how trade impacts human development and also how human development impacts trade. It identifies present and future opportunities and challenges for Lao PDR as well as the potential strategic measures and policies for the best possible path for the future. Dissemination activities continue with the publication of an Executive summary in both Lao and English and the release of a radio program. The project is to be extended to allow for the production of the fourth NHDR which started this year. The international lead co-author was recruited, the research team has been formed and the data collection process is now underway with village and household surveys. This 4th report will explore the issues around employment and livelihoods considering the multiple aspects and challenges for the Lao PDR from a human development lens.

The United States (USA)

- **ASEAN Market Analysis Capacity by ITC/WTO/UNCTA.** (US\$238k in FY 2005, 2005-2007). Under the project, WTO/UNTAD's International Trade Center (ITC) has created an ASEAN market analysis portal for users the ASEAN Secretariat and member countries. The portal includes three online tools for market analysis: (1) TradeMap, which facilitates trade flow analysis on over 5,300 products for 180 countries, (2) Market Access Map which provides information on tariffs covering 170 importing countries and 220 exporting countries and territories, and (3) Product Map, which contains business intelligence information for 72 industry sectors. In addition to providing technical assistance and training materials, the project has plans to deliver 5 workshops to the ASEAN Secretariat and users in ASEAN member countries by its completion date of April 2007.

The World Bank (WB)

- **Diagnostic Trade and Integration Study** (DTIS) has been completed in the context of the Integrated Framework (IF) exercise led by GOL and WB with participation of the other core IF agencies and the IF Facilitator. The trade related dissemination workshops in provinces (including DTIS, ICA and updates on IF implementation as well as WTO accession) are tentatively planned for December 2007. The establishment of the multi donor trust fund Trade Development Facility (TDF) with contributions from Australia and EC is at appraisal stage.
- **Customs and Trade Facilitation Project** (US\$4 million, 2007-2011). The project currently under preparation will be effective in early 2008 and will support Lao PDR customs in facilitation cross-border trade, modernization and streamlining of customs procedures. In particular, through implementation of a computerized customs system, as well as long-term technical assistance, change management, and support for WTO accession related to Customs. The project appraisal mission took place in October 2007.

3.4 PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM

PRIVATE SECTOR DEVELOPMENT

ADB

- **Investment Climate and Productivity Study** (US\$0.15m, 2003-). The project conducts a study on business operating environment in the country based on sample survey of enterprises and identifies effective ways to promote private investment and improve productivity. The goal of the TA is to help improve the environment for doing business and increasing productivity in the Lao PDR, thereby fostering private sector development. The TA will contribute to the country's northern region development strategy and implementation agreement on GMS cross-border movement or bilateral arrangements. It will also provide major inputs to ADB's private sector assessment.
- **Capacity Building for Small and Medium Enterprises Development** (\$0.4m, 2007-2008). The TA aims to support the Government implement reforms in the private enterprise sector – particularly those related to the implementation of a forthcoming ADB loan on Private and SME Sector Development Program. It will focus on providing officials of executing and implementing agencies (and other stakeholders as required) with technical training and provision of technical inputs.
- **Private Sector and Small and Medium Enterprises Development Program Cluster (Subprogram 1)** (US\$5m grant, 2007-2008). The Private Sector and Small and Medium Enterprises Development Program Cluster comprises 2 two subprograms covering reforms in institutional development in SME policy formulation and implementation, access to finance, investment climate, trade policy and capacity building, and macroeconomic stability. A TA of about (US\$0.690m) is piggybacked to the program cluster to support its implementation. The TA aims to assist, MOIC, MOF, MPI in implementing and monitoring the impact of key policy reforms, broaden and deepen SME, investments, and trade policy reform agenda; and assist with the capacity strengthening in the EA and IA to produce policy for the sector, as well as participate in the WTO.

European Union (EU)

- **Legislation and European experience on the subject of ADR procedures: possible replication model in the Cambodia and Lao PDR** (Euro€0.31m 2007-2009) to develop the knowledge and application of the Alternative Disputes Resolution (ADR) procedures in Cambodia and Lao PDR, with particular respect to SMEs, in order to more effectively and rapidly settle international disputes that may arise from business relations through training, seminars and study tours.
- **Small and Medium-sized Enterprise Development Programme** (Euro€3m; 2007-2010) to develop national capacity for the implementation of the SME Development Strategy and to support the Government to meet the policy reform requirements under the Private Sector Development Programme Loan provided by the Asian Development Bank (ADB) on regulations concerning business registration and licensing, investment, trade and finance.

Germany (GTZ)

- **Human Resource Development for Market Economy** (HRDME) Program (Phase 1: June 2004 – May 2007: USD5.5m; Phase 2: June 2007 – May 2011: USD 7.1m). The slightly revised overall objective of the Phase 2

TA program reads that ... 'Government and private sector jointly improve the administrative, human and institutional conditions for a dynamic market-economic development in Lao PDR'. It builds on public-private dialogue & cooperation mechanisms in 4 provinces (Champasack, Savannakhet, Luang Prabang & Luang Namtha) and for vocational education (National Training Council) as well as SME Promotion (SMEPDC). It comprises two components:

- 1) Private sector & SME development
- 2) Labor-market oriented integrated Vocational Education and Training

With the following Lao PDR partner organizations:

- Ministry for Planning and Investment (MPI).
- Ministry of Education (MOE)
- Small and Medium-scale Enterprise Promotion and Development Office (SMEPDO)/MOIC
- Lao PDR National Chamber of Commerce and Industry (LNCCI)

Japan

- **Lao-Japan Human Resource Cooperation Center (LJC) Project-Phase II** (US\$4m, JICA; 2005-2010). Cooperated with the National University of Laos (NUOL), this technical cooperation project is aiming at consistent supply of human resource for a market economy. Main courses and activities which LJC provides are (1) business management, (2) Japanese language, (3) information and cultural exchange between Lao PDR and Japan, and (4) basic computer course.
- **Initiative to Promote Investment in Agro-industry Sector** (JBIC; 2005-2007). As a part of JBIC's follow-up activities to the Blue Book⁸, JBIC is planning investors' mission to Lao PDR from agro-industry, which is identified as a promising sector for future FDI. The second contact mission from JBIC visited Lao PDR in February 2007 (the first mission was in February 2006) in order for fact finding before inviting organizing potential investors' trip.
- **Tourism Development in the East-West Corridor Project** (US\$2m, JICA; 2007-2010). Cooperated with Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project is to encourage tourism development through capacity building in order to contribute sustainability in East-West corridor.
- **ODOP (One District One Product) Project** (US\$2m, JICA; 2007-2010). Cooperated with National Economic Research Institute (NERI), the objectives of the project are to raise awareness and importance ODOP concept, to support relevant exciting products as a pilot product, and to create good practice.

SNV - Netherlands Development Organization

- **Private Sector Development Program** In this program SNV aims at improving market access in order to create economic opportunities for the rural poor. The program consists of three service market combinations: 1) access to financial services, 2) value chain development (e.g. eco tourism, non timber forestry products and handicrafts) and 3) enabling environment for business development, including public – private dialogue and partnership and support to business membership organizations. Main clients are the SME Promotion and Development Office, Departments of Industry and Handicrafts, Chambers of Commerce and Industries, selected Business Associations, Lao Association of Travel Agents, the Lao Women Union and Credit Unions. Advisory services are concentrated in Luang Prabang, Khammouane, Savannakhet and Champasack provinces.
- **Non Timber Forest Products:** Advisory services in the field of non timber forest products (NTFPs) focus on developing best field practices for sustainable NTFP production and use, NTFP market development (including Marketing Information Systems), human resource development and supporting and institutionalizing networking and information exchange.

Switzerland (SDC)

- **Preserving Agro-Biodiversity in the Lao PDR** (tentative US\$16m 2007-2014) The overall objective of the program is to support the efforts of the Government of the Lao PDR in preserving agro-biodiversity resources while maintaining agriculture productivity and enhancing the livelihood security of farming communities by means of better access and management of agro-biodiversity resources, particularly in the northern upland areas. Programme focus is on the: i) testing and disseminating of "agro-biodiversity positive" systems; ii) marketing of agro-biodiversity products, including NTFPs; iii) support and application of pro-poor and pro-biodiversity land use planning processes; and iv) development of a knowledge platform which integrates two-way information flows with policy debate and formulation.
- **Lao PDR Extension for Agriculture Project** (US\$3.2m 2005-2007) : the overall objective of the project is to assist Min. of Agriculture (MAF) and National Agricultural and Forestry Extension Services (NAFES) in developing a sustainable national agricultural extension strategy and to assist an institutional strengthening of NAFES at all levels. The "Lao extension Approach" developed during under the project has been officially adopted by MAF. Scaling up of the approach from 3 to 5 provinces started in 2005 and capacity building in the remaining 10 provinces will be carried out by end of 2007.

