

INTERNATIONAL MONETARY FUND



Staff Country Reports

**Lao People's Democratic Republic: Poverty Reduction Strategy Paper—
Annual Progress Report**

Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for Lao People's Democratic Republic, dated November 5, 2007, is being made available on the IMF website by agreement with the member country as a service to users of the IMF website.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

This page intentionally left blank

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Committee for Planning and Investment
Department of International Cooperation

Round Table Implementation Meeting
8 November 2007
Vientiane

**Achievements, Constraints and Future Direction
within the Implementation of the National Socio-Economic Development Plan
2006-2010**

Main Background Document

CPI/DIC, 5 November 2007

Table of Contents

Executive Summary	3
Introduction	6
1. Major Achievements, constraints and future plans within the implementation of economic and social policies	7
1.1. Government's overall policy performance	7
1.2. Macroeconomic Performance	8
1.3. Future direction with regard to the macroeconomic policy	13
1.4. Cross-cutting issues: current situation and future actions	14
-Poverty reduction	
-Governance	
-National Millennium Development Goals	
1.5. Sectoral policies implementation	19
-Education	
-Health	
-Agriculture and Forestry	
-Transport	
2. Major achievements, constraints and future plans with regard to ODA mobilization, coordination and management	25
2.1. Current situation	25
-Coordination mechanisms	
-Aid effectiveness within the Vientiane Declaration	
2.2. Needed improvements and actions for the future	28
-Implementing the Vientiane Declaration	
-Improving the Sector Working Groups	
-Matching Budget resources with ODA	
Conclusion	31

Executive Summary

Achievements:

- Tremendous progress has been achieved over the past few months in consolidating the macroeconomic stability through appropriate fiscal and monetary policies.
- Noticeable improvements have also occurred in many economic, social, institutional and legal development areas.
- While strengthening the management of the public sector and governance, the GoL is increasing public investment to develop physical and social infrastructure and promote human resources.
- The promotion of the private sector is receiving greater attention through significant improvements in the business climate and trade facilitation.
- Macroeconomic indicators are evolving in a satisfactorily manner. For the Fiscal Year 2006-2007, inflation was reduced, the Kip was quite stable, domestic budget revenues increased to 13.8 % of GDP, public expenditure –of which a significant proportion (45%) was directed to public investments - did not exceed 21.7% of GDP, and budget deficit was contained at a level of 5% of GDP.
- Economic growth, driven by industry and services was about 7.6% in real terms.
- Exports are increasing year after year as Lao PDR takes advantage of new trade opportunities in the region and outside.
- Investments both public and private are increasing with a stronger share taken by FDI.
- A number of national MDG targets, according to preliminary findings of the 2008 MDG report now under preparation, are progressing well placing Lao PDR in good position to achieve MDG targets by year 2015.
- In general terms there have been significant achievements in the social and economic sectors.
- Primary education enrolment rate represents 87%, lower secondary enrolment 65% and upper secondary enrolment 42.5%. Increased resources from National Budget and ODA are being channeled to respond more effectively to education needs throughout the country.
- Several health indicators are steadily improving and the health sector is attracting greater attention and increased domestic and external resources and investments (both public and private) to improve the services rendered to the population.
- Agriculture is being developed with tangible achievements in food and commercial crops' production, increasing exports to neighboring countries and contributing to improving the living conditions of rural people.
- The transport network is under continuing expansion and is providing increased facilities to support productive investments and boost up broad based economic growth.

- ODA coordination is attaining good progress within the round table process.
- Valuable external resources have been mobilized to complement domestic funding and accelerate the country's development.
- GoL and DPs have adopted the Vientiane Declaration on Aid Effectiveness that is currently under implementation.
- Overall coordination mechanisms (RTM and RTIM) and sectoral and inter-sectoral coordination (SWG) are being significantly strengthened with stronger leadership and ownership by the government over the development process.
- SWGs are kept at the current number of eight to avoid proliferation and improve their effectiveness.
- Policy dialogue involving GoL and DPs was significantly strengthened demonstrating common willingness to build consensus on development issues, ensure better accountability and appropriate management to achieve targeted results.

Shortages and constraints:

Constraints and insufficiencies are being faced at different levels and in varying degrees of the development process. They relate to all aspects of development and can be summarized as follows:

- Structural weaknesses in the economy and little progress in expanding the growth base and diversifying economic activities.
- Inequalities and disparities of economic growth and social development between geographic areas and among different groups of the population.
- Insufficient natural resource management and associated revenue generation.
- Fragile public finance system in spite of estimable achievements, and yet improvements are needed in revenue collection, public expenditure management and the capacity at national and provincial levels to enforce provisions of relevant laws and implement rules and regulations.
- Unemployment and underemployment are still high.
- Severe UXO contamination is denying land for agricultural expansion, disrupting forest management, killing livestock and wildlife. Economic opportunities in tourism, hydroelectric power, mining, forestry, etc are restricted, complicated, and made more expensive.
- Social development is still insufficient to address severe problems encountered by a large part of the population.
- Poverty is still high across the Lao Society and particularly among rural population.
- Child malnutrition and maternal health are of concern.
- Access to public services especially education and health facilities is not affordable to a large number of disadvantaged and vulnerable groups especially the poor in rural areas.

- Gender disparities still exist in education and other domains.
- Lack of basic infrastructure in remote areas limiting access to markets and to public services.
- Severe weaknesses in individual and institutional capacity within the public administration.
- Insufficient legal and judicial framework and governance in general in spite of steady progress.

Actions for the future:

A number of actions and measures are required to meet existing challenges: accelerate economic and social development, reduce inequalities, pursue and strengthen targeted actions to combat poverty, deploy greater efforts to achieve the national MDGs, and develop the national capacity and, individual, organization and institution' s abilities to cope with the various requirements.

These actions and measures are presented in detail in relevant parts of this document and are related to most of the issues described above.

The GoL is strongly committed to pursue efforts leading to the achievement of the development goals and outcomes. Nevertheless, a continuing support from the Development Partners is essential to carry out planned actions and overcome weaknesses and deficiencies.

Introduction

Within the preparatory process leading up to the RTIM, the GoL has undertaken over the past few weeks a series of sectoral and thematic consultations to clarify issues related to the implementation of strategies, policies and programmes. Most of these consultations were organized within the Sector Working Groups (SWGs) and covered the following:

- Agriculture and Forestry
- Health
- Education
- Transport
- Development Implications of Natural Resource-based Growth
- Public Expenditure Management
- Private Sector Development
- Progress towards achieving the Millennium Development Goals in Lao PDR
- And, Sector Working Groups and coordination at the sectoral level.

In addition, the GoL prepared an assessment on the status of implementation of the 6th Development Plan (the National Socio-Economic Development Plan) and an evaluation of the implementation of the Vientiane Declaration on Aid Effectiveness (VD).

