

40064



The World Bank

LAO PDR ECONOMIC MONITOR



The World Bank Vientiane Office

MAY 2007

BACKGROUND

With an estimated per capita income of US\$460 in 2005 (see Table 1), the Lao People's Democratic Republic (Lao PDR) is one of the poorest countries in East Asia. It is classified by the UN as a Least Developed Country (LDC). In 2004, 71 percent of its population lived on less than US\$2 a day, and 23 percent on less than US\$1 a day (see *East Asia Update*, World Bank, 2005). A significant decline in poverty has been achieved however during the last decade: using 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. The social indicators have been improving too, but they remain among the worst in the region, and the quality of measurements remains low.

Lao PDR has a population of around 5.6 million (Census 2005) and a land area of 236,800 square km. It has significant natural resources like forestry, minerals and hydro-electric power. Despite the recent declining of its share in GDP, agriculture remains the major sector of Lao economy contributing around 45 percent of GDP (2005) and employing nearly 80 percent of the labor force; the industry accounts for a bit more than 29% and services for nearly 26%. Landlocked, Lao PDR is in the center of the Mekong region, bordered by Thailand, Vietnam, Southern China, Cambodia and Myanmar, with the first three neighbors growing rapidly.

Lao PDR has grown strongly for more than a decade. In the 1990s, real GDP grew by an annual average rate of 6.3 percent - despite the sharp fall-off in growth during the regional crisis of 1997-1999 period. Exports grew at around 15 percent a year; agriculture grew rapidly as did industry and services.

Transition to a market economy. The Government 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 as farmers were allowed to work on their plots and take ownerships, the exchange rate system was unified, government's monopoly on trade removed, the number of state-enterprises reduced, and establishment of private firms allowed. Reforms stalled during the regional crisis, as Lao struggled with serious macroeconomic problems. Successful stabilization began in 2000 and structural reforms revived in 2001.

Fighting poverty. In April, 2002, the Government of the Lao PDR finalized an Interim-Poverty Reduction Strategy. Using this and the five-year National Socio-economic Development Plan for 2001-05, the Government adopted a consultative 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 subsequently upgraded to the National Growth and Poverty Eradication Strategy (NGPES) in early 2004. It articulates Lao's development framework for poverty reduction, specifies the targets and goals that the country values and indicates the policy reform and public expenditure programs that will be needed to achieve these goals. In November 2006, the Government presented the new NSEDP (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

	Lao PDR	East Asia & Pacific	Low-income		
POVERTY and SOCIAL					
2005					
Population, mid-year (millions)	5.6	1,870	2,343		
GNI per capita (Atlas method, US\$)	460	1,420	510		
GNI (Atlas method, US\$ billions)	2.6	2,647	1,188		
Average annual growth, 1999-05					
Population (%)	2.1	0.9	1.9		
Labor force (%)	2.1	1.3	2.2		
Most recent estimate (latest year available, 1999-05)					
Poverty (% of population below national poverty line)	34		
Urban population (% of total population)	27	42	31		
Life expectancy at birth (years)	61	70	58		
Infant mortality (per 1,000 live births)	70	29	79		
Child malnutrition (% of children under 5)	40	12	43		
Access to an improved water source (% of population)	35	78	75		
Literacy (% of population age 15+)	47	91	61		
Gross primary enrollment (% of school-age population)	116	113	100		
Male	124	114	105		
Female	108	112	94		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1985	1995	2004	2005	
GDP (US\$ billions)	2.4	1.8	2.5	2.9	
Gross capital formation/GDP	7.0	
Exports of goods and services/GDP	4.0	23.2	24.8	27.2	
Gross domestic savings/GDP	1.3	11.9	3.4	8.0	
Gross national savings/GDP	1.3	15.2	2.9	1.5	
Current account balance/GDP	-4.1	-10.8	-14.3	-19.9	
Interest payments/GDP	0.0	0.4	2.0	3.5	
Total debt/GDP	26.1	38.3	101.2	101.2	
Total debt service/exports	12.0	3.1	17.1	20.2	
Present value of debt/GDP	54.6	51.0	
Present value of debt/exports	195.4	162.6	
(average annual growth)					
GDP	5.6	6.1	6.4	7.0	6.9
GDP per capita	3.0	3.9	4.1	5.1	4.7
Exports of goods and services	..	9.9	6.0	17.1	13.2

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

— Lao PDR

— Low-income group

Economic ratios*

Trade

Domestic savings

Capital formation

Indebtedness

— Lao PDR

— Low-income group

Source: World Bank, World Development Indicators, 2006

ECONOMIC MONITOR – MAY 2007 – Covers the last six months. The Lao Economic Monitor is issued in Lao and in English, twice a year (Spring and Autumn) by the World Bank 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. It is based on inputs from Helle Buchhave, Pablo Gallego Cuervo, Morten Larsen, Thomas Meadley, Shabih Mohib, Anita Nitaya, Charles Schneider, and Peter Silarszky and comments from other WB colleagues. It was produced under the overall supervision of Kazi M. Matin. 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 would like to thank Ruangrong Thongampai for formatting and printing of the Monitor. Our thanks also go to the staff in the Bank's resident mission in Vientiane who provided support to the Monitor and its disseminations.

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

TABLE OF CONTENTS

INTRODUCTION	1
PART I – RECENT ECONOMIC DEVELOPMENTS	1
1.1 THE MACROECONOMIC SITUATION	1
1.2 ELABORATION AND IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY	2
PART II – STRUCTURAL REFORMS	5
2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT	5
2.2 REFORM OF STATE-OWNED ENTERPRISES	7
2.3 FINANCIAL SECTOR REFORM.....	13
2.4 TRADE REFORM	15
2.5 PRIVATE SECTOR DEVELOPMENT.....	19
PART III – DONOR ASSISTANCE TO THE REFORM AGENDA	23
3.1 PUBLIC SECTOR GOVERNANCE	24
3.2 REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR	30
3.3 TRADE REFORM	32
3.4 PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM	36

Figures

Figure 1. GDP Growth (%) and CPI (%)	1
Figure 2. Growth (%) with and without major projects	2
Figure 3. Food and Nonfood CPI (% change)	2
Figure 4. Lao Exchange Rate	2
Figure 5. SOEs performance by group 2003-2004, billion kip.....	8
Figure 6. Revenue and profit of largest SOEs in Lao PDR, 2004-2005.....	8
Figure 7. Lao Exports and Imports (mil. US\$).....	18
Figure 8. Exports of Major Commodities	18
Figure 9. Contribution of Major Commodities.....	18
Figure 10. Imports of major commodities	18
Figure 11. Exports by Country/Region.....	19
Figure 12. Imports by Country/Region	19
Figure 13. FDI in Lao PDR	20
Figure 14. FDI by sector, US\$ m	20

Tables

Table 1. Lao PDR, EAP and Low Income Countries: Comparing Development Indicators.....	-
Table 2. Government Revenue Performance.....	6
Table 3. Government expenditures	6
Table 4: Phase 1 SOEs profits and losses, 2003-2005, million kip.....	9

Text Boxes

Box 1: New organic Budget Law in Lao PDR.....	6
Box 2. List of goods subject to import-export control and prohibition	17

Annexes

Box 1. GOL Actions to Implement the NGPES/PRS	43
Box 2. GOL Actions to Improve Public Expenditure Management	43
Box 3. GOL Actions on SOE Reform	45
Box 4. GOL Actions in the Banking Sector.....	47
Box 5. GOL Actions towards Trade Promotion.....	48
Box 6. GOL Actions to Improve Private Investment Climate.....	50