⁸ The "Blue Book" for Lao PDR and Cambodia contains concrete and measurable activities for the governments of Laos and Cambodia in achieving best-practices in the following three broad areas: 1) Regulatory framework for investment; 2) Investment promotion strategy; 3) institutions which was conducted by UNCTAD.

Switzerland (SECO)

- **Promotion of Cleaner Industrial Production in Lao PDR** (US\$ 0.72m, 2003-2007). The program aims to support the Government of Lao PDR in poverty eradication and environmental sustainability by improving the productivities and competitiveness of its growing industries, as well as its access to international and more local markets, through application of cleaner production techniques and technology.

UNDP – UNIDO

- **Promoting Private Sector Development through Strengthening of Lao Chambers of Commerce and Industry and Business Associations** (US\$2,33m, 2006-2010) This project seeks to support the development of the private sector in Lao PDR, in particular SMEs, by 1) optimising the use of research findings and recommendations in the areas of private sector development and business enabling environment; 2) strengthening the capacities of chambers of commerce and industry and business associations so that they can become independent, self-reliant and self-financing organizations providing effective and income generating services to the business community; 3) strengthening the capacities of chambers of commerce and industry and business associations to carry out advocacy on behalf of their members.

UNIDO

- **Lao UNIDO Integrated Program** (LAO IP/II: US\$5.6m, 2004-2008). The Integrated Program for Lao PDR (phase II) consists of the following key components:
 - Industrial governance and enabling environment (\$0.9m)
 - Private Sector Development and SME promotion (\$0.9m)
 - Manufacturing productivity and environmental soundness (\$2.5m)
 - Market access, investment and trade facilitation (\$1.25m)

The World Bank Group (WB, IFC-MPDF)

- **Investment Climate Assessment.** A joint report with ADB. The ICA is based on a survey of firms in six provinces and Vientiane, completed in October 2005. The firms were surveyed to identify the main constraints to doing business in manufacturing and tourism. The final report was launched and disseminated in mid 2007.
- **IFC/MPDF: Private Sector Development Activities.** Following up on the support IFC-MPDF provided to the committee drafting the new Enterprise Law, IFC-MPDF is continuing its technical assistance to implement the law by working with the Ministry of Industry and Commerce to develop new regulations and revise registration forms and documentation requirements. This also includes assisting authorities to simplify the current registration and licensing procedures. Recent advisory services provided by IFC-MPDF have supported the development of implementing regulations to the Enterprise Law, which will further streamline business registration procedures by removing prior approval requirements for most business activities.
- **MPDF/IFC: Lao Business Forum.** Based on the successful public-private dialogue platforms IFC initiated with governments in Vietnam and Cambodia, IFC-MPDF helped the Government of Lao PDR to establish the Lao Business Forum (LBF) in 2005. IFC-MPDF serves as the Forum's Secretariat, providing support to the four Working Groups and helping the Government plan for and stages the twice-yearly Forums. The LBF has proven an effective mechanism for enabling the private sector to raise concerns with the government. Before the Forum was established, such public-private dialogue was unheard of in Lao PDR. While the private sector has improved its ability to present issues in a concrete and concise manner, the government still needs to ensure that good decisions are made on these at the highest levels. As the secretariat of the LBF since its inception, IFC-MPDF continues both to help the working groups identify issues and policy recommendations and government to coordinate decision making.

The first meeting of the LBF, which was held in May 2006, attracted nearly 300 participants from government, the private sector and the donor community. The second LBF met in March 2007. The third LBF is planned for November 5, 2007. Issues currently under dialogue include, among others, the revision of regulations regarding goods in transit, streamlining customs procedures for goods exempted from import duties, standardization of visa-on-arrival fees for all nationalities, the administration of profit tax at the provincial level and the need to improve transparency regarding regulation of the mining industry.

TOURISM

ADB

- **GMS: Mekong Tourism Development Project** (US\$10.9m, 2002-2007). The Project aims to promote the development of the tourism sector in the lower Mekong River basin. In Lao PDR, It will improve tourism-related infrastructure in provinces of Champasack, Khammouane, Luang Namtha, and Luang Prabang, support pro-poor community-based tourism projects in the rural areas of the country, facilitating private sector participation in tourism marketing and promotion, establish mechanisms to increase subregional cooperation, and facilitate the movement of tourists across borders.

Australia/AusAID

- **Child Wise: Combating child sex tourism in South East Asia** (A\$0.5m, 2007-2009). The aim of this project is to develop a 5 year plan for a sustainable response to child sex tourism in South East Asia. The plan will determine training needs for national tourism organizations and private sector, help position the ASEAN Tourism Committee to assume responsibility for oversight of anti-CST work, and establish a framework for a public-private partnership.

European Commission

- **Asia Invest-Marketing Responsible Tourism in Lao PDR** (Euro€0.3m, April 2006 - March 2009). The project is co-financing with SNV. To enable the Lao Association of Travel Agents and its members to develop and increase the volume and quality of their high yield European sales and to engage more directly and constructively in sustainable tourism policy management and institutional frameworks.

NZAID

- **National Tourism Authority of Lao PDR – UNESCO Nam Ha Ecotourism Project**, Phase II (US\$0.338m, 2004-2007). Phase II of the Nam Ha project intends to assist Luang Namtha's provincial tourism and protected area managers become more effective stewards of their emerging ecotourism industry. It will also scale-up the core group of national professionals trained by the Nam Ha Project both in numbers and quality.

SNV Netherlands Development Organization

- In the field of pro-poor sustainable tourism, a team of 11 advisors is delivering advice on policy, strategy, management and product development issues to a range of clients. At the national level, these include for instance the Lao National Tourism Administration (LNTA), the National University of Laos (NUOL), and the Lao Association of Travel Agents (LATA). At the provincial level provincial tourism offices are assisted and many other relevant governmental departments, also at district level. The ultimate aim is to promote tourism that benefits livelihoods improvements to the poor.

LAND

World Bank and Australia/AusAID

- **The Second Land Titling Project** (US\$23.92m: WB-US\$14.82m, AusAID-US\$8.85m and GOL–US\$2.27m, 2003-2008). The second phase of LTP aims at developing the land administration capacity to support the country's economic development and poverty reduction goals. The objectives of the project are to (i) improve the security of land tenure; (ii) develop transparent and efficient land administration institutions at the national and provincial levels; and (iii) improve the government's capacity to provide social and economic services through broader revenue base from property related fees and taxes.

Germany (GTZ)

- **Land Policy Development Project (LPDP)** (US\$1.75m, 2005-2008). The Lao-German LPDP aims at strengthening the policy and legal framework of land management and land tenure in Lao PDR. The overall objective is to increase land tenure security for individuals, groups and public administration. This project represents the German contribution to the Lao PDR Land Titling Phase II (see above). Under the present first phase of the project a total of 15 land policy related studies will be conducted and the step-wise drafting of a national land policy document will be supported. HRD activities and pilot titling in rural areas are other components of the project.

World Bank (IFC/MPDF)

- **IFC/MPDF: Tourism**. The launch of Stay Another Day as a regional project linking tourism businesses, travelers and local organizations that contribute positively to the destination has helped the government to promote Lao PDR as a tourist destination. Stay Another Day was launched in early 2007 in Vientiane and Luang Prabang to promote sustainable tourism and expand the benefits of tourism more broadly. A total of 21 hotels and guesthouses and 30 partner businesses and organizations are participating across six provinces in Lao PDR. IFC MPDF is working with the Lao National Tourism Authority to build its capacity in tourism promotion.