Development Partners -co-chairs of the SWGs and others-, have participated actively in these collegial consultations led by the respective government ministries and institutions. Various implementation issues pertaining to policies, programmes, projects, coordination, financing, capacity building, actions and measures for the future were discussed and analyzed.

The overall consultation process was coordinated and facilitated by the CPI/DIC which provided advice and guidance to ministries and ensured necessary harmony between the Government's overall priorities and Development Partners concerns and expectations.

The aim of these consultations and assessments was to strengthen the dialogue and coordination between the Government and its partners in development and prepare the ground for the plenary discussions at the RTIM.

This represents an innovative approach in comparison with previous RTMs and RTIMs and consolidates the link between the SWGs, the RTIM and the main RTM, each of which are essential components of the overall coordination mechanism. As key sectors and themes were discussed in detail, reports on their findings and recommendations will be submitted (reported back) to the RTIM, and the latter will focus more on policy issues and the facilitation of decision making, as it might be needed for deliberations on pending issues.

Furthermore, this approach appears to both the Government and DPs to be a good opportunity to consolidate the Round Table Process and to bring greater attention to the concretization of the five principles of the VD: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability.

The current background document provides an overall picture of the main achievements since the last RTM held in November 2006 and which coincided with the beginning of the Fiscal Year 2006-2007. It provides a synthesis of the key issues regarding the implementation of the overall development strategy and sectoral and thematic policies and programmes. It highlights also the actions needed for the future, taking into consideration the work done within the pre-consultation sessions. In doing so, this document is not intended to cover all aspects of development policies and programmes.

The current document is the result of contributions from different Government agencies who prepared sectoral and thematic papers. In most cases, these papers were developed jointly with Development Partners. Several DPs also provided, at the request of CPI/DIC, a paper reflecting their respective contributions to the implementation of the Vientiane Declaration. The Government agencies' papers are made available for the RTIM and those who need to may refer to these papers for detailed analysis of the respective sectors and topics

The background document is structured around the following axes:

- Major achievements, constraints and future plans within the implementation of the economic and social policies
- Major achievements, constraints and future plans with regard to ODA mobilization, coordination and management.

1. Major achievements, constraints and future plans within the implementation of economic and social policies

1.1. Government's overall policy performance

The GoL is carrying on the implementation of the National Socio-Economic Development Plan 2006-2007, the National Millennium Development Goals and Sectoral Strategies with the aim to achieving the targeted objectives and outcomes.

Impressive strides were achieved in improving the macroeconomic framework and noticeable improvements were realized in many economic, social, legal and institutional development areas.

Efforts are ongoing within the implementation of the public administration reform in order to strengthen the public sector management, enhance the government's organizational structure and capacity, and improve the civil service management and human resource development as well as public service delivery.

Efforts are equally being made to continue the implementation of reforms in the legal and judicial framework, and in the public financial management, in order to improve governance and transparency, ensure the fulfillment of commitments to ASEAN and AFTA, facilitate accession to WTO and combat corruption.

At the same time, the Government is promoting domestic and foreign private investment, designing and implementing policies to protect the environment, strengthening the banking and financial sector and proceeding with the integration of the economy within the global and regional context.

While the Government is multiplying its efforts to place the market economy on the right track and provide a solid foundation for private sector-based growth, the role of the Government is equally being enhanced in setting rules and regulations, ensuring a better balanced economic growth, building necessary physical and social infrastructure, maintaining macroeconomic stability, as well as political and social harmony.

In more general terms, Lao PDR is becoming more accessible to the world, not only for tourism and trade, but also for the organization of regional and international political events such as the several ASEAN meetings held during the past few years and the coming Ministerial Conference of the Francophonie. Lao PDR will also host, in 2009, the ‘‘15th ASEAN Conference on Civil Service’’.

Nevertheless, several constraints and shortages were encountered at different levels and in varying degrees, affecting to some extent, the pace at which the Government wants to attach for the improvement of the livelihood and human well being of the multi-ethnic Lao people. To date, Lao PDR remains a low income developing country, and the Human Development Index ranks the country at 133rd position out of 177 countries.

Achievements, constraints, and actions for the future are developed in more specific terms in the following sections.

1.2 Macroeconomic performance

Main ratios and indicators

The macroeconomic situation remained stable during the Fiscal Year 2006-2007, in line with the prudent fiscal and monetary policies being implemented and in spite of the impact of higher petroleum prices.

The inflation rate for the same FY is expected to be as low as 5.5% coming down from 8.3% reached the year before.

The Kip, although depreciating slightly against the Thai baht by 2.3% and appreciating by 7.8% against US dollar, has remained globally quite stable as a result of sound

monetary management, greater confidence from its citizens and foreign operators in the national currency, and increased bank deposits.

Money supply for the first half of the year has increased by 42.7% compared to the previous year (March 2006). The major source of liquidity growth included an increase of 77.6% in foreign currency deposits.

The Balance of Payments has slightly improved in 2006-2007, due to increased exports and FDI, allowing the current account deficit to decrease to 6% of GDP and official reserves to be at the level of the equivalent of 3 months of imports.

Public Revenues and Expenditures

The FY 2006/07 is the second year of the 6th 5- year Plan (2006-2010). The directives of budget plan for FY 2006/07 have been to diligently strive towards promoting robust economic growth with equity, reducing poverty, building up the strengths gradually, integrating the budget plan with the 6th Plan, and continuing to maintain the macro-economic stability. During the FY, the public financial management framework has improved and several measures were undertaken in this regard including the adoption by the National Assembly of the new Budget Law, Audit Law, Law on Value-Added Tax and Enterprise Accounting Law.

Preliminary data suggested that the domestic revenue collection in FY 2006-2007 will exceed the target by 9 to 10 percent, and reach about 5,306 billion Kip (or 13.8 percent of GDP). The tax revenue is the main budget resource and is expected to exceed the target by 12 percent while the non-tax revenue has just met the target. The revenue from grants also performed well in comparison to the last fiscal year and will amount to 1,083 billion kip.

The success in the revenue collection resulted from the efforts of the Government through active implementation of the policy reforms and measures laid out in the budget implementation plan. The Government has actively disseminated and provided training and advice on implementation of the Amended Tax and Customs Laws. Moreover, the Government has intensified the administration of tax collection from all business units by using the vouchers/receipts system as defined by the Laws. The higher price of gold and copper also helped the receipts from natural resource tax to surpass the target.

Budget Revenue Structure:

Budget Revenue Structure FY 2006-2007 (Estimation)		
Composition	Amounts in billion Kip	% of GDP
Total Revenue	6,389	16.5 %
Of which:		
-Tax	2,555	6.6 %
-Customs Duties	1,497	3.9 %
-State Property receipts	1,041	2.7 %
-Others, including timber	166	0.4 %
(Total Domestic Revenues)	(5,306)	(13.8%)
-Grants	1,083	2.8 %

The Government has managed to restrict total expenditures (including current and locally-financed investments) in line with targets, minimizing the need for domestic financing. However, this prudent budgetary policy has not affected social sectors which continue to receive increased budget allocations in accordance with the government's policy to improve its public service delivery especially in Education, Health, Agriculture, Rural Development and Transport¹.