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	MIC	Ministry of Information and Culture
AFD	Agence Française de Développement	MOFA	Ministry of Foreign Affairs
AFTA	ASEAN Free Trade Area	MOJ	Ministry of Justice
ASEAN	Association of Southeast Asian Nations	MOH	Ministry of Health
APB	Agriculture Promotion Bank	MOUR	Memoranda of Understanding
BCEL	Banque Pour Le Commerce Extérieur Lao	MPDF	Mekong Private Sector Development Facility
BOL	Bank of Lao PDR		
BPKP	Bolisat Phattana Khet Phoudoi	MTEF	Medium-Term Expenditure Framework
BPO	Business Promotion Office	NA	National Assembly
BTA	Bilateral Trade Agreement	NGPES	National Growth and Poverty Eradication Strategy
CEPT	Common Effective Preferential Tariff	NOSPA	National Organization for Studies of Politics and Administration
CFAA	Country Financial Accountability Assessment	NSEDP	National Socioeconomic Development Plan
CIDA	Canadian International Development Agency	NPEP	National Poverty Eradication Program
CPAR	Country Performance Assessment Review	NPL	Non-Performing Loan
CPI	Committee for Planning and Investment	NPV	Net Present Value
CPI	Consumer Price Index	NSC	National Statistical Center
DTIS	Diagnostic Trade and Integration Study	NTB	Non-Trade Barriers
EAP	East Asia & Pacific	NTR	Normal Trade Relations
ECC	External NPL Collection Committee	PACSA	Public Administration and Civil Service Authority
EDL	Electricité du Lao	PEM	Public Expenditure Management
EIB	European Investment Bank	PEMSP	Public Expenditure Management Strengthening Program
EU	European Commission	PER	Public Expenditure Review
FDI	Foreign Direct Investment	PIP	Public Investment Plans
FINNIDA	Finland International Development Association	PM	Prime Minister
FMAC	Financial Management Adjustment Credit	PMO	Prime Minister's Office
FMCBC	Financial Management Capacity Building Credit	PPIAF	Public Private Infrastructure Advisory Facility
FRP	Financial Recovery Plan	PRF	Poverty Reduction Fund
FY	Fiscal Year	PRGF	Poverty Reduction and Growth Facility
GDP	Gross Domestic Product	RMFC	Rural Micro Finance Committee
GOL	The Government of Lao PDR	SAMD	State Assets Management Department
GTZ	German Agency for Technical Cooperation	SCB	State-owned Commercial Bank
HIPC	Highly Indebted Poor Country	Sida	Swedish International Development Association
IAS	International Accounting Standards	SME	Small and Medium Enterprise
IMF	International Monetary Fund	SNV	Netherlands Development Organization
IBA	International Banking Advisor	SOE	State-Owned Enterprise
ICA	Investment Climate Assessment	SPS	Sanitary and Phyto-Sanitary
JBIC	Japan Bank for International Cooperation	STEA	Science, Technology and Environment Agency
JICA	Japan International Cooperation Agency	TA	Technical Assistance
JSAN	Joint Staff Advisory Note	TOR	Terms of Reference
LNCCI	Lao National Chamber of Commerce and Industry	UNDP	United Nations Development Programme
LA	Lao Airlines	UNESCO	United Nations Educational, Scientific and Cultural Organization
LBF	Lao Business Forum	UNIDO	United Nations Industrial Development Organization
LDC	Least-Developed Country	VAT	Value Added Tax
LTA	Lao Tourism Authority	WASA	Water and Sanitation Authority
LTC	Lao Telecom Company	WB	World Bank
LXB	Lane Xang Bank	WHO	World Health Organization
MAF	Ministry of Agriculture and Forestry	WIPO	World Intellectual Property Organization
MCTPC	Ministry of Communication, Transport, Post and Construction	WTO	World Trade Organization
MDG	Millennium Development Goals		
MDTF	Multi-Donor Trust Fund		
MOIC	Ministry of Industry and Commerce		
MOE	Ministry of Education		
MOF	Ministry of Finance		

INTRODUCTION

In 2006, the economy of Lao PDR has continued to grow at a steady rate. Macroeconomic situation has remained relatively stable, but signs of monetary expansion in 2006, for the first time in recent years, create a risk of future inflation. The risks of potential negative impact of a growing resource sector on the real economy have also persisted. Exports grew substantially, by nearly half, driven by copper exports, while agriculture also contributed; however exports of wood products, garment industry, and other non-resource sectors have been on a declining trend.

Real GDP grew at 7.1 percent in 2005 and about 7.6 percent in 2006 and is expected to remain at above 7 percent in 2007. This growth was in large part due to foreign investment inflows in mining and hydro-power and growing mineral exports, while the share of non-mining contributions has increased only slightly this year, contributing about 4.8 of 7.6 percent to real GDP growth (see Figure 2). Annual average inflation (of Consumer Price Index) has continued to decline in 2006 and stands at 6.8 percent compared to 7.2 percent in 2005. The 12-month inflation has remained below 5 percent during the last six months.

Implementation of reforms in various areas has continued during the period under review, including in the public financial management through approval of a chart of accounts consistent with the new Budget Law. The work on WTO accession has continued on schedule, while implementation of the Enterprise Law has been delayed compared to the timelines set earlier. While many positive developments took place with private sector entry into the banking sector and drafting of new legislation, financial sector reforms remained slow, and the data on state-owned banks remained scattered.

Donor support for policy reform implementation continued, including steps towards increased coordination in sectoral support, as well as in the work on aid effectiveness that followed the Round Table Meeting and the signing of the Vientiane Declaration on Aid Effectiveness.

PART I – RECENT ECONOMIC DEVELOPMENTS

1.1 THE MACROECONOMIC SITUATION

BACKGROUND

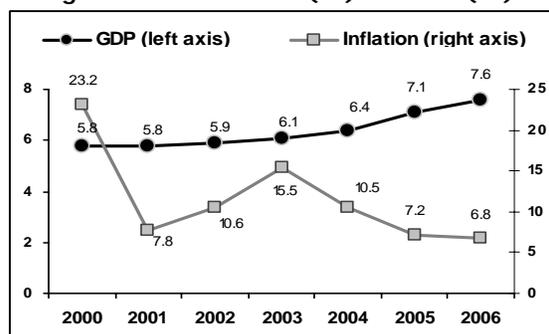
In the 1990s, Lao PDR grew at an annual average rate of 6.3 percent, and the incidence of poverty fell from 45 percent to 39 percent of the population in 1997-98 and to 33.5 percent in 2002-03. The crisis years of 1998 and 1999 saw inflation climb to an annual average of 110 percent and growth fall to 4 percent, but the resolution of the crisis and Lao's own policies stabilized the economy and resumed growth of around 6 percent.

The adoption of a stabilization program since 2000 and the implementation of a phased program of reforms since 2001 – in public expenditure management, banking, state-owned enterprises, forestry, trade and private sector – has contributed to this improvement. During 2003-05, inflation has declined from 15.5 percent to 7.2 percent whereas real GDP growth has speeded up from 6.1 percent to 7.1 percent.

The large inflows of FDI in hydropower and mining sectors have significantly contributed to growth in recent years. However, they may also become a source of risk that need to be prudently managed by the Government. The non-resource sectors have also contributed to growth, especially in agriculture.

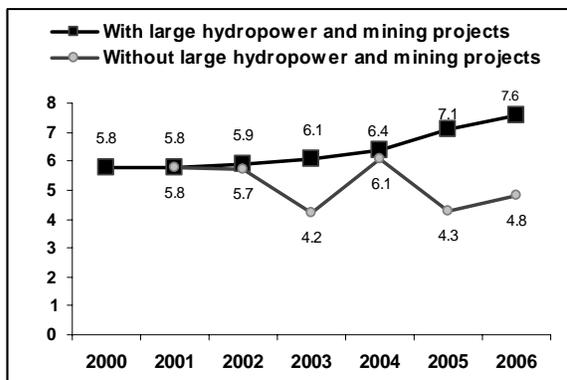
In 2006, the real economy continued to perform well, with real GDP growing at about 7.6 percent compared to 7.1 percent in 2005 (see Figure 1). Hydropower and mining sectors remained the key driver of growth. Non-resource sectors contribution to growth has also increased by 0.5 percent (out of 7.1 to 7.6 percent of growth, see Figure 2). Most of this increase comes mainly from agriculture and tourism, and some -- from emerging processing industries.

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



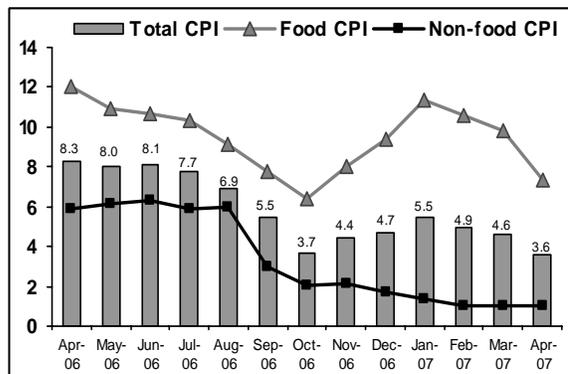
Source: Lao authorities and staffs estimates.