3.5 SEMINARS AND STUDIES BY DONORS IN REFORM AREAS

3.5.1 List of key training workshops conducted in 2006 and 2007

Topic of training/seminars	Organized by	Date	Venue
Governance			
Various training courses for Lao PDR officials. ⁹	Singapore Government	During Oct 2006 - Feb 2007	Lao-Singapore Training Centre (VTE Capital)
English Language in Savannakhet	Singapore Government	Feb-Mar 2007	Savannakhet
Workshop for Lao PDR prosecutors and legal professionals on American prosecutorial system	US Embassy	Nov 8-9, 2006	VTE
Workshop on "Civil Law" and "Commentary to Enterprise Law" Textbook	JICA and MOJ	Sep2006 – May 2007	VTE, LPB, SVK
Workshop on "Prosecutor's Manual"	JICA and Office of Supreme People's Prosecutor	Dec 2006 – May 2007	VTE, XKH, ODX
Workshop on "Judgment Writing Manual"	JICA and People's Supreme Court	Jan. 2007 – May 2007	VTE, KHM, LNT, LPB, CHK, ATP
National Workshop on Civil Society Organization (CSO)	PACSA and UNDP Lao PDR	1-2 Sep 2007	Vientiane
AYLG Leadership Training of Trainers	Regional Center Bangkok	10-15 Sept	Vientiane
Southeast Asia Sub regional Leadership Course	Regional Center Bangkok	17-22 Sept	Vientiane
Training in detection of residues of veterinary medicines - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	02-06 Jul 2007	Pathun Thani, Thailand
Training in mycotoxins - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	04-08 Jun 2007	Singapore
Pesticide Residues - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	16-20 Jul 2007	Singapore
Training in microbiology - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	02-03-04-05-06 Jul 07	Dong Nai, Vietnam
Training in the detection of GMOs - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	23-24-25-26-27 Jul 2007	Petaling Jaya, Malaysia
Training in the detection of heavy metals - analysts from ASEAN National Reference Laboratories and other laboratories designated by national competent authorities. (2 Lao PDR Participants)	EU	03-04-05-06-07 Sep 2007	Bangkok, Thailand
Economic and sector Focus			
Provincial Public-Private Dialogue Sessions & Follow-up Workshops	GOL/MPI, GTZ	Oct 2006 - Mar 2007	LPB, CPS, LNT, SVK
Business Communication for Tourism Officials	Singapore and Thailand Government	8 - 26 Jan 07	Lao-Singapore Training Centre

⁹ The courses include: (1) Note-Taking, (2) Intermediate IT Office Applications, (3) Human Resource Management, (4) ASEAN-OSHNET, (5) Basic English Language and Communication Skills, (6) PC Maintenance, Troubleshooting and Networking, (7) Advanced Techniques in Presentation and Document Processing, (8) Legal Communication.

Topic of training/seminars	Organized by	Date	Venue
Basic IT Office Applications	Singapore Government	29 Jan - 9 Feb 07	Lao-Singapore Training Centre
Service Quality Management in Hospitality and Management	Singapore Government	16-27 Oct 06	Lao-Singapore Training Centre
Workshop on Cash Management	GOL/MOF and EC	Jan 27, 2007	VTE
Seminar on "Macroeconomic Management and the Government Budget" for Lao PDR parliamentarians	IMF, UNDP, EC and the Lao PDR NA	Oct 4-6, 2006	VTE
PIP (Public Investment Program) Seminar	JICA and GOL/MPI	2006 – 2007	VTE, provinces
<i>Trade and Private Sector Development</i>			
Second Lao Business Forum	GOL/MPI, MPDF/IFC/WBG	Mar 15, 2007	VTE
ToT and training "Management of Small Business Associations"	SME-PDO, GTZ HRD-ME, ILO, SNV	Jan-Mar 2007	Prov. VTE, CPS, KHM, BOK, LPB
Training for Lao PDR officials on (1) Trade Negotiation Strategies, and (2) Export Competitiveness Strategies	Singapore Government	Feb - Mar 2007	Lao-Singapore Training Centre
Dissemination of SME Decree	SME-DO, GTZ HRD-ME	Sep-Dec 2006	CPS, ATP, SEK, SRV, BKS
DTIS National Validation Workshop. GOL and donors validated the DTIS report and action matrix.	GOL/MoIC, WB	Sep 12, 2006	VTE
Customs Valuation Workshop.	Australia, GOL/MOF	Aug 2006	VTE
ASEAN Rules of Origin Workshop.	Australia, GOL/MoIC	Jul 2006	VTE
Workshop on SPS Awareness in Plant Health.	Australia, GOL/MAF	Jun 2006	VTE
Trade/DTIS: Action Matrix Formulation workshops	GOL/MoC, WB	Mar 2006	VTE, LPB, CPS
First Lao Business Forum	GOL/MPI, MPDF/IFC/WBG	May 31, 2006	VTE

3.5.2 List of recently completed, ongoing/planned studies and surveys by donors on above reform areas

Topic/area of study	Conducted by	Start date	Completion date
Governance			
Access to Justice Survey	UNDP	2006	2007
Economic and Sector Focus			
The Lao PDR Economic Monitor (issued twice a year: Spring and Autumn)	WB	2003	Ongoing
Enterprise Survey 2007 on business performance & environment	GTZ (HRDME), MPI, NERI, SMEPDO	2007	May 2007
FDI & SME Linkages in Lao PDR: Two Case studies	GTZ (HRDME), MPI, NERI, SMEPDO	2007	Mar 2007
Poverty and Social Impact Assessment (PSIA)	WB and EC	2006	2007
PEMSP: cash management review and program design	EC Consultant	Jan 2007	Mar 2007
PEMSP: internal audit program design	EC Consultant	Jan 2007	Jun 2007
Khammouanne Provincial Development Study	WB/UNDP/SNV	2006	2007
Supporting Local Development: An Assessment of Community-Based Mechanisms in Lao PDR	WB	2006	Jun 2007
Lao PDR Poverty Assessment	NSC, WB, ADB, and Sida	2005	Oct-Nov 2006
Public Expenditure Review (PER)—2005/2006 (A joint report by GOL, WB, IMF, ADB, EC, and Sida)	WB with GOL and other donors	2005	Nov 2006
Public Expenditure Tracking Survey - PETS (submitted to GOL for comments in June 2007)	WB	2005	2007
Study on Aid, Economic Growth, Inequality and Poverty Reduction	NERI/UNDP	2005	2006
Rural and Agriculture Sector Issues Paper	WB	2005	2006
Trade and Private Sector Development			
Socio-Economic and Environmental Impact Assessment of Land Titling Project	WB, Australia	2007 TBC	2008
AFTA Opportunities & Challenges for Businesses in Laos	GTZ (HRDME), MPI, NERI, SMEPDO	2007	Nov 2007
Mining sector study--Sector Plan for Sustainable Development of the Mining Sector in Lao PDR	GOL/Japan/WB	Beg-2006	End-2006
Diagnostic Trade and Integration Study (DTIS)	GOL/WB/IF agencies	Mar 2005	Sep 2006
Study on the Tax and Tax Administrative Burden on small and medium enterprises (SMEs) in Lao PDR	EC and WB	Apr 2006	Jul 2006
Company registration and licensing in Lao PDR	MPDF/ERIT(MOC)	Jan 2006	May 2006
Microfinance training needs assessments	MPDF	Apr 2006	May 2006
Bamboo sector supply chain study	MPDF	Jan 2006	May 2006
Investment Climate Assessment (ICA)	WB, ADB	2004	Nov 2006
International Trade on Human Terms (National Human Development Report Lao PDR)	NSC/UNDP	2004	Dec 2006

ANNEX BOXES ON ACTIONS TAKEN IN PREVIOUS YEARS

Box 1. GOL Actions to Implement the NGPES/PRS

Measures taken in 2003

- The National Poverty Eradication Plan (NPEP) is approved by the National Assembly in October. The Plan is based on the 5th National Socio-Economic Development Plan (NSED - 2001-05) and the Interim Poverty Reduction Strategy Paper (I-PRSP)

Measures taken in 2004

- The NPEP is reviewed and upgraded to National Strategy. The final document takes the name of National Growth and Poverty Eradication Strategy, approved by the National Assembly early in the year.
- The First Millennium Development Goals Report (MDG report) is submitted to the UN Secretary General in September 2004. The MDG report sets the goals to be met by the Government by 2015, ideally, through the implementation of the NGPES.
- The first NGPES workshop of October 2004 discussed the process of costing and prioritization, including methodology and type of data needed for costing.

Measures taken in 2005

- In March, the NGPES Working Group and the Ministry of Finance met to disseminate the preliminary findings of the costing exercise.
- In July 2005, CPI organized the NGPES Second Workshop 'From Costing to Prioritization and Sequencing', in which the preliminary results of the costing exercise are presented. Three of the key priority sectors undertook a revision of their priority program costing and CPI launched the NGPES Participatory Planning project in selected NGPES priority districts.
- With close involvement from MOF and CPI, four Ministries responsible in four priority sectors (Agriculture, Transport, Health and Education) estimated their financial needs for NGPES using the bottom-up approach. The results of NGPES costing exercise have been discussed among agencies and are expected to be integrated into the medium-term fiscal framework of NSDEP (FY 2006-2010).

Measures taken in 2006

- In January 2006 the Government shared the draft NSED with donors at the Pre-RTM. The NGPES was fully integrated into the draft NSED. The draft included results of the NSPES costing exercise. Comments were provided particular with regard the need to strengthening the elaboration of policy actions and their alignment with a realistic estimate of the available budget as well as the need for an improved monitoring system for the implementation of the NSED.
- In March the draft NSED was approved at the Party Congress.
- In April 2006, Lao PDR co-hosted the Regional Forum "National Plans as Poverty Reduction Strategies in East Asia" for Cambodia, Indonesia, Mongolia, Timor-Leste, Vietnam and Lao PDR, at which the GoL shared the experience of elaborating, implementing and monitoring the NGPES and the NSED.
- GOL shared the final draft of NSED with the National Assembly (NA) in July 2006.
- The final draft NSED was presented to donors at the Pre-RTM meeting on October 31, 2006.
- The development strategy¹⁰ of the Lao PDR, which was articulated in the 6th NSED 2006-2010 was presented at the Round Table Meeting on November 28, 2006.