For FY 2006-2007, public expenditures are estimated at the level of 7,562 billion Kip (19.7% of GDP). The total budget deficit is estimated at about 3.4% of GDP². This is the second consecutive year that the government contains the deficit at target level. In addition the country's debt position was improved.

Public Expenditure Structure FY 2006-2007 (Estimation))		
Composition	Amounts in billion Kip	% of total expenditure
Total Expenditure	7,562	100%
-Salaries, allowances, operations, and transfers	3,157	42 %
-Debt payment	692	9 %
-Public Investment (PI)	3,708	49 %
of which:		
ODA;	3,191 (86% of total PI)	42 %
Domestic investment	517	7 %

¹ Public spending in these sectors is indicated in relevant sections of this document.

² Source: MoF, preliminary estimations.

With the economy growing at a rate of 7 to 8%, the expected broadening of the base of growth, the enforcement of customs duties and tax collection, and the ongoing efforts in ensuring greater central accountability over the provincial finances, public revenues are expected to increase significantly over the coming years, making it possible to further strengthen the fiscal position..

Economic Growth

The stable macroeconomic situation and favorable investment environment have significantly boosted economic growth. The GDP increased by 7.6 % in real terms for the fiscal Year 2006-2007 and this allowed, in the same manner, the GDP per capita³ to increase to a level of 6.58 million Kip (approximately 678 US\$).

Economic growth was boosted by the industrial sector (mainly mining, garments and construction) which reflected its expected dynamism and to a lesser degree by services (mainly tourism).

Industry and Services achieved annual growth of 15.2% and 7% respectively. This compared to 2.4 % for Agriculture, Forestry and Fishery.

Distribution of GDP by sector		
Sector:	% increase	% of GDP
-Industry	15.2 %	33.3 %
-Services	7 %	26 %
-Agriculture	2.4 %	40.7 %

The slow development of the agriculture sector remains a matter of concern as agriculture represents the main source of income for more than 75% of the labor force. It is indeed worrying that Lao PDR which possesses rich natural resources and has established farming traditions cannot provide enough food for all its population.

These are anomalies that the government needs to address. Greater efforts are therefore needed to improve the living conditions of the rural population and reduce inequalities. Increasing food production and outputs of industrial and commercial crops and forestry production remain among the major priorities for rural development as this is essential for poverty reduction.

³ At current price.

As such, this emphasizes the pressing need to build rural infrastructure, improve land entitlement, intensify irrigation, promote microcredit, facilitate trade and access to the market, and integrate remote areas into the mainstream of the economy.

Exports

Reflecting the dynamism shown by the economy in general terms, export growth has been better than expected. Exports could reach 653 million US\$ in FY 2006-2007. The international and regional market, bilateral trade agreements and favorable trade terms granted by bilateral partners have helped in opening important opportunities for the Lao products. In addition, simplified and more transparent bureaucracy, fiscal incentives and improved infrastructure have similarly represented favorable conditions for export-oriented business.

Nevertheless, the export sector remains fragile as it is still depending on mineral (60%) and garment products, raising the pressure on the country's natural resources and the environment. In addition, the increasing cost of imports of investment-related machinery and raw materials are contributing to the deepening of the external trade deficit.

These facts demonstrate the structural weaknesses of the economy and the narrow base of production, thus emphasizing the need to promote appropriate investments, diversify the sources of growth, improve trade facilitation and boost economic activities throughout the country.

Investment

The robust economic growth would not have been possible without significant public and private investments.

Public and private investments during the FY 2006-2007 amounted to a total of 1,482 million US\$ or 37.5% of GDP⁴.

While public investments were oriented to create and improve physical and social infrastructure mostly in Transport, Agriculture, Rural Development, Health and Education; private investments were mobilized in minerals exploitation and processing, hydro-power, handicraft, agricultural production, tourism and trade.

Even though private investment has achieved a significant increase over the past three years, several constraints are still hindering private sector development. These constraints are related, in particular, to the lack of good road and power infrastructure at the provincial level, insufficient legal and regulatory framework, trade limitations, problems

⁴ Reflecting sudden increase of FDI that is explained by new FDI large projects.
Source: CPI

in land tenure, and the weak capacity of local entrepreneurs. There is, therefore, a need to pursue the implementation of reforms and measures aimed at creating an enabling environment for the private sector to strongly contribute to growth and poverty reduction.

Within the Lao Business Forum, the GoL and private sector entrepreneurs pursue regular consultations (the latest was on 5 November 2007) on how to improve the business climate. Several measures and actions undertaken by the government in this respect are inspired by the deliberations within this forum.

Employment

Promoting job creation remains one of the top priorities of the GoL development strategy. Over recent years, the economy has generated an annual average of 100,000 new jobs⁵. The NSEDP 2006-2010 projects the creation of 130,000 new jobs per year. Albeit scarce data in this field, it could be cautiously considered that most of jobs created in 2006-2007 were in the agriculture, forestry and fishery sectors, followed by services, and industry and construction. By the end of 2006, according to preliminary estimation, the economy had employed a total of 2,835,000 workers, of which: 2,125,000 in Agriculture, Forestry and Fishery; 453,000 in Services; and 255,000 in Industry and Construction.

Although the bulk of the labor force is still employed within the agriculture sector, new job opportunities are significantly being generated by trade, tourism, and manufacturing activities, in line with the trends of private investment in these sectors. This indicates that the structure of the Lao PDR economy is slowly shifting towards the pattern seen in neighboring countries where the industry and services sectors are leading economic growth and job creation.

Nevertheless, unemployment and underemployment are still high and additional efforts are essential to diversify economic activities, stimulate investments in small and medium enterprises, upgrade skills and promote vocational training to create a better environment for job creation.

1.3 Future direction with regard to the Macroeconomic Policy:

Over the coming twelve months (FY 2007-2008), the GoL will pursue the implementation of reforms, measures and actions to consolidate macroeconomic stability, foster investment and growth, and enhance efforts leading to poverty reduction. In this regard, the GoL is planning to reach the following main targets and outcomes:

- 8% of GDP growth (with Agriculture growing at 3%, Industry at 15.8%, and Services at 7%)
- 728 US\$ of GDP per capita
- Total Budget Revenue 7,069 billion Kip of which domestic revenue 6,030 billion Kip (13.9% of GDP)
- Total Budget Expenditure 8,884 billion Kip (20.5% of GDP)

⁵ Source: CPI/DGP

- Budget Deficit at a level of 4.2% of GDP to be financed by ODA (2,754 billion Kip mainly in the form of grants) and domestic borrowing (50 billion Kip)
- Inflation rate at less than 6%
- Increased Exports and reduced Trade Balance Deficit to 5% of GDP
- Poverty reduced by another 3%
- Investment to reach 32% of GDP, of which Public Investment of about 8% of GDP and Private Investment of about 24% of GDP