Figure 2. Growth (%) with and without major projects



Source: Staffs estimates.

Figure 3. Food and Nonfood CPI (% change)

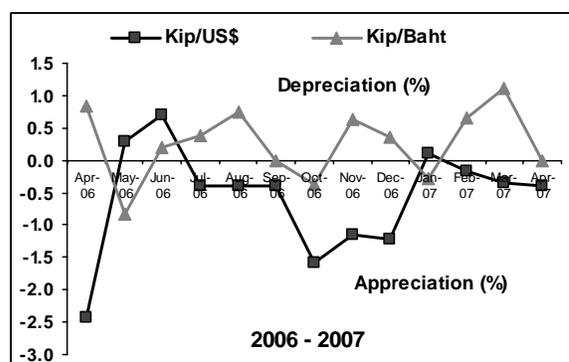


Source: Lao authorities (NSC) and staff calculations

Driven by lower oil and food prices and appreciation of the kip, inflation continued to decline and remained below 5 percent in the first months of 2007. In 2006, inflation was about 6.8 yearly percent, down from 7.2 percent in 2005 (see Figure 3).

The nominal kip exchange rate appreciated against USD only slightly and seem to have stabilized, while it depreciated against the Baht (see

Figure 4. Lao Exchange Rate



Source: Lao authorities (BOL) and staff calculations

Figure 4). Real effective exchange rates remained relatively stable. Trade developments in 2006 were favorable: strong exports growth more than offset the increase in imports due to FDI, and as a result current account deficit declined significantly, to about 13 percent of GDP from 20 percent in 2005.

Owing mostly to strong FDI and net ODA inflows in the last several months, gross international reserves have increased sharply 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 have also sharply accelerated, at more than 40 percent on a year-to-year basis. This creates a potential risk of reversal of the recent declining inflation trends.

Public external debt remained high, but manageable and on a declining trend. By the end of 2006, the NPV of external debt is preliminary estimated to have fallen to 42 percent of GDP (however, the data on non-traditional donors lending remains to be scarce). Debt stock indicators remain above the indicative thresholds for low income countries, while debt service indicators are well below their respective thresholds. Overall, with prudent fiscal and debt management this and other vulnerabilities are expected to ease alongside the rapid growth in exports and economy as a whole. An update of the debt sustainability analysis will be available in the next issue of the Monitor.

1.2 IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

BACKGROUND

The Government of the Lao Peoples' Democratic Republic (GoL) aims to maintain rapid economic growth in order to improve the living conditions of the poor, graduate from its status as a least-developed country (LDC) by 2020 and meet the Millennium Development Goals (MDGs).

The first full Poverty Reduction Strategy Paper (PRSP) of Lao PDR, 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 NSEDP incorporates key elements of the NGPES, especially its geographical targeting and overall poverty focus. 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 have been made in updating the PRSP/NGPES and integrating 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 6th National Socio-Economic Development Plan (NSEDP) 2006-2010, which was approved by the National Assembly on June 17, 2006 and presented at the Round Table Meeting on November 28, 2006.

The 6th National Socio-Economic Development Plan (NSEDP) was endorsed by Lao PDR's development partners at the 9th Round Table Meeting (RTM) on 28 November 2006. Like other medium-term national plans, the NSEDP establishes a vision and a broad direction for government policy for the period it covers. It also incorporates lessons learned from the elaboration of the first Poverty Reduction Strategy Paper (PRSP), the National Growth and Poverty Eradication Strategy (NGPES). In particular, it is accompanied by a more comprehensive consultation process than previous national planning exercises, including consultations with the private sector. An assessment shows that NSEDP is more poverty-focused and results-oriented than previous national plans and incorporates the basic principles of a poverty reduction strategy: poverty focus, results-orientation, and participation and transparency in its preparation and dissemination. It however lacks a comprehensive macroeconomic framework and would benefit from a more comprehensive monitoring and evaluation framework.

The NSEDP 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. The key challenge will be to ensure an effective implementation of this strategy. This will require, in some areas, more work on the detailed policy priorities needed to achieve the plan's objectives. The NSEDP identifies priority programs within sectors (e.g. primary education, preventive and primary health) and lists its priority sectors, which are however more than those from the NGPES.

The overall financing needs for the NSEDP reflect the fact that it is an ambitious plan, but its success will, among other things, depend on availability of resources for implementation. It thus suggests a high case scenario of aid availability (given the known volumes of present aid – i.e. that from traditional donors – it assumes almost double of the current annual aid volumes per year). In the event of a shortfall in the availability of resources, the Government intends to use a prioritized public investment program (PIP) that has been developed for each sector, to guide its investment decisions. The prioritized PIP is based on the NSEDP, sectoral strategies and, for priority sectors, consultations with poorest districts and the costing exercise the sectors carried out previously.

The lack of a *comprehensive* macroeconomic framework and a medium term fiscal framework that would provide a costing of plan implementation and indicative sector allocations in the NSEDP is a serious omission of the plan. MOF has already started working on a MTEF, which it plans to pilot in 2008 and make operational later on. Developing such a framework would improve the alignment of public expenditure to plan priorities, and could be done through strengthening of the government's budget process and through a better coherence between central and local plans and budgets.

Poverty reduction is a core objective of the NSEDP. It plans to achieve it through a combination of broad-based growth and focused poverty-reduction interventions. While economic growth is viewed as the main engine of poverty reduction, the strategy also acknowledges that focused poverty interventions are necessary, in order to reach the poorest areas. To reach these objectives, the NSEDP plans to prioritize government's investment efforts geographically: in the 47 poorest districts and, subsequently, in the 25 poor districts. Such targeting may be efficient in Lao PDR, where the most recent Poverty Assessment shows that poverty reduction has been greatest in the 47 priority districts between 1997 and 2003.

While the NSEDP presents some most critical objectives in its MDG-based indicators table, it does not employ a more general and comprehensive monitoring and evaluation framework for the plan as a whole. The NSEDP goals are consistent with its targets, sector priorities and policy actions to be taken to achieve them. However, the link from sector policies to the resources needed and the outputs is sometimes missing and thus a more sector-oriented monitoring and evaluation would be beneficial to develop. Such a framework could open NSEDP's potential as a tool for monitoring results, improving accountability and feeding back lessons learned into policy making.

Building such framework would require significant resources devoted to capacity building and technical assistance. Indeed, during the reporting period the CPI has been investigating how to better define the institutional framework for monitoring and evaluation and methods for enhancing the capacity of individuals and institutions involved in the current monitoring and evaluation system.

The NSEDP also includes a frank assessment of the shortfalls of the implementation of the previous medium-term strategy, including the lack of awareness about plan priorities at the local government level. Work on a comprehensive dissemination strategy could be a first step to address this challenge.

In March 2005 the government of Lao PDR signed the Paris Declaration on Aid Effectiveness. Twenty months later, at the 9th Round Table Meeting held in November 2006, 22 development partners signed the Vientiane Declaration prepared by the government. By 31 May 2007, the government and development partners will finalize an action plan and associated indicators to guide implementation and monitoring of the declaration. The declaration aims at: (i) Enabling ownership of the Government over the NSEDP process by determining the country socio-economic priorities and leading its implementation. (ii) alignment of aid to NSEDP priorities and to Government's institutions, regulations and procedures, which will require strengthening of the Government's systems and building its capacity to make effective use of them, (iii) harmonization of donor support, particularly in portfolio management, in order to make it less burdensome to the government, and (iv) the establishment of a sound monitoring and evaluation framework for ODA that enables government and partners to measure their progress towards results. The Vientiane Declaration on Aid Effectiveness is a significant step toward supporting NSEDP implementation, monitoring and evaluation.