Box 2. GOL Actions to Improve Public Expenditure Management

Measures taken in 2002

- Decree No. 57/PM on the Management of Public Investment, issued on May 22, 2002. The decree requires that PIP submissions for new public projects in excess of 1 billion kip in the FY02/03 budget include estimates of associated recurrent costs during the operating period.
- FY 2000/01 outcome and FY 2001/02 budget published in April 2002 with classification by ministry, province, and services. The publication of the budget in the Official Gazette enhances budget transparency. However, the budget classification remains incomplete. The current budget nomenclature allows an economic classification and some functional accounts on an ad-hoc basis.
- The Government adopting the Accounting Implementing Regulations in July 2002 to implement Decree 20/PM on General Regulation of Public Accounting, to enhance financial accountability and transparency as well as internal financial control over revenues and expenditures to be maintained in each ministry, province, district and agency, and also provide financial statements of the Government for NA in each FY.

¹⁰ The NSED sets out a strategy that consists of maintaining macroeconomic stability and reforms along the four key pillars of i) human-development- and business and exports-driven economic growth; ii) competitiveness, trade and regional integration; iii) social development and focused poverty reduction interventions; and iv) good governance.

Measures taken in 2003

- Publication of the FY 2001/02 budget outturn and FY 2002/03 budget-plan in April 2003 in the Official Gazette, with classification by ministry, province, and sectors.
- The Procurement Monitoring Office was established & became operational within the Ministry of Finance, to oversee the implementation of better procurement processes and to assist in related capacity building activities.
- New Procurement decree 03/PM issued in December 2003 and the Implementing Regulations approved by Prime Minister in June 2004 - they improved clarity of language and specified conditions for actions. They addressed the deficiencies identified in the Country Procurement Assessment.
- A methodology for estimating the recurrent costs has been developed for core construction projects in the PIP and was applied to actual PIP projects in the training of staff from CPC and MOF around middle of 2003.

Measures taken in 2004

- The new legislative and regulatory framework for procurement were announced (a Decree no. 03/PM dated January 9, 2004) and was followed by the issuance of Implementing Rules and Regulations on March 2004 to support the new Dec03 Procurement Decree.
- The new charter of PrMO was approved. It enhanced the authority of the Procurement Management Office (PrMO) to oversee procurement issues across government agencies.

Measures Taken in 2005

- Budget publication.
- In February 2005, the government adopted a comprehensive, five-year Public Expenditure Management Strengthening Program or PEMSP (FY 2005-FY 2009). This program aims to strengthen public expenditure management system and the capacity of the Ministry of Finance and Provincial Finance Departments.
- The Government Financial Information System (GFIS) was formally put into operation on March 2005 after several years of piloting. The system will improve the budget execution and accounting (MOF Ministerial Decision 0607 dated March 10, 2005). With the new system, data on accounts payable and treasury balances are now maintained at central level and 14 provinces. However, the accuracy of data entry and coding remains an issue; and both communication links and business processes need to be strengthened to ensure better reporting between provinces and the center using GFIS.
- The decree to set up the Rural Electrification Fund (REF) was promulgated on August 2005. The REF will enhance access to rural electrification.
- In order to raise the Road Maintenance Fund (RMF) revenue to more sustainable levels, the government approved increasing fuel levy for the RMF to 150 kips/litre on November 2005.
- Government has taken the opportunity of the Budget Circular (Ministerial Decision 2372/MOF, November 7, 2005) to clarify the division of responsibilities for budget execution between Treasury and Budget Departments. Expenditure approvals are now to a much greater extent left to the Treasury, with the Budget Department playing a more strategic monitoring role.
- A Chart of Accounts (COA) Revision Committee has been established in MOF and an international consultant to assist the committee has been appointed and has started work. The consultant has prepared an inception report, and a process and work plan for finalizing and approving the new COA and implementation strategy.
- Following the drafting of the National Procurement Manual, including Standard Bidding Documents (SBDs) with the assistance of international consultants under PRSO1, PrMO translated the documents into Lao, completed internal stakeholder consultation on the most important and commonly used SBDs and has shared them with key external partners for feedback to facilitate harmonization.
- To oversee the proposed revision of the Budget Law, the Government has established a Budget Law Revision Committee and has initiated discussions on options for revising and clarifying revenue and expenditure assignments and central-local fiscal transfers.

Measures Taken in 2006

- Budget published.
- Following intensive inter-departmental discussions, as well as consultation with donors and other stakeholders, the annual implementation plan and the capacity building plan for the PEMSP were approved by the PEMSP Steering Committee at its meeting on January 9, 2006. The plans translate the high-level PEMSP implementation schedule for FY2005/06 into specific program activities with outputs/milestones set for each of them.
- In addition to preparing the annual implementation and capacity building plan, the Government has appointed a long-term PEMSP Technical Adviser in the MOF; and has initiated discussions with a number of donors, including the EC, Sida and the World Bank, regarding possible co-financing for a PEMSP multi-donor trust fund to support PEMSP-related technical assistance and capacity building.
- FY2005/06 budget was published by GOL/MoF in February 2006.
- With close involvement from MOF and CPI, the central ministries responsible for the four priority sectors selected by the Government in its NGPES (Agriculture, Transport, Health and Education) have estimated their financial needs following a bottom-up approach. The results of this exercise have been disseminated and discussed, and will be integrated into the medium-term fiscal framework being prepared for the NSEDP 2006-10, to be presented at the National Assembly in July 2006.
- The National Assembly approved the high level budget plan during its October 2005 session and finalized detailed budget breakdowns by administrative (organizational) classification by February 2006. The MOF has

since conducted analysis to “map” the budget allocations by administrative classification to allocations by NGPES/NSEDP priority sector.

- In FY2005-06, for the first time in recent history, tax collection has exceeded budget forecast by 2 percent.
- The PEMSP implementation committee conducted three national workshops with all government stakeholders involved in PEMSP implementation. The purpose of the workshop was to take stock of PEMSP implementation, discuss challenges faced, and to develop plans for program implementation for the next year.
- The government has also conducted consultations with provinces and ministries on improving central-local relations framework.
- The government has also made progress with decompressing the budget preparation and approval cycle. In previous years, the National Assembly used to approve an aggregate budget envelope in September, without an approval by ministry or provinces. Starting June, 2006, the National Assembly has approved the overall budget ceilings for ministries and provinces.
- The Government completed the civil service census in May 2006, and Public Administration and Civil Service Authority (PACSA) prepared a report to the Government based on the key results. This census will provide information on the structure and deployment of the civil servants, which will form the basis of a medium term civil service reform strategy.

Measures Taken in 2007

- After consultations with stakeholders and development partners, the PEMSP program document and work plan for FY 2006/07 was adopted in February 2007.
- A new Budget Law was promulgated in February 2007 which aims to fundamentally transform the intergovernmental fiscal transfer mechanism by centralizing the treasury department, customs department, tax department, and develop a new fiscal transfer system. The law also mandates more extensive reporting of budget execution information to the NA. The Prime Minister issued a Decree No. 80 of February 28, 2007 on restructuring of the Ministry of Finance for effectively taken on the challenges of implementation the Budget Law.
- Revision of the Chart of Accounts was completed in March 2007. Subsequently, the Minister of Finance approved a revised Chart of Accounts and Budget Nomenclature that is consistent with the International Public Sector Accounting standards and IMF GFS in April 2007. The Government plans to pilot the new Chart of Accounts for the education sector in FY2007/08, with a full deployment by FY 2008/09.
- Ministry of Finance published the budget for FY 2006/07 along with information on statutory funds.

Box 3. GOL Actions on SOE Reform

Measures taken in 2001

- The Business Promotion Office (BPO) - was established in the Office of Prime Minister to centralize the restructuring of SOEs, and a Minister was named to head the office;
- Governance of the largest loss-making state-owned enterprise, Bolisat Phatthana Khet Phoudoi (BPKP) was transferred from the Ministry of Defense to the Ministry of Finance, with BPO charged with the restructuring of BPKP;
- Management audits were undertaken in Lao Aviation and BPKP, leading to change in top management of LA;
- Financial Recovery Plan (FRP) for EDL agreed with donors and its implementation was initiated;
- A new telecommunication law, passed in April 2001, laid the framework for telecom regulations, opening the sector to private participation, beginning November 2001.