The achievement of these targets and outcomes will require a set of supporting instruments and actions, of which the following are key elements:

- Pursuing and accelerating the implementation of public financial management measures, within the implementation of the Public Expenditure Management Strengthening Programme (PEMSP). This will include enforcement of the amended Tax and Customs Law and related regulations; strengthening tax and customs administration; harmonizing the Budget preparation and execution with the NSEDP and Public Investment Programme's priorities and requirements; strengthening the management of State assets; pursuing efforts towards the centralization of the national treasury administration; and preparing the ground to move towards a medium term fiscal framework integrating both revenue and expenditure aspects. In addition, the GoL intends to implement a rolling programme of Public Expenditure Reviews, Public Expenditure Tracking Surveys and analytical work geared to monitoring progress in the implementation of the PEMSP and assessing improvements in fiscal management and impact of public spending in key sectors.
- Continuing on-going efforts within the improvement of the banking and financial sectors to support private sector development and extending rural outreach;
- Strengthening policy actions, rules and procedures to improve the business environment
- Continuing implementation of Governance improvement actions including the legal framework and public administration reform
- Direct additional budget resources and ODA to Public Investment projects and programmes (PI): domestic funds of 688 billion Kip (approximately 69 million US\$) will be allocated to PI during FY 2007-2008; and public investment resources from ODA are expected to be at the level of 2,754 billion Kip (approximately 275 million US\$) including ongoing projects, giving a total of projected PI for FY 2007-2008 of about 344 million US\$.

1.4 Cross-cutting Issues: Current situation and future actions

Poverty reduction

In spite of the challenges and constraints, important progress was achieved in poverty reduction illustrating the Government's continuing commitment to significantly improve the livelihood of the poor and reduce inequalities between different categories of Lao's multi-ethnic population.

The percentage of the population living below the poverty line declined from 46% to 33% during the decade 1992-2002, and is estimated to be at 30.7% in 2005, and most probably the same trends have continued in 2006-2007. There is thus a high likelihood that the Lao PDR will achieve the 24% target projected for 2015 within the MDGs⁶.

Significant actions and measures are being undertaken within the implementation of the poverty reduction strategy. Targeted interventions are being implemented in the 47 poorest and 25 poor districts. The Poverty Reduction Fund activities have expanded to cover 21 districts, 252 Kumbans and 1913 villages. Increased financial resources from national budget and international assistance are being channeled towards the implementation of poverty focused programmes such as the National Unexploded Ordnance Programme (UXO Lao), the National Strategy on HIV/AIDS/STI, the Drug Control programme, Gender Equality programmes, and Rural Development programmes including rehabilitation and construction of rural infrastructure, land-forest allocation, promotion of village development funds and extension of microcredit, food security, protection against natural calamities and the provision of basic social services.

At the institutional level, a National Committee for Rural Development and Poverty Reduction was established under the Prime Minister Office to ensure coordination between central and local authorities and improve effectiveness of efforts deployed in the field of poverty reduction.

In addition, these initiatives are being supported and complemented by specific actions benefiting directly or indirectly the poor in the four priority sectors: Agriculture and Forestry, Education, Health and Infrastructure.

The Government recognizes, however, that poverty reduction has benefited the urban centers more than rural areas, suggesting that efforts are needed here also for a better balanced growth, significant reduction of inequalities between regions and different categories of the population, and expanded coverage of public services especially in Health and Education.

Governance

Governance reform initiatives are taking several strategic steps to strengthen the machinery of administration, including better public service management, implementing rule of law, and enhancing mechanisms for people's participation, in addition to public financial management practices described earlier.

As the country moves towards greater regional and global integration, the legal and judicial framework is being harmonized with international standards, especially in areas of commerce, bankruptcy and labor. Laws on Government, People's Courts, Public Prosecutor and Judgment Enforcement are being reviewed and amended. The compilation and regular updating and dissemination of legislation through the Legal

⁶ Source: CPI/DGP and preliminary findings of the 2008 MDG report.

Research Centre will be continued. Various measures included in the master plan for the legal sector, shared with stakeholders including DPs, will be thoroughly implemented.

A national programme has been launched to improve delivery of regular public services, and guide initiatives to further improve service delivery. The programme will strengthen the oversight mechanism of the government, including multi-sectoral coordination, at the highest level. Alongside, it will provide a platform for designing and funding small public infrastructure, through district development funds, to improve service delivery. The government is addressing the challenges at the citizen interface through mechanisms such as One-Door-Service-Centres and simplification of procedures.

By mainstreaming lessons from pilot projects, the government has been able to scale up the implementation of reforms and best practices. Sound financial management through use of the National Accounting System, and improved clarity at work through preparation of job descriptions, have contributed to administrative effectiveness. Other initiatives which are being piloted include development of municipalities and Kumban Pattana.

The effectiveness of the administration also depends heavily on the quality and effectiveness of its human resources. Important steps to establish a National Civil Service Training and Development Framework and National Training Curriculum have been completed, which draw lessons from an in-depth review of capacity building activities within all segments of the government. The national training framework is meant to harmonize long term capacity building in government, while facilitating adaptation to suit the specific requirements of sectors. While Development Partners strive to integrate capacity building support into sectoral interventions, the government emphasizes the need for a larger and harmonized initiative to substantially improve capacities across all key areas and levels in government.

Recognizing the importance of all sectors in the balanced development of the country, governance reforms are helping to establish opportunities for the private sector and civil society to contribute to poverty reduction. Important legal provisions are being designed to enable these sectors to operate effectively, and partner the government in various initiatives for poverty reduction, in remote areas and for communities with special needs like disabled people.

The capacity challenges are most acutely felt in furthering local responses to opportunities and constraints emerging from the new paradigm of an open market economy, globalized markets, trade liberalization, and competitiveness at all levels. Informed decision making and quick responses are an imperative. The lack of capacity of government institutions to generate and utilize quality statistical data and other information that are essential for sound planning, programming and budgeting needs to be addressed. Capacity substitution through technical assistance has been a short term response to these challenges, and to offer a pragmatic assistance to formulate strategies and plans. It is evident that such assistance needs to be augmented with systematic steps to build greater awareness and conceptual clarity among senior officials, to take on these responsibilities.

National Millennium Development Goals

The Government of the Lao PDR, with support from the UN Country Team is in the process of developing its second progress report for the Millennium Development Goals (MDGs). The first progress report was released in January 2004, and the second Progress Report is due to be released in the first quarter of 2008.