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

PART II – STRUCTURAL REFORMS

The government continued to make progress with the overall public finance management framework, including issuing a decree on MOF restructuring and the approval of a new chart of accounts consistent with the new Budget Law and with the International Finance Statistics guidelines. Progress with State-Owned Enterprise (SOE) restructuring has been on track, however there has been a set-back in settlement of electricity arrears that delayed implementation the Energy Sector Action Plan. Restructuring of the state-owned commercial banks (SCBs) has been through enhanced monitoring of performance and a second tranche of recapitalization. The revised Governance Agreements have been finalized and approved. The new Banking Law approved by the National Assembly aims at creating a level playing-field for state-owned and private banks. Other steps were also taken to facilitate trade and investment climate, including continued work on the Enterprise Law implementation and development of the Negative List, although at a slower pace than initially envisaged in the PM Order on Enterprise Law implementation issued last year.

2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

TOWARDS DEVELOPING A MEDIUM TERM EXPENDITURE FRAMEWORK

Building on the actions taken earlier by the Government as well as the 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 Public Expenditure Management Strengthening Program (PEMSP) in early 2005. This Program focuses on the strengthening of management systems and the capacity of the Ministry of Finance and Provincial Finance Departments, through reform measures implemented annually – all of which are fully consistent with the Government's Policy Paper on Governance and the National Growth and Poverty Eradication Strategy.

As part of the PEMSP, the Government embarked on developing a medium term fiscal framework (MTFF) and a medium term expenditure framework (MTEF) for the health and education sectors. With assistance from the Asian Development Bank, the MTFF was completed in 2006. This MTFF was used in budget preparation for FY2005/6. The MTEF for education sector has been drafted and is now under discussion with relevant government stakeholders. It is expected that this document will be finalized by end-2007. At the same time the MTEF for the health sector is under preparation, with data collection and costing work underway.

This section covers developments in public expenditure policy and management over the last six month period: those concerning developments in the budget management as well as progress in implementation of the public finance management reform program (PFMSP) – the extension of the PEMSP.

During the period under review, the overall fiscal management remained compatible with macroeconomic stability. Tables 2 and 3 below show the revenue and expenditure developments between 2003/4 to 2005/6. Revenue performance since the last Monitor has been sustained and improved. It was driven by additional resource and non-resource revenues, helping to further reduce fiscal deficit in FY2006 to around 3.1 percent of GDP (excluding grants), as well as the public sector net borrowing requirements. Given this sustained revenue performance and rising foreign exchange inflows, spending pressures have increased indicating a potential vulnerability of the fiscal situation to external shocks. The balancing of resource and non-resource revenues with short-term and long-term expenditures commitments is thus becoming an important component of the fiscal policy from now on.

The PEMSP program document and work plan for FY2006/7 was adopted in February 2007 after consultations with stakeholders, including development partners. Progress with implementation of PEMSP remained on-track. Other activities took place in the area of public finance management. A new Budget Law was signed by the President in February 2007, and the Prime Ministers issued a Decree (No. 80 of February 28, 2007) on restructuring of the Ministry of Finance, so it can more effectively take on the challenge of implementation of this Budget Law. The new budget law aims to fundamentally transform the intergovernmental fiscal transfer mechanism by centralizing the treasury department, customs department, tax department, and develop a new intergovernmental fiscal transfer system. The new budget law also mandates more extensive reporting of budget execution information to the National Assembly.

Table 2. Government Revenue Performance

	est.		
	2003/04	2004/05	2005/06
	<i>(billions of Kip)</i>		
Revenue & Grants	3,103	3,812	4,627
Tax and non-tax revenue	2,821	3,390	4,266
Tax Revenue	2,328	2,794	3,641
Non-tax Revenue	493	596	625
Grants	283	421	361
	<i>(percent of GDP)</i>		
Revenue & Grants	12.1	12.9	13.8
Tax and non-tax revenue	11.0	11.4	12.7
Tax Revenue	9.1	9.4	10.8
Non-tax Revenue	1.9	2.0	1.9
Grants	1.1	1.4	1.1

Source: Preliminary staff and authorities estimates.

Table 3. Government expenditures

	est.		
	2003/04	2004/05	2005/06
	<i>(billions of Kip)</i>		
Total expenditures	3,967	4,733	5,936
Current Expenditure	1,890	2,361	3,016
O.W. Wages & Salaries	1076	1,038	1,293
Capital Expenditures and onlending	1,853	1,769	2,462
O.W. Domestically-Financed	799	446	451
Debt repayment/unallocated budg	224	602	319
	<i>(percent of total budget)</i>		
Total expenditures	100.0	100.0	100.0
Current Expenditure	47.6	49.9	50.8
O.W. Wages & Salaries	27.1	21.9	21.8
Capital Expenditures and onlending	46.7	37.4	41.5
O.W. Domestically-Financed	20.1	9.4	7.6
Debt repayment/unallocated budg	5.6	12.7	5.4
	<i>(percent of GDP)</i>		
Total expenditures	15.5	16.0	17.7
Current Expenditure	7.4	8.0	9.0
O.W. Wages & Salaries	4.2	3.5	3.8
Capital Expenditures and onlending	7.3	6.0	7.3
O.W. Domestically-Financed	3.1	1.5	1.3
Debt repayment/unallocated budg	0.9	2.0	0.9

Source: Preliminary staff and authorities estimates.

Effective implementation of these measures will require: (i) continued political support; (ii) significant resources for capacity and systems development; and (iii) management of key personnel risks. The implementation of the Government's multi-year Public Expenditure Management Strengthening Program (PEMSP) also gained momentum. In April 2007, the Minister for Finance approved a revised Chart of Accounts and Budget Nomenclature that is consistent with the International Public Sector Accounting Standards and the IMF GFS. The government plans to pilot the new chart of accounts for the education sector in FY2007/8, with a full deployment by FY2008/9. Box 1 below highlights the changes that this organic Budget Law on the intergovernmental fiscal relations framework.

Box 1: New organic Budget Law in Lao PDR – Changes to the Intergovernmental Fiscal Relations

The new Budget Law 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. In essence, the new Budget Law, together with the Public Expenditure Management Strengthening Program, aims to put in place the fundamentals of a well functioning public finance management framework.

The key elements of the new Budget Law are: (i) the centralization of the Treasury Department; (ii) the centralization of the customs and tax departments; and (iii) development of a robust revenue sharing framework that would allow aligning policies with budget allocations. If successful, these new measures will significantly improve the intergovernmental fiscal relations framework and help the government in establishing greater control on public finance resources, and align policies to the budget more clearly.

Effective implementation of the Budget Law will require significant capacity, continued political commitment, technical assistance, and a well developed and sequenced 3-5 year Budget Law Implementation Plan for centralization of the three departments, as well as developing the revenue sharing framework. In this regard 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 – 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 introduction of the VAT. Of particular importance is the effective centralization of the Treasury. Without an effective Treasury, all other reform elements may not succeed.

Implementation of the Budget Law has started with the restructuring of the Ministry of Finance via the Prime Ministerial Decree Number 80 of February 28, 2007. In this regard the Minister for Finance has constituted a high level committee within the Ministry of Finance with five subcommittees to oversee implementation of key aspects of Budget Law implementation. These are: (i) preparing the implementation decree for the Budget Law and related guidelines; (ii) designing a framework for introduction of budget norms for some sectors; (iii) developing budget execution report formats consistent with the new Budget Law; and (iv) revising the budget nomenclature. These subcommittees have started functioning. The government is also working on developing a detailed 3-5 years Budget Law implementation plan that looks at each of the main elements of the Budget Law, along with their inter-linkages.

There will be need for significant and untied financial support to government for developing information systems, human resource management skills, and related technical assistance, for which greater harmonization of donor support will be crucial.

Revision of the *chart of accounts*, which is a critical element of PEMSP, was completed in March 2007. The new chart of accounts and its functional classification of the budget are consistent with the IMF Government Finance Statistics. This chart of accounts has been adopted by the Government and is expected to be fully deployed into the FY2008/9 Budget. By this measure, the government budget classification system will allow for sector and sub-sector allocation information. In addition, the Ministry of Finance published the budget for FY2006/7 along with information on statutory funds.

(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 promote SOEs' commercial viability and reduce their burden on the budget and the SOCBs. Reforms implemented in the early 1990s reduced the SOE sector by closing down, leasing, merging and selling a large number of SOEs. The SOEs today are not only fewer in number, but more importantly, play a significantly smaller role in Lao's economy in terms of share in GDP and in total employment. Nevertheless, several large SOEs had generated a large share of the non-performing loans (NPLs) in the state-owned banking system in the second half of 1990s, which risked the stability of the banking sector and had to be ultimately funded by Government revenue.