Measures taken in 2002

- Decree No. 54/PM, May 2002, on Management of State-Invested Enterprises, and its Implementing regulations, Dec 2002, clarified the role and responsibilities of the Directors and managers of SOEs and their financial reporting requirements and provided guidance on capital investment in SOEs, procurement/transfer/replacement of assets, and the treatment of dividends, and; outlined sanctions for SOEs violating the regulations.
- Memoranda of Understanding (MOU) dated May 15, 2002 on the restructuring of BPKP, Lao Aviation, Nam Papa Lao, and Pharmaceutical Factory No. 3, setting out the broad parameters of the proposed restructuring, to be used as the basis for preparing detailed multi-year restructuring plans.
- Top management of BPKP and Pharmaceutical Factory No. 3 also changed to facilitate their restructuring.
- Letter of the Minister of Finance No. 618/MOF dated April 10, 2002 on new electricity tariff policy;
- White paper on water tariff policy; a draft 'Water Supply Authority (WASA) Charter' on Regulation of Water Supply Operations" is also under review. This is expected to give WASA the authority to function as the water supply sector regulator.

Measures taken in 2003

- Tariff increases for Lao Airlines, electricity, telecommunications, and water.

Measures taken in 2004

- Further increases in tariffs for water, electricity, telecommunications (especially fixed line) and aviation.
- Explicit Tariff Policies were adopted – PM Notices approving Ministry proposals – for telecommunications, water and aviation, though on the latter few details given the impending joint-venture of Lao Airlines.

- The Prime Minister's Notice No. 059/CPMO dated 15 January 2004 adopted the key elements of the detailed restructuring plans for four SOEs, including key principles of such restructuring. The subsequent four Implementing Guidelines/Instructions issued to all relevant agencies on April 29, 2004 by the Minister in the Prime Minister's office in charge of SOE restructuring set-out detailed actions, the institutional arrangements and agencies responsible for their implementation, transparent monitoring and evaluation procedures which include external audits and a specific timetable for 2004 and 2005.
- The State Asset Management Board (SAMB) in early 2004, completed its data-base development & the classification of all SOEs by performance. A system for collecting data & maintaining data-base for annual monitoring of SOE performance was established, based on the Implementing Regulations to the Decree on Management of State-Invested Enterprises, Decree No. 54/PM dated May 9, 2002.
- Memorandum of Understanding (MOU) for Restructuring adopted for five additional SOEs, namely, DAFI, Lao State Fuel Enterprise, Lao Export-Import Trading Company, Bridge-Road Construction Company No. 13 and Agro-industrial Development Company (DAI).

Measures taken in 2005

- The government procured external auditors to do international standard audits for 2004 financial accounts of four SOEs, i.e., Lao Airlines (LA), Nam Papa Lao (NPPL), Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP). The audit planning memorandum was submitted on December 15, 2005.
- The decree on Regulation of Urban Water Supply Operations was promulgated on July 2005. The decree will provide WASA stronger legal authority to undertake regulatory activities and cover all urban water supply operators. The Regulatory Accounting Guidelines prepared by WASA, which provide the principles of regulatory accounting, currently apply for regulatory reporting in all NPSEs.
- The Action Plan for Financial Sustainability of Power Sector (or Financial Action Plan) was signed by the Ministry of Industry and Handicraft (MIH), MOF and Electricité du Lao PDR (EDL) on November 2005. The plan includes (i) gradual increases in tariffs to full cost-recovery levels by 2011, (ii) settlement of accumulated arrears of government and rescheduling of EDL's debt to Government, (iii) avoidance of future arrears by the government and (iv) improve operational efficiency to reduce EDL losses.
- The MIH issued a Tariff adjustment notice effective in August 2005 allowing tariffs to rise annually about 1% (in real terms) throughout 2005-2010. Later in November 2005, MIH endorsed the "Action Plan for Sustainability of Power Sector" by empowering EDL to adjust tariff rates according to domestic inflation (20% weight) and exchange rate fluctuation (80% weight). EDL is currently in the process of calculating tariff adjustment indexation with inflation and exchange rate and expect to be completed within February 2006.
- The first 2 private operators' water supply concessions were awarded in Feuang District Town and Houay Mo - Thaheua (4 villages), Vang Vieng District.
- The Lao PDR Airlines increased airfares and was able to generate a gross profit of US\$ 1.3 million in the first half of 2005 after terminate the Airbus contract on March 2005.
- In July 2005, MOF submitted the names of 14 SOEs to the Prime Minister's Office to approve their restructuring given the problems they are facing.
- In December, the BPO and MOF had a joint meeting to agree the four SOEs to be restructured. The following SOEs were selected: Lane Xang Phatthana (LXP), Lat Visahakit Sanong Vatthou Technique (LVSVT), Lat Visahakit Konchak Kasikam (LVKK) and Borisath Phalithaphanh Beton Lao (BPBL). The Prime Minister's Office approved these four enterprises for restructuring in December, 2005 and the process of development of restructuring plans has been initiated.
- On November 22, 2005, MIH, MOF and EDL signed the Action Plan for Financial Sustainability of Power Sector (Financial Action Plan). This plan is intended to address the major issues impeding EDL's financial sustainability, namely the need to increase tariffs to cost-recovery levels; and the need to eliminate the stock and avoid future additions to Government's payment arrears to EDL.
- Following the Action Plan, in September 2005 MOF approved a gradual settlement of arrears due from the central Government departments and agencies to EDL in the amount of almost US\$4 million, out of which almost US\$1 million was disbursed in 2005.

Measures taken in 2006

- Subsequently, on January 1, 2006, the first monthly tranche of the planned write-off of EDL's payments due to Government against the approved arrears was executed (in an amount of US\$ 69,000) in accordance with the Action Plan.
- On January 1, 2006 EDL implemented a further increase averaging 0.7 percent, in line with the agreed Action Plan. The adjustment for local inflation and exchange rate fluctuation, which is also a part of the agreed Action Plan, was implemented on April 1, 2006 (an increase by 1.05 % up to average tariff of 552 kip/kWh).
- Draft independent external audits of financial accounts for FY04 for the four Phase 1 SOEs: Lao Airlines (LA), Nam Papa Lao, Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP) have been submitted to the Business Promotion Office (BPO) for review and comment on March 27, 2006 by the auditor (Ernst & Young)
- With support from the Japan Bank for International Cooperation (JBIC), the Prime Minister's Office (PMO) has started work on developing restructuring plans for the Phase-2 SOEs. The JBIC-financed consultants completed their fieldwork in January, 2006 and have produced a final report concerning each of the five SOEs.
- SAMD submitted a report of all SOEs' performance for FY 2004 to the Ministry of Finance in January 2006. The report includes summary of annual financial data of all central and provincial SOEs and identifies the loss making and non-performing SOEs.

- Draft independent external audits of financial accounts for FY04 for the four Phase 1 SOEs: Lao Airlines (LA), Nam Papa Lao (NPNL), Pharmaceutical Factory 3 (PH3), and Bolisat Pattana Khet Poudoi (BPKP) have been completed.
- The Restructuring Unit in the Business Promotion Office (BPO) has been appointed to oversee the preparation of restructuring plans for Phase III SOEs.
- During this and next fiscal years, the Government is planning to draft a Strategic Plan on SOE reform, following the 8th Party Congress Resolution.
- WASA's tariff reviews for 2005-2007 were accepted and implemented by 10 of the 17 Nam Papa State-Owned Enterprises across the country.
- The first 2 official private sector water supply concessions were put into operation in April 2006 in Feuang District Town and Houay Mo-Thaheua (four villages), Vang Vieng District (both in Vientiane Province).
- MCTPC is also planning to submit the Water Supply Law to the National Assembly in March 2007.

Measures Taken in 2007

- Lao Airlines has made efforts to improve its financial viability. It has significantly increasing air ticket tariffs, cutting down on non-core businesses and reducing operational costs, and these efforts resulted in significant reduction of losses.
- The monitoring of those SOEs that have been chosen for Phase-1, Phase-2 or Phase-3 of restructuring has been ongoing.
- Phase 1: BPO is following up with the SOEs on their future plans on implementing audit recommendations. The BPO organized a workshop in March 2007 brought together SOEs management, Ministry of Finance, other central and line ministries (owners of SOEs), and aimed at building consensus among the stakeholders, as well as initiated specific discussions with SOEs to follow up on the reports.
- Phase 2: The PMO (with TA from JBIC) has completed a report of the situation of these companies (plus DAFI group).
- The Water Supply Authority has released the Annual Water Sector Progress Report for 2005. The report includes a comparison of actual performance against expectations as set out in the tariff 2005-2007 review.
- The Water Supply Authority, DHUP, MCTPC will develop private sector water supply concessions in six new sites in two provinces.
- MCTPC is also drafting and planning to submit the Water Supply Law to the National Assembly. The law is scheduled for submission to the National Assembly in the second session of 2007.
- The January 2007 tariff adjustment is slightly higher than what it was required under the Action Plan. The pace of adjustment in tariff levels, and therefore cost recovery, has not only been accelerated, but also structural adjustment in tariff structure has been made to reduce cross-subsidies among consumer categories.
- An agreement has been finally reached between the MOF and EDL on the amount of arrears accumulated prior to September 2005, of 113 billion kip. The settlement of these arrears is ongoing in scheduled and agreed upon amounts from retained interest payments.
- The Government has also designed a plan for reducing accumulation of new arrears that consists of three main parts: introduction of energy savings, estimation of the current consumption by each Government agency, and enforcement of payments from the Budget.
- MOF plans to gradually increase the annual budget allocation for electricity consumption in government offices, to reflect verified needs for electricity usage, and will provide incentives for individual offices to pursue efficiency gains.
- EDL will be expected to implement necessary measures (including disconnection, if required) in order to maintain a bill collection time of not more than 60 days, as per the Contract Plan between EDL and the Ministry of Finance, and in line with the Action Plan for Financial Sustainability.
- Consultants have been selected for carrying out energy audit in order to manage the demand-side energy efficiency. For the supply-side loss reduction program, a foreign consultant is being hired to start the work.