Reporting on the MDGs is timely, given that 2007 is the midpoint between the adoption of the MDGs and the 2015 target date. In addition, the government is also implementing its Sixth National Socio-Economic Development Plan 2006 – 2010 (NSEDP) and the success in implementing the Sixth Plan will determine to what extent the Lao PDR is able to meet its MDG targets. New data on almost all indicators is now available, and the second MDG Report 2008 will help to take stock, review progress and identify areas where additional effort is required if Lao PDR is to meet the MDG targets by 2015. The analysis from the MDG Report will also feed into the government's upcoming mid-term review of the NSEDP, and will guide the provincial and district budget planning exercises for the coming fiscal year. The main data sources that will be used in the preparation of the MDG Report for 2008 include:

- Population Census, 2005 and 1995;
- Lao Expenditure Consumption Survey (LECS), 2002-03; 1997 – 98; and 1992 – 93;
- Multiple Indicator Cluster Survey (MICS), 2006; 2002; and 1997;
- Lao Reproductive Health Survey (LRHS), 2005 and 2000;
- Establishment Census 2007; and
- Routine information collected by line ministries.

This MDG Report II aims to take a closer look at the data, review a large number of data sources, reconcile inconsistencies and fill data gaps wherever possible. The MDG Report 2008 will also have a number of new features, including: (i) reporting on Goal 8 for the first time, (ii) the inclusion of new indicators and targets, and (iii) revision of baselines and targets of some of the existing indicators.

Main preliminary findings of the 2008 MDGs' report, at this stage of the preparatory work, are as follows:

- Goal one: Eradicate Extreme Poverty and Hunger

Poverty declined from 46% to 33% during the decade 1992-2002, and is estimated to be at 30.7% in 2005, placing the country on track to attain the MDG target of halving poverty by 2015.

- Goal two: Achieve Universal Primary Education

Primary completion rate has increased slightly from 1991 (48%) to 2004 (60%). Progress in retention of students at the primary level is always slow, however, at the current rate the MDG target of 90% by 2015 looks beyond reach.

- Goal three: Promote Gender Equity and Empower Women

In education, fewer girls than boys are enrolled at all levels with large disparities in rural areas and among vulnerable groups.

Overall, the gender gap is closing but at a slow pace. Therefore, this MDG requires increased awareness, targeted policies and resources.

- Goal four: Reduce Child Mortality

At the national level, child mortality indicators are improving satisfactorily. The under-5 mortality rate declined from 197 in 1990 to 98 in 2005 (target of 66 for 2015), and the infant mortality rate from 119 in 1990 to 70 in 2005 (target 40 for 2015). At this rate, the 2015 target is within reach.

- Goal five: Improve Maternal Health

Data for this indicator are still under analysis, however, for each woman that dies, it is estimated that 15 to 20 women suffer from maternal morbidity. This target seems to be out of reach.

- Goal six: Combat HIV/AIDS, Malaria, TB and other diseases

The death rate associated with malaria (per 100,000 of the population) decreased from 9 in 1990 to 0.4 in 2006 placing this indicator in line to meet its 2015 target of 0.2 (per 100,000).

Considerable progress has been made for the tuberculosis indicators, and two related indicators have already met the 2015 target.

- Goal seven: Ensure Environmental Stability

The proportion of people with access to safe drinking water and basic sanitation increased significantly.

- Goal eight: Develop a Global Partnership for Development

This target relates to ODA, market access, debt sustainability, access to essential drugs and to new technology. The GoL is in the process of localizing indicators to the Lao PDR context for this goal.

1.5 Sectoral Policies' implementation

This section focuses only on Education, Health, Agriculture/Forestry, and Transport which are among the main priority sectors with regard to budget and ODA resources' allocation, and given the pressing needs of these domains and the impact they have on accelerating poverty reduction and achieving the Millennium Development Goals.

The GoL has achieved good progress in social sectors development, particularly in Education and Health. This progress was reached not only in quantitative terms, but also in terms of quality of the services rendered to the population.

Education

Efforts are ongoing within the strategy "Education For All" and other relevant strategic and policy papers to expand basic education infrastructure especially in remote areas, improve the quality of education, ensure equitable access to education services and strengthen the sector management.

The coordination and management of the Education sector is realizing good results. Within the Sector Working Group, the MoE is pursuing consultations with national stakeholders and Development Partners to ensure consensus on policies and programmes, secure resources, coordinate operations and activities, and improve resource effectiveness.

The Education sector is receiving increased resources from the National Budget and ODA. Public spending on Education is reaching approximately 12% of total public expenditure⁷ and approximately 19% of total ODA disbursements⁸ (FY 2006-2007). As a percentage of GDP, spending on Education represents less than 3%. Although it is steadily improving, public spending in this sector remains low when compared to countries in the region.

Education indicators are still low although improving continuously. In 2006, the primary net enrollment rate was about 87%, lower secondary gross enrollment rate was 65% and upper secondary enrollment was 42.5%.

Likewise, problems related to repetition, dropout, class size and unqualified primary school teachers are still sharp, especially in disadvantaged areas. The constraints inherent to the population dispersion and the limited physical access in many areas are also restraining the government efforts in developing the education sector.

Therefore, additional efforts and resources remain necessary to pursue the implementation of the Government Education Strategy and, in particular, further promoting investments in basic education, providing support to vocational and higher

⁷ Source: Public Expenditure Review 2002-2005

⁸ On the basis of Public Expenditure Review and reconciled figures from different sources.

education, speed up education system reform to ensure standards of quality education, improve the deployment of qualified teachers, and provide adequate equipments and incentives.

In addition, the MoE will pay greater attention to the functioning of the Sector Working Group for better aid effectiveness within the Vientiane Declaration.

Health

The implementation of the health care strategy is underway and realizing significant results. It is involving government, communities and international assistance. The large number of hospitals and health centers that exist in the country put Lao PDR among those countries in the region that have elevated ratio of hospitals and health centers per population served. Primary health care, both preventive and curative, is being expanded at the central, district and village levels with larger number of dispensaries and health centers. Particular attention is given to high risk groups, child immunization, transmittable diseases as well as safe water and sanitation. Treatment at the central and provincial hospitals is being upgraded. Alongside treatment facilities provided by the public sector, the private health network is expanding with larger number of private clinics in Vientiane and other cities. Most of the indicators regarding infant mortality, under five-year mortality, and life expectancy are improving significantly (see section related to MDGs).

In terms of spending, increased budget allocation and donor-funded projects are directed to the health sector improvement. Public expenditure in Health represents 1.5% of GDP and 7% of total public expenditure⁹ in 2005.

With regard to donor coordination, the Sector Working Group on Health has contributed in a positive way to priority setting and better aligning external resources with the sector policies and programmes.

Notwithstanding these achievements, health care services are still far from meeting the needs of the populations in quantitative and qualitative terms. Health problems are still severe in remote and poor areas and not all categories of the population can easily access health services.

Over the coming year, the GoL will continue to expand the health facilities network, pay further attention to maternal and child health, vaccination, transmittable disease prevention, safe water and sanitation, and deploy health personnel in rural villages. Efforts will also be directed to the prevention of epidemic disease mainly avian flu, malaria and diarrhea.

In addition, the MoH will focus on the following actions:

- Strengthening the ministry's leadership, coordination and capacity in the sector

⁹ On the basis of Public Expenditure Review and reconciled figures from different sources.