The Government's SOE reform program, the current round initiated in 2001, had three objectives: (a) improving transparency and governance of 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 years has been uneven, but the Government has been successful in improving monitoring of the SOEs and in reducing the non-performing loans (NPLs) arising from the SOE sector – in fact a much larger share of NPLs over the last 3 years is due to the private sector. There was progress for 4 large SOEs, as well as EdL, especially in 2003-2004: in preparing detailed time-bound restructuring plans, and developing consensus on actions, in 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 do international standard audits). For all other SOEs, the Government carried out annual assessment of their financial performance and put chronic loss-makers on a restructuring list. The pace of progress during 2005 remained slow and uneven. And many SOEs are still able to take actions, on occasions, that are not consistent with the objective of commercial viability.

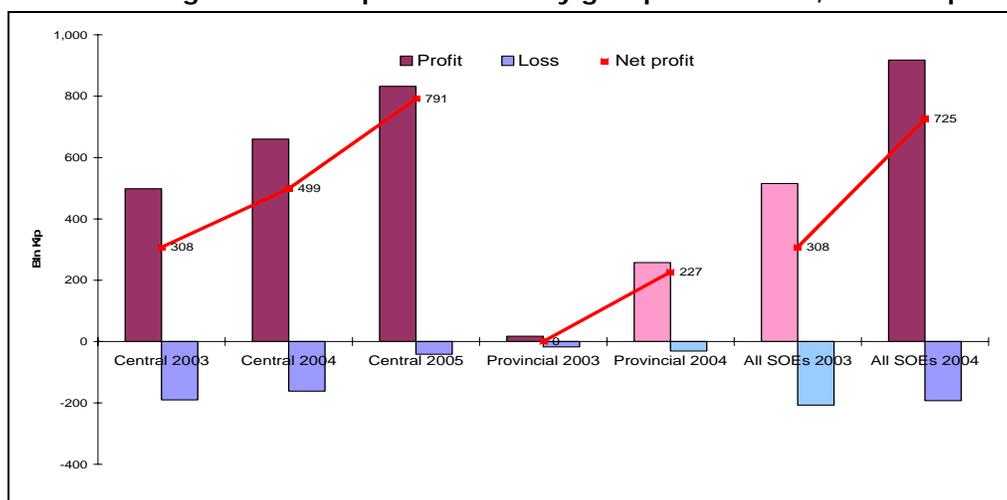
Under the new Government, the BPO under the PMO is being reformed and upgraded, to be better equipped to lead the SOE reform. It is hoped that this changes will bring more momentum to the so far slow SOE reform.

In 2006, the State Assets Management Department (MOF) finalized an assessment of SOEs for 2004. The MOF has completed the yearly SAMD performance monitoring and assessment report for central SOEs for FY2005, and the results of this assessment will be made available in the next Economic Monitor. This Monitor only hints on the 2005 data available for several companies at this time.

Overall, performance of SOEs has been improving between 2003 and 2004. Revenues increased by 20 percent in nominal terms, and aggregate net profits of SOE sector more than doubled reaching 725.3 billion kip (approximately \$70 million), see Figure 5. Total number of loss-making companies decreased from 42 to 34, accounting for 28.8 percent of total companies in 2003 and 22.8 percent in 2004. Percent of loss-making SOEs has decreased from 28.7 percent to 22.8 percent, and combined annual loss of loss-making SOEs has declined by 7,2 percent in nominal terms to 192 billion kip (in real terms this would be higher, given inflation of around 8 percent).¹ Figure 5 also shows that while performance of all SOEs improved, losses of provincial SOEs have increased, while of central SOEs decreased, and overall losses decreased only because provincial SOEs represent a small fraction of all SOEs.

¹ These figures are calculated according to the local accounting standards. International audits of the 4 SOEs of Phase-I show different figures by company; however these audits do not allow for analysis of the SOEs sectors as a whole.

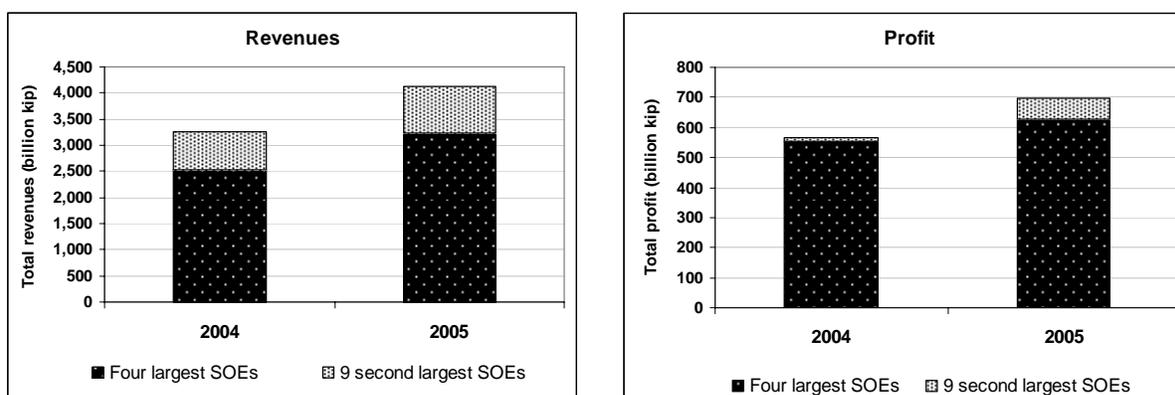
Figure 5. SOEs performance by group 2003-2004, billion kip



Source: State Assets Management Department, MoF.

In 2005, the revenue of the thirteen largest state owned companies² (including joint ventures and excluding banks) increased by 27 percent, reaching a total of 4,118 billion kip, and their profits increased by 23 percent to reach 698 billion kip. Among these, the four largest SOEs in terms of revenues³ accounted for 78 percent of the total revenue (see Figure 6).

Figure 6. Revenue and profit of largest SOEs in Lao PDR, 2004-2005



Source: State Assets Management Department, MoF.

Source: State Assets Management Department, MoF.

Later in this section we describe the ongoing process of restructuring of the SOEs in three phases. The result of this restructuring is that while combined losses of the four SOEs of Phase 1 have decreased, Lao Airlines continued to sustain large, though reduced, losses in 2004 (see Table 4). Audits of the four SOEs of Phase 1 for 2004 were conducted according to international accounting standards. Lao Airlines has made efforts to improve its financial viability, such as significantly increasing air ticket tariffs, cutting down on non-core businesses and reducing operational costs, and these efforts resulted in significant reduction of losses. It would be beneficial to continue external audits of this company, in order to show results of its efforts to improve financial viability on a regular basis.

² These include: Lao State Fuel Company, Electricite Du Laos, Capital Water Supply State Enterprise, Enterprise des Postes Lao, Lao Airlines, Enterprise of Telecommunications Lao, Agriculture Development Industry Import-Export, Lao-Asian Telecom State Enterprise (all of them fully owned by the Government); Lao Brewery, Lao Soft Drink, Lao Insurance, Lao Telecommunication Enterprise, and Lao Tobacco (all joint-ventures).

³ These include: Electricite Du Laos (EDL), Lao Telecommunications Enterprise, Lao State Fuel Company, and Lao Brewery, which are the only four companies which revenue for FY2005 exceeded the equivalent to 50 million US\$.

Table 4: Phase 1 SOEs profits and losses, 2003-2005, billion kip

	Audit		SAMD assessment*		
	2003	2004	2003	2004	2005
Lao Airlines	-69.03	-58.70	-15.67	-72.01	-37.74
BPKP	-197.50	-18.66	-2.95	1.02	n/a
Capital Nam Papa Lao	2.73	5.34	0.83	3.90	3.15
PF3	-1.20	-1.12	-0.88	-0.43	-0.62

* Note: 2005 data is preliminary. Differences in SAMD assessment and audit are due to accounting systems differences.