Box 4. GOL Actions in the Banking Sector

Measures taken in 2001

- Notice No. 90/BFSD dated March 19, 2001, requiring a commercial bank to make general provision from 0.5% to 1% of performing loans; Notice No. 209/BFSD dated June 15, 2001, reiterating that a commercial bank shall comply with Regulation No. 03/BOL, which set ceiling for lending at 60% of collateral value and for lending to a single borrower at 10% of the bank's capital, and a commercial bank shall comply with Regulation No. 98/BOL on loan classification, suspension of accrued interest income on a loan which becomes overdue for longer than 90 days, and restriction on new lending to a defaulted borrower;
- Instruction No. 176/BOL dated June 30, 2001, reiterating general reserve requirement and compliance with Regulation No. 98/BOL on loan classification; Notice No. 158/AMD dated July 3, 2001, which restricts SCBs to do policy lending and to focus on loan recovery;
- Instruction No. 195/BOL dated July 6, 2001 and letters to BCEL, LMB, LXB No. 263/BFSD dated August 6, 2001, which distinguish required provision on stock and flow (in accordance with Regulation No. 98/BOL), reiterate SCBs to stop accruing interest income on NPLs, require SCBs to submit to BFSD a report on directed lending.

Measures taken in 2002

- Instruction 01/BOL dated Jan. 10, 2002 on notional capital, credit to large customers, and level of NPLs;
- Instruction No. 03/BOL dated March 14, 2002, which restricts SCBs to grow their risk portfolio if flow NPL ratio exceeds 15% and reduce the branch approval limits. This measure is aimed to stop further deterioration of SCBs' assets;
- Notice No. 15/CIMD dated April 24, 2002, which gives clarification of Instruction No. 03/BOL;
- Notice No. 566/MOF dated March 31, 2002 on autonomy of SCBs. The objective of this notice is to ensure that SCBs have full autonomy in operating their banks on a commercial basis;
- The Rural and Micro Finance Committee (RMFC) was established on Feb.15, 2002 under Bank of Lao PDR (BOL) to make assessment of the rural and micro-finance industry, formulate a policy statement, and develop an action plan for the implementation of a rural and micro-finance reform program;
- The External NPL Collection Committee (ECC) was established under BOL with the mandate to support debt restructuring on a voluntary basis by SCBs and debtors; Signed Memoranda of Understanding for Restructuring (MOUR) for each SCB dated March 31, 2002, stating the basic principles under which the restructuring will be conducted;

Measures taken in 2003

- Governance Agreement between Bank of the Lao PDR, Ministry of Finance, each SCB, its Board of Directors, and the management was signed in March 20, 2003. The Agreement is aimed to restructure and strengthen SCBs.
- New management team for each SCB was appointed in Jan-2003 and started working since end Feb-2003.
- Four international bank advisors (IBA) were recruited by BOL to assist in restructuring and strengthening SCBs. The first two IBAs have started working with SCBs since April 2003.
- Two SCBs, Lao May Bank and Lane Xang Bank, completed their merger into the "Lao Development Bank" (LDB) in April 2003.
- Letter No. 17 and 18/BFSD, dated February 26, 2003, Letter No. 053/BFSD, dated July 30, 2003, Letter No. 092/BFSD, dated October 23, 2003 and Letter No. 120 and 121/BFSD, dated December 5, 2003 instructing BCEL and LDB to limit their net new lending since their NPLs exceed 15%. Letter No.17and 18/BFSD also requesting both SCBs to follow Instruction 01 and 03 closely since they exceeded the concentration limit without prior approval by BOL. These letters enforce SCBs to comply with the prudential regulation and restricted banking regime to avoid further deterioration in their portfolio.
- Notice No. 1760/PMO dated December 17, 2003 informing the MOF that the Prime Minister's Office endorsed in principle the rural and microfinance policy and action plan in December 2003. This will serve as the building blocks for developing rural financial services for the poor.
- The MOF has issued "triangle" bonds to SCBs, which are designed to resolve NPLs of private contractors caused by government arrears. Series of bond of total about 210 billion kip were issued in 2003. Interest rates on these bonds seem below market rate.

Measures taken in 2004

- Regulation No. 6/BOL replacing Regulation No. 98/BOL on loan classification, issued in May 2004, to ensure that banks consistently review and classify loans, properly account for overdue interest, adequately set aside provisioning expenses, and properly classify restructured loans. Full implementation is targeted for 2005.
- Regulation No. 5/BOL issued in September 2003 replacing Regulation No. 178/BOL on foreign currency exposure. Although issued, the regulation has not been enforced. The objective of the regulation is to assure that banks maintain their foreign currency position within the prudential limits to avoid excessive risk.
- BFSD disseminated the approved policy statement and action plan in three provinces: Borikhamxay, Champasack, and Bokeo in October, November, and December.

Measures taken in 2005

- The draft amendment to the Decree Law on Commercial Banks has been submitted to the Standing Committees of the National Assembly in February. The objective of the amendment is to ensure level of playing field and lower the barriers to entry and expansion of non-state owned banks.
- The BOL has established Financial Intelligence Unit (FIU) and issued on August 30 a regulation on Customer Due Diligence (CDD). The regulation requires commercial banks to set up a compliance office to monitor suspicious transactions.
- The BOL submitted the draft PM Decree on Anti Money Laundering (AML) to the Prime Minister's office.
- The amendment to the Secured Transaction Law was approved by the National Assembly in May 05 and has become effective since it was signed by the President in August 05. The type of secured transaction over movable assets has been expanded from the current three, to an unrestricted position. This should give banks more opportunities to use securities (i.e. trading stock, shares, debts and intellectual property) as collateral in stead of land and fixed assets. In addition, the amendment law no longer requires approval from the chiefs of the villages to certify the registration of securities as collateral but can register collateral with the MOF. It will facilitate project financing of large scale developments, private sectors and financial institution's investment. In the event of a default, the revised provisions in respect of the realization of the security will not require the intervention of a court in the process if agreed in the credit contract and related government officials must facilitate the title transfer.
- The BOL issued on June 22, 2005 the microfinance regulation No.10/BOL to implement the Rural and Microfinance Policy and Action Plan. The regulation provides an enabling environment to support the

development of the microfinance industry and encourage an establishment of microfinance institutions in diverse forms and types of ownership. A microfinance institution (MFI) can be established with a registration status but cannot take deposits. A MFI can take deposits from general public if it is granted licenses by the BOL.

- In September 2005, the MOF approved the first tranche of recapitalization for BCEL (129 bil.Kip) and LDB (71 bil. Kip). This is the first part of the four tranche that MOF committed to recapitalize (The total committed amount is 634 Billion Kip) between 2005-2008.
- The draft of the 6th NSEDP which was presented to the government in January 2006 proposes to relax regulatory framework of the Lao Banking sector in order to promote a level of playing field competition.
- The BOL set up a working group to prepare a new Financial Institution Law and amendment of Presidential Decree No.01/OP and plan to submit the draft law to the National Assembly in September 2006.
- To strengthen the transparency of the SCBs, BOL finally submitted the draft 2004 independent IFRS audits for two SCBs (BCEL and LDB) to MOF in November 2005.

Measures taken in 2006

- A draft law on commercial banks was recently completed with the assistance of IFC's MPDF.
- Formal direct intervention has been reduced and the Ministry of Finance recently placed a representative on the Board of Directors of BCEL and will soon place one on the Board of LDB.
- Revised Governance Agreements were signed in August 2006.
- A draft law on commercial banks was recently completed with the assistance of IFC's MPDF and a drafting committee was established, which included not only staff of BOL, but also MOJ and MOF.
- IAS audits for 2004 were prepared for BCEL and LDB and each bank has prepared a plan of action to address the weaknesses identified by the auditors.