- Aligning and harmonizing Development Partners' operations
- Strengthening financial management and procurement systems within the sector
- Further improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

With regard to *Agriculture/Forestry, and Transport*, the GoL is strongly involved in creating the necessary infrastructure in urban and rural areas to boost economic activities, encourage private enterprises, promote domestic and regional trade, and open opportunities for development throughout the country.

Agriculture and Forestry

Over the past few years, the GoL has introduced policy measures to shift agriculture sector from subsistence to commercial production aiming at ensuring enhanced supply of raw materials to processing industries, meeting the growing domestic requirements for agricultural products and expanding agricultural exports.

Within the NSEDP annual plan 2006-2007, the following results were achieved in the four priority programmes:

- **Food Production:** in the FY 2006-2007, rice production reached 2.58 million tons, which is close to projected volume, of which rain fed rice was 2.08 million tons (cultivated area is 631,463 ha); upland rice 174,526 tons (104,585 ha involving 143,277 households); and irrigated paddy 329,126 tons (72,800 ha) representing an increase of 6% in comparison with last year. The number of irrigation schemes has continued to increase. Due to the increase of irrigation and the introduction of new crop varieties, rice yield increased from less than 3.06 million tons per ha in 2000 to 3.6 million tons in 2005¹⁰. The total area used for other food crops was 180,900 ha in which the most common crops applied are maize and different kinds of vegetable. The total production of meat and fish was 198,700 tons of which 90,700 tons of meat and 108,000 tons of fish.¹¹
- **Commodity Production:** targets set in the annual plan 2006-2007 was to promote agriculture and forestry production linked to commodity processing for export, targeting a volume of 200 million US\$. The total value of marketable commodities from crops, livestock, forest products and non-timber forest products, if exported, are estimated at about 228 million US\$ of which 153 million from crops, 25 million from livestock, and 50 million from forest products and non-timber forest products¹².
- **Stopping shifting cultivation, stabilizing livelihood and reducing poverty:** this programme was implemented in 47 poorest districts. Mitigation measures

¹⁰ Source: MAF and CPI.

¹¹ Ditto

¹² Ditto

included land use planning and land allocation which was practiced in conjunction with the promotion of livelihood alternatives leading to permanent production systems, e.g. paddy production, industrial commodity, fruit trees, livestock production, integrated agriculture production, industrial forest trees, non-timber forest products, micro-credit for farmers, handicraft, etc. As inputs to the production process, resources from 13 donor-funded projects of 179.140 billion Kip were mobilized. These projects were implemented in 80 districts of 17 provinces throughout the country covering 303 kumbans, 2,520 villages and 60,056 households.

- Sustainable Forest Management: A total of 310,601 ha of forest were proposed for production. Forest management inventories were conducted in three areas covering 34,154 ha. Land surveys for tree and industrial crop plantation were also completed in 65,395 ha of which 24,720 ha for rubber, 10,000 ha for cassava, 22,175 ha for other industrial trees, 7,500 ha for sugar cane and 1,000 for jatropa plantation. In addition, the MAF has disseminated the PM Decree No. 31 and other relevant regulations and participated in solving forest-related problems at local level, including cross-boundary logging and timber traffic, and conducted regular monitoring of forest issues. With regard to forest regeneration, 158,000 kg of seeds were collected; 72 million seedlings were produced; a land area of 91,700 ha were surveyed for tree plantation; 25,000 ha of land were cleared for tree plantation; 19,376 trees were planted; natural forest regeneration was initiated in 78,500 ha and a number of campaigns were conducted for the prevention of forest fire.

Shortages and constraints: targeted production from irrigated rice was not fully achieved due to irrigation systems that need renovation; productivity in irrigation focused areas has not been able to reach targets due to insufficient supply of fertilizer and agro-chemicals and credit; occasional occurrence of forest fire and forest destruction practices; land zoning for agriculture production did not meet arising demands from investors; decentralization process has not reached expected results; and lack of coordination between the central and local level authorities..

Nevertheless, the MAF is improving the capacity of its staff, enhancing financial management and procurement, and - together with the Sector Working Group-, strengthening the coordination and improving the harmonization of donor activities.

For the coming months and years, the MAF in collaboration with DPs will pursue the implementation of the sector development programmes, and in particular:

- Expanding food production and promoting food security to increase social benefits for farmers and rural population
- Accelerating the transformation of small subsistence production to large marketable production systems related to processing industry and domestic and foreign trade

- Promoting stabilizing livelihood arrangements together with rural development and definitely stopping shifting cultivation by year 2010
- Environment protection, forest preservation, increasing forest covering areas, conserving water resources and promoting marketable tree plantation for use as raw materials for wood processing. A master plan for forest conservation management including actions for community participation will be prepared during next year.

The expected outcomes

- Food production is expected to grow at the level of 2.92 million tons for rice (cultivated area of about 835,000 ha), of which rain fed rice – 2.291 million tons (635,000 ha); irrigated rice – 460,000 tons (100,000 ha); upland rice – 170,000 tons (100,000 ha). Targeted production of other food crops are: sweet maize (14,500 ha; 47,800 tons); tuber crops (17,400 ha; 154,850 tons); vegetables (89,700 ha; 830,500 tons); fruits (41,830 ha; 44,600 tons). The production of meat and fish is expected to increase by 4 to 5% with a total production of 250,000 tons of which 151,500 tons of meat and 98,500 tons of fish.
- Commodity production: the main commercial crops include coffee (54,750 ha; 28,250 tons); hybrid maize (87,500 ha; 388,000 tons); jobs tear (13,700 ha; 9,700 tons); sesame (13,000 ha; 9700 tons); tobacco (5,700 ha; 26,200 tons); sugar cane (13,800 ha, 941,000 tons); cotton (2,750 ha, 2,450 tons); green and black bean (6,300 ha; 7,100 tons). Regarding commercialized animal production, the focus will be on pig and poultry production in the suburbs of big cities for domestic consumption and cattle for export. Concerning timber and NTFP production, the plantation area is targeted at 25,000 ha of which 10,000 ha for fast growing species, 2,000 ha for teak, 11,000 ha for rubber, 500 ha for agar-wood and 2,500 ha for other species. In conjunction to forest plantation, there is a need to emphasize on logging control with the aim to reduce logging from natural forests. Logging will only be allowed in designated areas and in particular areas officially approved for infrastructure development projects. The planned logging volume is about 150,000 m³ of logs. For NTFP, the harvest would be for rattan canes (1,5 million ton), bamboo (1,2 million tons), agar wood (15 tons), fuel wood (25,000 yards), and other NTFP species (21,000 tons).
- Shifting cultivation: shifting cultivation area will be reduced from 14,400 ha to 10,000 ha by the end of 2008. The number of households practicing shifting cultivation will be reduced from 21,000 in 2007 to 15,000 by the end of 2008. Land allocation will be completed in 423 villages covering 21,150 household. In addition, support will be provided to households practicing shifting cultivation to promote alternatives such as livestock, permanent paddy rice production, crop production and handicraft.