Preliminary data for 2005 shows that revenues of the 10 largest SOEs increased by 26 percent, and their net profit by 34 percent in nominal terms. These SOEs account for 75 percent of total revenues of the SOEs. While there are significant discrepancies between audited and non-audited data for these four SOEs (due to differences in Lao and international auditing standards), the audited figures also show significant decrease in the combined loss, as well as a positive evolution in the net profit.

The monitoring of those SOEs that have been chosen for Phase-1, Phase-2 or Phase-3 of restructuring has been ongoing. Under these restructuring plans and in the process of drafting those and collecting information, several things have been improved, and these are detailed below.

Ongoing Restructuring of 4 large SOEs (Phase-1). Independent external audits of financial accounts for FY04 were completed in 2005 for the four Phase 1 SOEs: Lao Airlines (LA), Nam Papa Lao (NPNL), Pharmaceutical Factory 3 (PF3), and Bolisat Pattana Khet Poudoi (BPKP). The main recommendation of the audits was to improve the accounting systems, and for BPKP to liquidate non-core assets, i.e. to go through financial restructuring. Other actions that are envisioned to improve accounts of SOEs are reduction of operating costs, more efficient use of working capital, and more accurate valuation of assets. BPO is following up with the SOEs on their future plans on implementing audit recommendations. At a workshop organized by the BPO held 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 initiate specific discussions with SOEs to follow up on the reports.

Development of Restructuring Plans for another 4 SOEs (Phase-2). These include the Agriculture Industry Development Import-Export State Enterprise (DAI), the Lao State Fuel Company (LSFC), the Société Lao Import-Export (SLIE), and the Road Bridge Construction Company No. 13 (CC 13). The PMO (with TA from JBIC) has completed a report of the situation of these companies (plus DAFI group), and has drafted restructuring plans for these SOEs. The process of contracting independent external auditors for these 4 SOEs and 3 of the Phase-1 SOEs (NPNL, PF3, and BPKP) for FY 2005 and 2006 has already started, and audits are expected to be completed in 2007.

Restructuring of another 5 SOEs (Phase-3). The following SOEs comprise this phase: the DAFI Group (moved from Phase-2), Lane Xang Phatthana (LXP), Lat Visahakit Sanong Vatthou Technique (LVSVT), Lat Visahakit Konchak Kasikam (LVKK) and Borisath Phalithaphanh Beton Lao (BPBL). The Restructuring Unit in the Business Promotion Office (BPO) has been appointed to oversee the preparation of restructuring plans.

During this and next fiscal years, the Government is planning to draft a Strategic Plan on SOE reform, following the 8th Party Congress Resolution, as well as to develop a strategy for BPO in leading the SOE reform. Some work has already started – for example, the new Enterprise Law includes a section in SOEs that prescribes them to be converted to limited liability companies. The Prime Minister Order on Enterprise Law implementation also prescribes actions for transforming SOEs into limited liability companies. The Strategic Plan will be drafted in a participatory way, with a wide dissemination in provinces and different sectors of economy.

Given the higher priority that is given to SOE reform in this NSEDP, the new Government that took office in June has started an upgrade of the BPO aimed at strengthening the role of the BPO and PMO in SOE restructuring process, consolidate power and raise profile of SOE reform. Due to this ongoing restructuring, staff in the BPO is being replaced and increased. This process, however, slowed down progress in SOE reform that has been planned for this year. It is hoped that after this restructuring is completed next year, the progress of SOE reform will resume and accelerate.

Tariff Policies for Infrastructure SOEs

BACKGROUND

The Government, cognizant of the need to reduce budgetary subsidies to these services and to tap into the private financing of investments, have been moving to more appropriate tariffs and prices for such services.

Most of infrastructure and services in Lao PDR -- electricity, water, and domestic air travel -- are provided by SOEs, though in telecommunications private providers have been delivering these services. There are many challenges to the financial sustainability of electricity and water utilities in Lao PDR. Tariffs have generally lagged behind inflation and remained 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 have built up to the utilities, including arrears from the government budget. Against this background, the utilities themselves have fallen behind on servicing of their debts to Government.

The Government strategy is to adjust utility tariffs to cost-recovery levels and minimize cross-subsidy among consumer categories, to reduce budgetary subsidies to the utilities, and to generate increasing private investment. There has been a good deal of Government action in this respect over the recent years. These actions relate to: (1) actual changes in tariffs and in tariff structures, and (2) announcement of guiding principles for setting of tariffs and for changes in those tariffs. In particular, tariffs were raised towards greater cost-recovery and policies and principles were announced that would guide future tariffs and tariff changes on water, telecommunications, power, and airfares, through Prime Minister's Notices. Some of these tariffs increases lagged behind others, but in electricity for example, reaching of cost recovery levels even went ahead of schedule.

Water

Background

The Government promulgated the Decree on Regulation of Urban Water Supply Operations, No.191/PM, 01/07/2005.

The Ministerial Decision on the Organization and Functions of the Water Supply Authority is currently under review by the Minister MCTPC.

Since the last issue of Economic Monitor, 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 report notes that the analysis of data has improved from previous years. The report also states that 'only two of the 17 NPSEs generated a positive (but almost zero) return on capital i.e. Champasack and Huaphanh.'⁴

The Water Supply Authority, DHUP, MCTPC will develop private sector water supply concessions in six new sites in two provinces. 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.

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.

Electricity

Background

Electricité du Lao (EdL) was particularly hard hit by the financial crisis and ensuing inflation of the late 1990's because of a currency mismatch: its revenues are largely in kip while the costs of debt servicing are

⁴ Under the current Northern and Central Region Water Supply and Sanitation Sector Project (supported through ADB Grant No. 0016-LAO, the OPEC Fund for Development Loan No 1070P, and NORAD Grant No. LAO-05/001), a further review of water tariffs will take place for the period 2008-2010.

mainly in US Dollars. A financial recovery plan was implemented during the subsequent years; the main features of this plan included conversion of government debt to equity and annual tariff adjustments of 25-50%. Consequently, 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 US dollars since 2003.

Profits from its export operations cover the losses it incurs on its domestic market. The average domestic tariff rate is about 10% below the rate required for full cost recovery. Residential and agricultural consumers are cross-subsidized by others.

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. 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; an avoidance of 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.

Government has made good progress in the implementation of the Financial Action Plan. Tariff adjustments are on track. Last tariff adjustment (January 2007) is even 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.

The progress on settlement of arrears, however, has been relatively slow. 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. Concerning arrears accumulated between October 1, 2005 to October 31, 2006, the agreement has not been reached yet on the amount.

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. At the same time, 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.

Concerning efficiency improvements, 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, an international consultant is expected to be hired and start working within the next two months.

Telecommunications

Background

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 above 18% currently.

There are five authorized enterprises to provide fixed and mobile telecommunications services in Lao PDR, although only four currently provide services. 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%). Sky Communications Lao Ltd. (SKY, GOL 30%) – will start offering mobile services by Oct 2007. The first three of them provide both fixed line and mobile services. 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, the large shareholding by Shin Corp, the planned entry of SKY, 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 entry of new firms.

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). 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. 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. However, the rates are almost identical across the companies, signaling limited competition in prices.

Overall, the Lao telecommunication sector has been growing fast. Ten years ago, the sector was dominated mainly by one player (Lao Telecom Company or LTC). Now, there are five companies (state-owned, joint-venture and private) that provide telecommunications services in Lao PDR. The Sky Telecomm Company entry in 2006 – it is the most recent addition to the sector. The number of internet service providers (ISP) has increased from two firms in 1990s, to about six players in early 2000 and now about ten ISPs, such as STEA, ETL Internet, Lao Telecom, Champalao Internet, Lanexang Internet, Sky Telecom, KPL, Unicom and MLL.com (the last two are developed and will go into operations soon).

At the same time, the number of users, especially wireless phones has gone up very rapidly. In 2004, there were about 427 thousands phone subscribers in total (337 thousands for the mobile phone). In 2005 the number rose to 759 thousands or more than double (657 thousands for the wireless) and then went over one million by September 2006 (900 thousands for the mobile phone). The number of fixed line subscribers was stable at around 90 thousands during the last few years. In addition, a new type of fixed phone services – wireless local loop (WLL) or wireless fixed phone services⁵ were introduced in Lao PDR recently by LTC with about 10 thousands users in 2005 and 20 thousands by September 2006. Sky Telecom is the second firm that will provide WLL services soon.