Measures taken in 2007

- The Government has drafted a financial sector strategy.
- The Law on Commercial Banks promulgated in early 2007.
- The Bank of the Lao PDR (BOL) has revised the Presidential Decree Law on the Management of the Foreign Exchange and Precious Metals. The purpose of the amendments to this Decree Law is to remove provisions that discriminate against commercial banks that are not state-owned.
- The new legislation and the amendments to the decree have encouraged ANZ Bank to enter into a joint venture agreement with Vientiane Commercial Bank. This agreement was signed on March 1, 2007.
- The Ministry of Finance (MOF) began to exercise its ownership in the SCBs by appointing MOF representatives to their boards (LDB representative has been appointed). The MOF Board members are expected to provide an independent perspective to the bank's management.
- LDB's 2005 IAS audit is finished
- The 2006 IAS audits for BCEL and LDB will commence in April 2007 with report delivery anticipated in end of first half of 2007.
- In March 2007, the MOF approved the second tranche of recapitalization for BCEL (98 Billion Kip) and LDB (52 Billion Kip). The recapitalization was made conditional on the state-owned banks compliance with Governance Agreements in a satisfactory manner determined by staying within an aggregated target (composed of financial and operational sustainability targets). This is the second part of the four tranche that MOF committed to recapitalize (the total committed amount is 634 Billion Kip) during the period of 2005-2008. .
- GOL has split Agricultural Promotion Bank (APB) into a commercial bank (still called APB) and a policy bank (Nayoby Bank) in January 2007.
- A Governance Agreement for APB, between Bank of the Lao PDR, Ministry of Finance, APB (the commercial bank), its Board of Directors, and the management is expected to be signed in March 2007.
- An international bank advisor (IBA) will be appointed to assist in restructuring and strengthening APB according to the Governance Agreement.
- The joint venture of the Australian and New Zealand (ANZ) Bank Group's and the Vientiane Commercial Bank (VCB) was announced in March 2007; The opening up to private entry is reinforced by BOL's approval of a newly-licensed private local commercial bank, Phongsavanh Bank, opened in March 2007. It is probable that the entrance of ANZ to the Lao Banking Sector will encourage local and foreign private sector usage of the banking services and will reinforce improvements in the traditionally slow-paced banking sector leading to performance closer to international standards.

Box 5. GOL Actions towards Trade Promotion

Measures taken in 2003

- Coverage of import and export restrictions is significant¹¹. Notice 204 specifies that a license from the Minister of Commerce/provincial offices of MOC is needed to import the following: Petrol and gas; Cars and parts for assembling vehicles of any type other than tractors¹²; Cement; Steel; Jewelry; any of 17 foodstuffs that include all meats, eggs and poultry, animal feeds, sugar, canned foods, food coloring or seasoning, soft and alcoholic

¹¹ Each year through Notices to implement the general Decree No.205 of the Prime Minister issued on 11 October 2001 on this issue. Notice 203 of February 2003 defines the lists of prohibited imports and exports and these appear be relatively uncontroversial bans related to public safety and morals plus those related to logging & raw timber exports.

¹² Licensing of vehicles is now used only mainly as a registration device as importers can import as many as they want

drinks (including beer) and animal medicines; seeds; Videos, movies, gambling machines, satellite TV receivers and telecommunications equipment; Sporting guns.

- In January 2003, of the 1291 items on Lao's Temporary Exclusion List (TEL) under AFTA, 436 items were transferred to Inclusion List (IL) of AFTA thereby putting 71 percent of all items and 45 percent of all dutiable imports by value in the Inclusion List ¹³.
- On September 18, 2003 the Lao and US governments signed the first US-Lao Bilateral Trade Agreement (BTA) in Vientiane, which will go into effect after the US Congress enacts legislation authorizing normal trade relations (NTR) between the two countries.
- PM Decision No.14/PM of February 28, 2003 allowed the establishment of duty-free warehouses in Vientiane and Savannakhet (at Seno special economic zone) to facilitate the import processes.
- Supplementary Guiding Order No.530 of May 10, 2004, on business registration, has established sunset provision of two days for registration of local businesses in trade sector at one of the following three levels: central (MOC), provincial and district.
- Annex to the Supplementary Guiding Order No.530 (May 10, 2003) on business registration No. 538/MOC dated May 13, 2003 provides a division of business registration approval between different levels of government agencies: (1) MOC registers foreign companies (with registered capital from and over 200 thousands US\$), enterprises dealing with imports of vehicles and fuel and exports of wood and wood products, state enterprises and joint ventures established at central level; (2) provincial trade authorities provide registration to foreign investors (with registered capital below 200 thousands US\$), enterprises in agricultural, industrial and services sectors, trading firms, state enterprises and joint ventures established by local governments; (3) district offices can register and manage retail stores, shops and other small services.
- Decree No. 125/PM of July 24, 2003 on organization and operations of Lao National Chamber of Commerce and Industry (LNCCI) (replacing the decree No.175/PM of 20 August 1998 on areas of responsibilities of LNCCI) redefines the role, functional responsibilities, organizational structure and financial matters of LNCCI. Under this, LNCCI is an independent organization that represents the business communities and acts as a bridge linking public and private sectors and brings together continuing dialogue between the government agencies & business communities. On behalf of its members, LNCCI negotiates with GOL and foreign partners on trade, industrial and services issues and establishes its representative offices abroad. It issues the certificate of origin to exporters and approves the establishment of business groups in the country. LNCCI gets supports from its members (member fees), its own services (issuance of certificate, training and advisory services, trade exhibitions, etc.), the government as well as from individuals.

Measures taken in 2004

- Ministerial Guideline No.04/MOC of January 5, 2004 on *promoting commodity production*. It has defined the following goals for the next few years: (1) meet domestic demands and substitute imports (especially food, raw materials, construction materials and other consumer goods that have potential), (2) increase exports, especially to ASEAN and other neighboring countries (of agricultural and forestry products, and wood), (3) maintain market dynamics, by favoring demands and supplies to support economic growth. This guideline also provides some significant implementation measures: (1) create awareness among Lao people at all levels of the importance of the transition from a self-sufficient economy to market-oriented one, (2) improve existing regulations and procedures to encourage the production of commodities and facilitate domestic trade and exports, (3) increase roles and participation of business communities from all economic sectors in the commodity production process, (4) attract more FDI for commodity production and leverage the Lao economic potential, especially in the area of natural resources and human capital.
- In January 2004, 422 items were moved from TEL to IL bringing coverage of IL to 84% of import tariff lines.
- PM Decree No.15 of February 04, 2004 on trade competition, effective on August 1, 2004, has provided key principles to regulate monopolistic practices, and to promote fair competition and a level playing field for all players. The decree identified government agencies responsible for monitoring of competition, and defined roles & responsibilities to ensure free market & guarantee participation of various sectors.

Measures taken in 2005

- The new Customs Laws had been approved. These laws aim to implement the transaction value principle when assessing ad valorem custom duties and facilitate customs modernization as well as addressing WTO-related issues.
- To facilitate AFTA commitments, a draft resolution including a schedule of tariff reductions and the plan to move the Temporary Exclusion lists to the Inclusion lists have been proposed to the National Assembly.
- Lao PDR completed the transfer of all tariff lines from the Temporary Exclusion List (about 3,402 tariff lines or about 96% of the total existing tariff lines) to the Inclusion List through five equal installment phases (started from 2001).

Measures taken in 2006

- Consultation workshops on DTIS Action Matrix were held in March 2006 in Vientiane Capital and provinces (Luang Prabang and Savannakhet) with participation from GOL, donors (in Vientiane) and private sector.

¹³ Under AFTA, Lao PDR is committed to move all the items from its Temporary Exclusion List (TEL) to the Inclusion list (IL) by the beginning of 2005 and to reduce the CEPT rates on all IL items to between zero and 5 percent by the beginning of 2008.

- The work has commenced on establishment of a Multi-Donor Trust Fund for Trade-Related Assistance that will consist of EC, Australia, and possibly Swiss SECO and will be managed by World Bank.
- The application for the Window II funds is being prepared.
- The Lao government submitted the preliminary Legislative Action Plan (LAP) and Initial Offer (for goods) to the WTO secretariat in late October 2006. The second working party meeting has been scheduled in the end of November 2006
- In August 2006, the Lao government approved removal of 28 tariff lines (mainly on alcohol and beverage, soft drinks, tobacco and other related products) from GEL and will transfer it into the Inclusion List by 2013 through various installments, starting from 2008.
- During the National Validation Workshop on September 12, 2006 the GOL officially adopted the DTIS and Action Matrix, which articulate the key policy actions to be taken by the GOL in the near future in order to increase the export competitiveness and promote trade and investment in the country.