In addition, the MAF will continue to focus on:

- Strengthening its leadership, coordination and capacity in the sector
- Aligning and harmonizing Development Partners' operations
- And, further improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

Transport

During FY 2006-2007, the sector has achieved commendable progress within the implementation of the Long-Term Transport Development Strategy aiming at providing safe, efficient and low-cost transport throughout the country.

A large part of public investment in the sector has mainly focused on national and provincial road construction and maintenance. A total of 1,544 billion Kip was invested for this purpose, including 181 billion Kip (18.5 million US\$) from national budget resources and 1,363 billion Kip (136 million US\$) from ODA.

In addition to road maintenance, these investments have resulted in the following achievements with regard to road construction:

National/Sub-regional:

- Substantial progress on the R3 road along the North South Economic Corridor connecting Kunming to Bangkok via Luang Namtha and Bekeo province.
- Completion of the second Friendship Bridge between Savannakhet and Mukdaharn along the East-West Economic Corridor.
- Completion of the extension of Road 9 from Seno to the second Friendship Bridge.
- On-going construction of Houay Kone-Pakbeng, a portion of National Road 2W.
- Substantial work progress in constructing the A1 Road in Vientiane capital.
- Starting of the construction of Hin Heup Bridge along the National Road 13 North.
- Ongoing construction of National Road 15A in Saravane province connecting to Vietnam (financed by Lao private sector).
- Continuing upgrading of National Road 6 (phase 2).
- Completion of earthwork road from Muong Nane to Kasi (financed by Lao private sector).

Provincial/Local:

- Completion of three contracts of feeder roads along Road 9.
- Completion of one remaining contract under ADB 9 Houay Hung-Sam Tay.
- Ongoing construction of provincial roads under ADB 10.
- Ongoing construction of provincial roads in the Northern provinces (Luang Namtha and Bakeo).

- Provincial and Rural roads implemented by provincial and district authorities:
 - Completion of upgrading provincial roads with total length of 114 km,
 - Periodic maintenance of provincial road network total 1,214.84 km,
 - Periodic maintenance of district road network total 664.94 km,
 - Completion of rural roads construction of about 753.5 km within the poorest 34 target areas with participation of local people as labor force.

In addition, the reconstruction of Luang Namtha airport is at 60% of completion; and railway extension from Friendship Bridge to Thanaleng (3.5 km) is at 48%.

On the institutional front, MCTP realized substantial progress in financial management, procurements, coordination and ownership over the sector development. Within the Sector Working Group, donor coordination and aid effectiveness were high on the agenda as external assistance is financing around 80% of the sector total investment.

Nevertheless, the transport sector is still facing several constraints, such as insufficiency of staff at the district level, difficulties in budget management in ministry's provincial branches and lack of skills in project evaluation.

For the FY 2007-2008, MCTPC will implement a total public investment of 1,221 billion Kip (126 million US\$), of which 248 billion Kip (26 million US\$) from national budget resources and 973 billion Kip (100 million US\$) from external assistance. These investments will be implemented for ongoing and new projects of national, provincial and district roads' construction and maintenance.

In addition, MCTPC will focus on:

- Improving the regulatory framework
- Strengthening MCTPC's leadership, coordination and capacity in the transport sector
- Aligning and harmonizing Development Partners' operations
- And, improving the Sector Working Group with a particular focus on the implementation of the Vientiane Declaration and related Action Plan.

2. Major achievements, constraints and future plans with regard to ODA mobilization, coordination and management:

2.1 Current situation:

Lao PDR is heavily dependent on Official Development Assistance to ensure proper financing of the country's development. ODA accounts for 85% of public investments and 38% of total public expenditures.

ODA grants and concessional loans amounted to 420 million US\$ in terms of commitments (agreements signed between the GoL and bilateral and multilateral

partners) during FY 2005-2006 with loans and grants sharing almost the same proportions¹³.

In terms of effective disbursement, although figures are not yet available, ODA could be at the level of 350 million US\$ for FY 2006-2007.

Given the high level of dependency on external assistance and in order to improve its effectiveness, the GoL and DPs are attaching very high importance to the coordination and management of ODA.

Coordination mechanisms

As is the case in all recipient countries, coordination of external assistance is the cornerstone of a harmonized and sustainable development and a prerequisite for aid effectiveness.

Within this context, the Round Table Process (RTP) is well established in Lao PDR and is receiving technical assistance from UNDP. The RTP aims at strengthening the policy dialogue between the GoL and DPs, building stakeholders' consensus on development policies and priorities, channeling required resources in line with the country's development objectives, and improving the utilization of resources and aid effectiveness.

The main Round Table Meetings (RTMs) are organized on a three-year basis to review policies and programmes and pledge external support.

Intermediate Round Table Implementation Meetings (RTIMs) – previously called “Round Table Information Meetings” - are organized on a yearly basis to discuss progress and achievements and push forward the implementation of programmes and resources.

In June 2005 joint Government-Donor Sector working Groups were created to support the national coordination forums (RTM and RTIM) and ensure better sectoral and inter-sectoral coordination and improve resource utilization and aid effectiveness.

Within the government, intra and inter-ministerial coordination are being improved. The Department of International Cooperation (DIC) has moved from the MoFA to the CPI in order to strengthen the link between external resources, and development planning and public investment programming.

Aid Effectiveness within the Vientiane Declaration

With the concerns of the international community growing regarding the impact of ODA on the recipient countries' development (world-wide), donor agencies and developing countries adopted the Paris Declaration on Aid Effectiveness and this is being localized in many of the developing countries, especially LDCs.

¹³ Source: CPI/DIC

In light of the Paris Declaration, the GoL has formulated the Vientiane Declaration on Aid Effectiveness (VD) in November 2006 and subsequently a Country Action Plan (CAP) in May 2007. The VD which represents a ‘localized’ version of the Paris Declaration has been signed by the GoL and 24 DPs and it is open for other DPs to join.

The GoL has established a National Secretariat for the implementation of the VD and CAP. The Secretariat is chaired by the Director General of DIC/CPI and comprises high ranked government officials representing the Department of General Planning/CPI, Department of International Organisations/MoFA, Department of External Finance/MoF and Line Ministries.

The VD and CAP, currently under implementation at the overall and sectoral levels, is a laudable achievement as the Government and DPs have reached a common consensus on what should be done in order to ensure the five principles of the Declaration, namely: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability.