Recently, GOL has made progress towards reducing the costs for providing telecommunication services by moving from the satellite-based services to an optic cable system connected with various provinces inside the country and with its neighboring countries: Thailand, Vietnam and China. The recent application and establishment of the optic cable network has contributed to reduction of costs. Sharp decreases in the fees for both local and international calls were noticed in recent months as a result of that. Especially, the fee for international calls has been reduced from \$1.5-\$2 per min a few years ago to 50 cents in 2005 and less than 20 cent per min in 2006.

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

⁵ Wireless local loop services (wireless fixed phone) is a new type of fixed phones in Laos. The convenience of WLL phones is that it can be carried around within 25 KM from the residence of WLL phone users.

2.3 FINANCIAL SECTOR REFORM

Background

The Lao PDR's banking sector remains rudimentary, shallow with minor contribution to the market as compared to banking systems in more developed economies. Continuous domination of the State Owned Banks (SCBs) is evidenced by the ownership structure and controlling market share in the sector. The SCBs have recently been starting to be more market oriented. To date, non-state owned banks namely private domestic banks and foreign banks play a small role in terms of market share. Banque pour le Commerce Extérieur Lao (BCEL) retains a dominant position, accounting for approximately half of total deposits and loans in the system. The Lao Development Bank (LDB), a merged of two SCBs - Lao May Bank and Lane Xang Bank – is smaller. Common characteristics shared among the SCBs have been poor financial and operating performance with especially weak capital base, awfully high non-performing loans (NPLs) level, depressed profitability and absence of credit culture. These characteristics also applied to the Agricultural Promotion Bank (APB), the state-owned policy bank which lends mainly to rural areas.

Numerous phases of bank restructuring/ strengthening measures have been arranged by the Government of Lao PDR to improve SBCs' performance with first round of recapitalization in 1988 after the mono-bank system break-up. Then, followed by a major capital injection to clean up SCBs balance sheets in 1994 totaling up to Kip 18 billion. Despite of various efforts to trim down NPLs, they kept building up especially those lending to state owned enterprises (SOEs) and policy lending. Seven SCBs were merged into three in 1998 but difficult economic condition along with striving public investment projects has made the improvements problematical.

SCBs have always been susceptible to pressure to extend non-commercial lending which historically tends to burden loan portfolio overtime. With their lack of credit culture and capacity constraint in credit analysis, while progressively improved, SCBs remain fragile and the International Banking advisors (IBAs) placed in the two SCBs under the ADB's banking reform project are an important support in the transition. Organizational structure remains inadequate, bulky, slow and lacking checks and balances from external board members. Supervision and enforcement of prudential regulations by the Bank of Lao PDR (BOL) remains slow and limited in terms of capacity as well as tools.

Latest bank restructuring reform began after the government committed to reforming the financial sector in 2001 with the help of the ADB, World Bank, IMF, EC and bilateral donors. The restructuring of state banks, the improvement in banking regulation and supervision and the opening up of the banking system are all parts of this reform program. Although with slow progress made thus far, SCBs' financial condition remains weak but positive sign of changes in the operation of the banks as well as their performance is starting to be seen.

Financial Sector Reform

The Government informs that they have continued drafting a financial sector strategy and expects to finalize the draft in July 2007. Brainstorming sessions will be held within BOL for comments on the draft. Before the end of 2007, the team will submit a master plan to the Governor of BOL.

Prudential Regulation, Supervision, and Law on Commercial Banks

The most recent development in the financial sector is the passage of the Law on Commercial Banks at the National Assembly in December of 2006 and its promulgation in early 2007. This law was prepared with the assistance of the IFC/MPDF. The Law on Commercial Banks supports sound financial sector and banking practices, which includes creating an environment where all banks, including private, foreign and state-owned commercial banks, operate on a level playing field. The increased competition in the banking sector resulting from the promulgation of this law will result in improving the service level of the financial sector and ultimately improve access to finance for Lao businesses. Specific improvements brought about through the law include:

- Equal conditions for locally-owned, state-owned and foreign-owned banks regarding the minimum capital requirement and branch network establishment;
- Prompt corrective action for seriously undercapitalized banks;
- A clear comprehensive two-stage licensing process;
- Modern techniques for bank governance that supplement the Enterprise Law;
- Comprehensive provisions to prevent conflicts of interest;
- A broad range of enforcement actions; and
- Provisions for resolving bank insolvency.

In addition to the Law on Commercial Banks, the Bank of the Lao PDR (BOL) has revised the Presidential Decree Law on the Management of the Foreign Exchange and Precious Metals. These amendments are expected to be promulgated in the coming months. The purpose of the amendments to this Decree Law is to remove provisions that discriminate against commercial banks that are not state-owned. The amendments focus on the following:

- whereby the current decree requires foreign exchange bureaus to sell foreign exchange only to state-owned commercial banks or to BOL, these bureaus will be allowed to sell foreign exchange to any bank;
- whereby the current decree requires foreign investors in mining and other business activities involving the exploitation of natural resources to maintain accounts only at state-owned commercial banks, these mining and natural resources businesses will be allowed to use any banks' services;
- Whereby the current decree allows foreign investors to borrow from local banks only for working capital purposes, banks will be allowed to provide more loan products for foreign clients on a long-term basis giving them access to a wider range of financing from local banks.

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 International Finance Corporation will also invest in Vientiane Commercial Bank.

Having promulgated the Law on Commercial Banks, the challenge ahead is to ensure effective implementation through additional decrees and regulations, including an implementing decree, strengthened prudential regulations in the area of loan classification and provisioning, among others, and for developing guidelines and instructions for bank supervisors and inspectors.

State Commercial Banks

The SCBs, while having made some progress, have remained Government entities where incentives on performance are slim. Intervention from Government has formally lessened but remains a concern. 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 and BCEL representative will be appointed in June). The MOF Board members are expected to provide an independent perspective to the bank's management.

The data in banking sector has been difficult to obtain because of lack of accounting skills, absence of systematic record keeping, lenient bank supervision, and absence of IT systems. Since 2004, the regular annual independent IAS audits of the SCBs have slightly improved both the financial performance and the accounting reporting – by increasing awareness of the banks about the weaknesses and by trying to implement actions suggested identified by the auditors. APB has almost completed its 2004 and 2005 IAS audit which should help identify weakness and priority areas. LDB's 2005 IAS audit is finished while BCEL's audit is expected to be completed soon. The 2006 IAS audits for BCEL and LDB will commence right after Lao New Year in April with report delivery anticipated in end of first half of 2007. The timely delivery of IAS audit reports has nonetheless post a concern as the banks' management as well as the bank supervisors will not be responding to the situations / defects on-time.

As of December 2006, BCEL's overall performance⁶ improved slightly with higher than targeted net interest income ratio but high operating costs. LDB reported negative capital of 192 billion Kip in December 2006, a slight improvement from previous year. NPLs of the banks, though remains major concern, have been significantly reduced since 2005, both in absolute terms and in percentage terms, though a write-off. Although both state-owned commercial banks reported manageable new ("flow II") NPL ratios, these ratios however showed growth and new lending grew at a double digit speed. It seems that the majority of this potentially worrisome loan growth is due to the reclassification of loans in last quarter of 2006 from previously classified as deposits to other banks. While this development may raise accounting concerns, if this data is confirmed, if this lending is not concentrated or policy-driven, it could be potentially successfully sustain by the

⁶ From un-audited source, more data will be available in the next LEM.

banks. Concentration of the loan portfolio also poses concerns as top ten borrowers account for about half of the banks' loan portfolio.

The Governance Agreements revised in August 2006 require quarterly report on items related to performance. The reports were intended to be used by the banks, the supervisor (BOL), and the shareholder (MOF) for quarterly performance management against the target, to take corrective actions on off-target items, and to follow up with corrective actions. 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 recently split Agricultural Promotion Bank (APB) into a commercial bank (still called APB) and a policy bank (Nayoby Bank) in January 2007. Nayoby Bank is a non-deposit taking bank with clear mission to support government's policy. It is comprised of assets transferred from APB, both performing and non-performing. To date, the policy bank is not yet fully operational but its first assignment will be to focus on lending to the 47 poor districts. 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. The Agreement is aimed to restructure and strengthen APB to operate on a more commercial basis with its focus remaining on agriculture and forestry industry. In July 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; ANZ holds 60% stake and IFC is expected to hold a 10% share in VCB. The deal can be a start of banking sector transformation and a first step to a more leveled playing field and less barriers to entry. 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.