Measures taken in 2007

- The GOL has started prepared to submit the Initial Offer for services will be submitted to WTO.
- MOIC has started preparing answers to the third round of questions and reviewing requests received from multilateral and bilateral negotiating partners from the last second working party.
- In February 2007, the National Assembly's Standing Committee has ratified the last (fifth) installment of the Inclusion List. The tariff reduction (MFN rates) would be implemented according to the defined schedule.
- GOL has conducted local consultations to validate the ASEAN Secretariat's classification of verified NTBs and identified the NTB constraints that hamper Lao exports. Each AMC will have to share the list of verified and justified NTBs with other AMCs through ASEAN Secretariat soon. CCCA will then discuss the modalities for possible elimination of identified NTBs, define scope and prepare a timeline for implementation.
- GOL has piloted One-Stop Inspection practices at Lao Bao-Densavanh international border checkpoint (a border checkpoint between the two countries under the GMS East-West Corridor program linking Laos, Vietnam and Thailand). Apart from the assessment, an action plan for expansion has also been prepared under the GMS program.
- GOL has made a decision to cut down the number of agencies involved in inspection at the border checkpoints in the country to increase efficiency of government services at the border checkpoints and facilitate border crossing of goods and people between Lao PDR and its neighbor countries.

Box 6. GOL Actions to Improve Private Investment Climate

Measures taken in 2001

- GOL took steps towards improving transparency and simplifying the investment registration processes. A number of websites (inter alia: www.invest.laopdr.org, www.moc.gov.la) have been set up to provide basic information about the country's legal framework, business and investment related laws, sector and industry information and other services.
- Decree No.46/PM March, 2001 on the Implementation of the Law on the Promotion and Management of Foreign Investment provides basic guidelines for improving registration and speeding up approval processes for foreign investment. Based on this decree, total approval time for different types of projects has been reduced from 90-180 days to 45-60 days.
- On land, PM Decree 237/PM 2001 provides more clarity in the institutional setup and main functions and activities of the Department of National Land Use Planning and Development (DONLUPAD), which is responsible for the coordination of land-related policy¹⁴ and inter-agency consultations on appropriate institutional arrangements.

Measures taken in 2002

- Further to Decree No.46/PM, Decision of the Chairman of CIC, dated 27 February 2002, has decentralized approval of foreign investment projects, extension of foreign activities and establishment of branches of foreign companies in Lao PDR. It defines four size-classes of foreign investment based on value: (1) equal or less than US\$1m, (2) from above US\$1m to US\$5m, (3) from above US\$5m to US\$10m, (4) Above US\$10m. Approval of FDI equal or less than US\$1m can be done at the provincial level by all provinces. However, in large provinces, such as Vientiane Municipality, Savannakhet, Champasack and Luangprabang, the ceiling for provincial approval is US\$2m and less).

¹⁴ The Land Law 01/97/NA (April 12, 1997) repeals a number of previous laws (1979, 1989, 1992) and serves as the new basis for land administration and management in Lao PDR, defining institutional responsibilities for land administration and registration (especially for eight categories of land in Lao PDR: agricultural, forest, construction, industrial, communication, cultural, water-area land and land for national defence and peace-keeping), and (2) sets out the basic rights and obligations of the land user. PM Decree 22/PM of 1999 is on implementation of the 1997 Land Law.

Presidential Decree on Land Tax (03/PDR of August 12, 2000) provides new guidelines for land tax collection and management, with detailed tax rates for each type of land and its location.

Measures taken in 2003

- PM Decree dated 23 April 2003, on roles and responsibilities of CIC at central and local levels. The decree provides local governments with new autonomy over investment and defines organizational structure, roles and responsibilities of CIC and other relevant line-ministries and agencies at central and local levels. It serves as a strategic guidance for CIC at all levels for decision-making process including approvals, promotion, management and monitoring of domestic and foreign investment. The effective implementation of the decree would contribute to the improvement of the investment environment in the country.
- Amendment of Lao constitution, especially with regard to chapter 2 on Social and Economic System. The new text states that GOL promotes every economic sector, including domestic and foreign investment, a modern industry, enterprises and services in order to accelerate economic growth of the country. The constitution further confirms the Government intention to guarantee interest in property and lawful capital of all investors.
- Publication of Quarterly Newsletter by DDFI. The government issued in July 2003 the first Quarterly Newsletter, to disseminate FDI information to investors and to promote foreign investment. The Newsletter provides recent updates on investment regulations (mainly on decentralized management and approval process at the central and provincial levels), tips for applications, investment incentives for various priority sectors and investment zones, and data on the cost of doing business in the country (business costs – land, office space, factory building, warehouse; and production costs – labor, utilities, i.e. electricity, water, fuel/gas, and telephone).
- PM established National Land Policy Committee (NLPC) on March 25, 2003, representing a number of line ministries/agencies involved in land administration and management, and providing an effective oversight mechanism to resolve policy issues as they arise and to facilitate the development of a comprehensive land policy framework. DONLUPAD is assigned as the secretariat of NLPC.

Measures taken in 2004

- PM Decree No. 42/PO of April 20, 2004 on Promotion and Development of Small and Medium Sized Enterprises, defines key policies and an action plan for SME promotion and development, including the establishment of SME Development Funds and supporting organizations (the SME Promotion and Development Committee and its permanent Office and Executive Committee). It also defines regulations, methods and measures needed to promote SMEs, the expansion of commodity production, and trade and service activities. The policy gives priority to creating an enabling regulatory environment, enhancing competitiveness, expanding markets (domestic and international), improving access to financing and developing both entrepreneurship and an entrepreneurial culture in the country.
- The Domestic and Foreign Investment law was revised and the implementing decree for the Investment Laws will be drafted.

Measures Taken in 2005

- The revised Secured Transaction Law was approved on May 2005 and became effective on August 2005. The amendments expand and clarify eligible loan collateral.
- The business-government dialog with private sector has a good progress. CPI and MPDF signed a Memorandum of Understanding on collaboration on the Lao Business Forum. A responsible inter-ministerial committee was established by a Decision of CPI in mid-2005. The forum is conducted in two main stages. First, MPDF conducts working group meetings with the representatives of the private sector, to identify the main constraints and issues to be raised with the Government. This is followed by dialog between the private sector and the Government. CPI and MPDF are working together to prepare the topics for discussion, the forum agenda and a list of invitees, for the first Business Forum scheduled to take place on November 24.
- The National Assembly approved amendments to the 1994 Business Law, in the form of a new Enterprise Law, during the October 2005 legislative session. The new Enterprise Law creates a level playing field for private businesses, significantly simplifies regulations and procedures to start up a business, moves from discretionary licensing to more automatic registration as the main principle by having a “negative list” of sectors where entry of private business is conditional, and by creating a one-stop-shop for business registration.
- The Government drafted a regulation to promote sustainable private investment in mining and this was adopted by the MIH in December 2005. It was intended to encourage sustainable development of private investment in mining, eliminating bottlenecks that impede development of this sector.

Measures Taken in 2006

- The first joint meeting between the government’s inter-ministerial committee and the private sector working group was held in January 2006 to discuss and agree on the key issues to be presented at the upcoming business forum. With support from MPDF, a number of working group meetings have been conducted with the representatives of the private sector from tourism, manufacturing, service and trading.
- The first Lao Business Forum, a public-private dialogue mechanism to improve the business and investment climate, took place on May 31, 2006 and was attended by nearly 300 participants from the government, the private sector and donor community.
- The PM Order on Enterprise Law Implementation was signed in October, 2006. The Order assigned main responsibilities of the line ministries in the process of EL implementation and appoints the MOIC as a focal point for the implementation process.
- MoF drafted the new Accounting Law and held discussions with business community in June 2006.

- Ministry of Energy and Mining has recently completed the final draft of the sector plan and conducted a two-day stakeholder and investor consultation workshop in September 2006 to discuss the draft.
- GOL has issued an order for the controlled management of forestry and the timber industry (PMO) aiming to promote the wood processing industry and sustainable development.

- ***Measures Taken in 2007***

- MOIC has been assigned to lead and coordinate the relevant line ministries in implementing the Enterprise Law and a timeline for developing the Negative List has been set.
- GOL prepared a draft Negative List and conducted a series of consultations among the government agencies concerned. The final Negative List is expected to be approved by GOL soon.
- The SME Promotion and Development Office (SMEPDO) is preparing an SME Development Strategy, which will guide policy implementation and help the Government and other stakeholders to select the best course of action while at the same time ensuring effective coordination and utilization of resources. SMEPDO has submitted this strategy to the government for final approval.
- An inter-ministerial committee (comprising MoJ, MoF, LNCCI and the Foreign Investment Committee of the CPI) has recently been set up and a number of consultations on the draft Law have been conducted. The revised draft was resubmitted to GOL in February 2007.
- The Lao Government announced in January 2007 a slow-down/moratorium on granting of new exploration and production licenses. This move was instigated by government's intention to review existing practices concerning taxation, operational requirements, and other contractual terms.
- The Second Lao Business Forum met on March 15 to discuss progress in resolving issues facing the private sector and government plans to improve the business environment.



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