Based on the submissions from respective Government agencies and Development Partners, the following progress has been made in implementing the Vientiane Declaration over the past 6 months:

Ownership

- Progress achieved towards moving to programme-based approaches at the sectoral level in areas of Education and Transport, as well as at the programme level with Trade, Upland Development, Public Expenditure Management Strengthening Programme (PEMSP)
- Government has finalized the SWG mechanisms and given renewed priority to supporting the SWG, led by DIC. Education and Gender SWG has developed TOR and is supporting strengthening the secretariat capacity, and Agriculture, Rural Development and Natural Resource Management functions effectively with a number of sub-groups
- Commenced work on conceptualizing Capacity Development Frameworks within Ministries of Education, Health, Transport and Agriculture and Forestry, and establishing the linkages to national capacity development programmes led by PACSA

Alignment

- DP's increasingly aligning their programme cycles to NSEDP programme cycles. In May 2007 the EU signed the Code of Conduct on complementarities and division of labour in development policy
- Government agencies increasingly not establishing parallel Project Implementation Units (PIUs) to implement ODA-funded projects
- Progress made in strengthening GoL procurement and public financial management systems through support of DP Focal Points, and increased support from DPs to use these systems once mutually acceptable standards have been met.

- Research undertaken into which ODA information management system is most suitable for Lao PDR with a view to implementation in 2008

Harmonisation and Simplification

- Joint missions and joint research undertaken
- Within programme-based approaches, increased use of common procedures (reporting, auditing, missions, financial procedures).
- TOR drafted for study into reducing financial distortions in ODA funded projects.

Managing for Results

- Training undertaking for central and provincial staff from CPI and Line Ministries in Monitoring and Evaluation of NSEDP. Diagnostic of existing M&E framework underway
- New Statistical Law to be drafted

Mutual Accountability

- No separate CAP Review Meeting held in 2007; however, CAP implementation progress discussed at RTIM 2007

2.2 Needed improvements and actions for the future:

Implementing the Vientiane Declaration

The GoL will continue to deploy every possible effort to make the Vientiane Declaration a reality.

Among others, the GoL will improve the overall development planning system for strategy design, the supporting public investment programme, the public finance management system, sectoral policies design, and inter-ministerial coordination to strengthen the ownership and better align donors' support with the national policies, programmes, regulations and procedures.

Intra-governmental coordination is essential for ensuring ownership, for the clarity of policies and for strengthening the Government/Donor coordination within the Round Table Process and other consultations at the bilateral level.

Increased efforts are requested to involve the sub-national authorities at the provincial and district levels in order, among others, to ensure the alignment of donor programmes with local priorities, leverage ODA, NGO and provincial public resources with private sector operations and community activities and, thus, contribute more significantly to promoting regional development.

Likewise, the GoL will improve the implementation of the PM's Decree Pertaining to the Management and Use of Official Development Assistance including better delineation of

responsibilities with regard to ODA mobilization and management, and for the improvement of related information technology, monitoring and reporting on disbursement and utilization of aid.

Improving the Sector Working Groups

The GoL has decided in its Cabinet Meeting of 12 October 2007 to maintain the current structure of SWGs, however, allowing flexibility with chairing arrangements and formation of sub-groups. The current structure is presented in the following table:

	Sector Working Groups	Chair Ministry	Co-Chair DP
1.	Macro-Economic issues and Private Sector Development	CPI, MOF	IMF, WB
2.	Education and Gender	MOE	Australia, UNICEF
3.	Health	MOH	Japan, WHO
4.	Infrastructure	MCTPC	Japan, ADB
5.	Agriculture, Rural Development and Natural Resources	MAF	France, Sweden
6.	Governance	PMO, PACSA	UNDP, Sweden
7.	Drug Control	PMO, LDCD	Australia
8.	Mine Action	NRA	UNDP

SWGs will be strengthened in a way that ensures their smooth functioning to, ultimately, facilitate inter-ministerial, Government/DP and DP/DP consensus on priorities, harmonize government and DP's actions and operations within the sectors, mobilize coordinated resources, utilize common indicators and benchmarks to monitor progress, make appropriate utilization of resources, and reduce management costs.

SWGs will need to have a clear mandate, to be well integrated within the correspondent ministries internal organization, to establish appropriate liaisons at the provincial level and to dispose of necessary human, technical and financial means to function properly.

Likewise, the SWGs have to develop links with core ministries and institutions, namely CPI, MoF, MoFA which are responsible, according to their respective attributions, for the overall development strategy, coordination with the donor community and mobilization of resources.

The SWGs should invite all concerned donors and national institutions involved in the sector (s) to their meetings and keep them informed on major findings, recommendations or decisions.

The SWGs remain free to decide on appropriate internal organization, such as the establishment as it may be required of Sub-Working Groups.

Other important issues, such as the natural resource management, capacity development, recurrent costs generated by ODA-funded projects, etc, should be given more attention within the SWGs plan of actions and meetings. And, as the MDGs have a multi-sectoral dimension, SWGs should incorporate where ever relevant the monitoring of these overarching national goals.

Nonetheless, the existence of SWGs doesn't prevent DPs and GoL institutions from strengthening their relations and consultations at the bilateral level.

The CPI/DIC will increase its capacity to play a stronger role, besides its responsibility to oversee the implementation of the VD, in facilitating the work of SWGs, coordinating information flows between SWGs and strengthening links between all coordination mechanisms.

Matching Budget resources with ODA

The GoL will continue to mobilize its own budget funds to cover current expenditures, and locally-financed capital spending and complement this with investments provided by ODA and foreign and domestic investors.

Nonetheless, the Government will still need substantial external assistance to respond to the pressing needs of the people, combat poverty, allocate more resources to the social sectors and to timely and effectively achieve the MDGs and development objectives and outcomes.

At the last Round Table Meeting, Development Partners renewed strong support to the GoL and pledged more than 400 million US\$ a year to contribute to the financing of development programmes and projects.

Within these pledges and coming commitments, the GoL wishes to increase the proportion of grants within ODA resources to reduce the burden on debt management and its implication on the national budget.

As ODA-funded projects generate recurrent costs in the form of wages and salaries, materials and maintenance operations, in addition to debt amortizations and interest payments, demand is increasing on the government's budget. Therefore, the GoL and DPs need to give more attention to the ways in which these increasing demands could be met. This issue will be further discussed within the SWGs and at higher levels of the Government and DPs agencies.

Development Partners may also consider when and where possible to provide assistance in the form of Programme aid either macro or sectoral oriented, depending on the needs. For the GoL this type of aid is in accordance with the Vientiane Declaration on Aid Effectiveness and in line with the Sector Wide Approach or Programme Approach the Government and several DPs are planning to progressively put in place.

Conclusion

This paper gives an overview of the government's major policies and programmes' implementation as well as guiding policy actions for the near future. Although it is not intended to cover all aspects of the national development strategy, it provides an overall framework for the RTIM proceedings.

After the RTIM, consultations between GoL's ministries and agencies and DP's will continue at different levels and various ways including within the SWGs in order to clarify policies, set up programmes and action plans, prepare and agree on cooperation frameworks, MOU and cooperation agreements, mobilize resources and ensure implementation.

Both government's institutions and DPs are requested to take into consideration concerns, constraints and challenges described in this document, as well as the findings and recommendations of the RTIM, and work together towards the achievement of their (respective) common goals, objectives and outcomes.