(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 Lao PDR accession to the ASEAN and the joining of AFTA in July 1997. 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.

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 its tariff on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008.

The Government has recently introduced a pilot of one-stop services at customs border check-points to reduce bureaucratic procedures and provide better export and import services.

In November 2004, the USA granted Lao PDR normal trade relations (NTR), bringing into effect the US Bilateral Trade Agreement (USBTA) with Lao PDR signed sometime ago. This means that Lao exporters now have direct access to the US market, instead of being restricted by prohibitive US tariffs without the NTR. In the short-run, the Lao PDR industries that stand to benefit the most from increased market access are the garment and handicraft sub-sectors.

The Government has announced its intention to enter WTO in the near future. The work on the legislation action plan and offers of goods and services are ongoing, with third working party meeting coming up in summer 2007. The commitments under US BTA agreement are closely related to the reforms that will be required for accession to the WTO, and will also be required by other WTO members when Lao PDR negotiates it in the near future.

The Government is also committed to enhancing donor harmonization and to implementing a sectoral approach in trade-related reforms stemming from the work undertaken earlier under the Integrated Framework. In September 2006, GOL at the National Validation Workshop adopted five priority areas for reforms 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

During the last six months, the Government has made some progress in the trade reform agenda, including international and regional integration.

Steps towards WTO accession

After completion of the second working party in Geneva in last November where GOL proposed its Initial Offer for Goods, the GOL/MOIC has completed the first draft of Initial Offer for Services and is currently going through internal consultations. The Initial Offer for services will be submitted to WTO by GOL in the coming months. In addition, MOIC is currently preparing answers to the third round of questions and reviewing requests received from multilateral and bilateral negotiating partners from the last second working party.

AFTA implementation

Within implementation of the AFTA commitments, implementation of AFTA CEPT Scheme continued. 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.

In early months of 2007, in parallel with other ASEAN member countries (AMC) 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.

From the recent assessment in February-March 2007, Lao PDR and Vietnam have seen an encouraging outcome from the pilot One-Stop Inspection practices⁷ 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 in its February monthly meeting has made a decision to cut down the number of agencies involved in inspection at the border checkpoints in the country. Only three agencies (so called ICQ: Immigration, Customs and Quarantine) will be allowed to do the inspection work at the checkpoints and the rest (more than ten agencies) should withdraw back to their ministries. The measure taken would increase efficiency of government services at the border checkpoints and facilitate border crossing of goods and people between Lao PDR and its neighbor countries.

In October 2006, Minister of Industry and Trade issued a notice No.1376/MOIC.DIMEX for introducing a new list of export-import related goods subject to the government's control and prohibition. Compared to the old one, the new list is more comprehensive and slightly shorter; see details in Box 2 below.

⁷ Under the pilot one-stop inspection services, all inspection work at the border checkpoint is being done jointly by both sides and each export or import from and to each of the two countries is examined just one time. Lao exports to Vietnam will be inspected jointly by officials of the two countries at Vietnam side of border and similarly exports from Vietnam are examined at Lao side. The Single Stop practices will reduce time and costs for exports and imports crossing the checkpoint.

Box 2. List of goods subject to import-export control and prohibition

(MOIC Minister's Notice No. 1376/MOIC.DIMEX dated October 10, 2006)

I. Goods subject to import-export prohibition

A. There are five categories of goods subject to import prohibition:

1. Guns, bullets, all kinds of explosives, war weapons and war vehicles
2. Opium seeds, opium flowers, cannabis
3. Dangerous pesticide
4. Game Machines that lead to bad attitudes
5. Pornography and literatures that affect on cultures and national security

B. There are nine categories of goods subject to export prohibition:

1. Guns, bullets, explosives, war weapons and war vehicles
2. Opium seeds, opium flowers, cannabis
3. Animals and animal products which are prohibited to export according to the law
4. Log, timber and Akar wood from the forest
5. All kinds of orchids from the forest and Dracaena Loureiri
6. All kinds of rattan
7. Bat manure
8. Antique objects; national treasures of historic or archaeological and cultural value and naturally national historic objects.
9. Old/antique Buddha and angel images; and religiously respectful objects

II. Goods subject to import-export approval or certificate

A. There are 25 categories of goods subject to import approval or certificate:

1. Live animal, fish and aquatic animals
2. Animal meat and other parts for human consumption: and products from animals and processed products from animal meat.
3. Milk products
4. Rice in the husk (paddy): rice
5. Cereals, products from vegetables, other processing for human consumption
6. Beverage, alcohol and orange juice
7. Food for animals
8. Cements, mortars and concretes
9. Fuel
10. Gas
11. Chemicals that are reacted to Ozone and products contained such chemical substances
12. Bio-chemical products
13. Pharmaceutical products, medicine for human and animal as well as medical equipment
14. Chemical fertilizer
15. Some types of cosmetic
16. Pesticide and toxic products for mouse and germs /microbes / bacteria
17. Sawn wood processed by sawmill company
18. Log and seedling
19. Textbooks and books
20. Rough diamonds
21. Silver and gold
22. Steel (long and round piece of steel and other shapes)
23. All kinds of vehicles and parts (except bicycles and tractors)
24. Game machine
25. Explosive substances

B. There are seven categories of goods subject to export approval or certificate

1. Live animal, fish and aquatic animals
2. Rice in the husk (paddy): rice
3. Resin and forestry products
4. Mining
5. Wood and wooden products
6. Rough diamond
7. Gold and silver

Source: MOIC

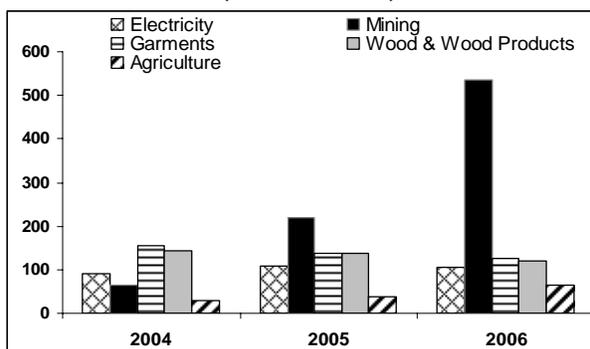
Trade Developments

In 2006, exports performed well growing by around 50 percent growth compared to 30 percent in 2005 (rising to about US\$950m from US\$660m in 2005). At the same time, imports grew steadily at around 13 percent, reaching about US\$1,260m (see Figure 7).

In 2006, as a result of this rapid export growth, trade deficit declined by more than 30 percent. Like before, a major part of the increased imports consisted of machinery and equipment and other materials for implementation of large foreign investment projects.

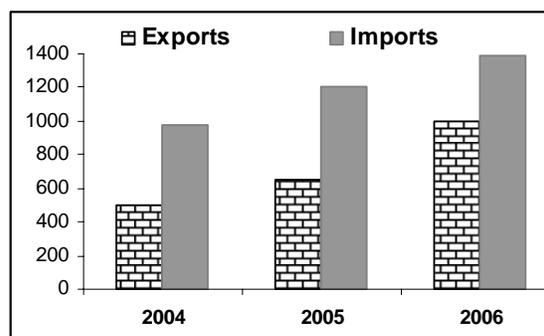
The mining sector has been the main driver for export growth in 2006. A massive expansion in copper production in Sepon Mine by LXM has been the key; the exports of copper products have increased by almost 280 percent or to more than \$400m from about US\$100m in 2005 (Figure 8). At the same time, agricultural exports have also increased by about 70 percent, to about US\$60m. Exports of other products (mainly garments, electricity and wood products) remained almost at the level of the previous year, with a declining nominal trend visible in garments and wood products since 2004. These developments reflected in the composition of exports: in 2006 mining sector accounted for a bit more than half, followed by garments, electricity and wood products (combining to a bit more than 10 percent) and agriculture (about 7 percent), see Figure 9. This is a major increase of mining sector share in exports since last year.

Figure 8. Exports of Major Commodities
(millions of US\$)



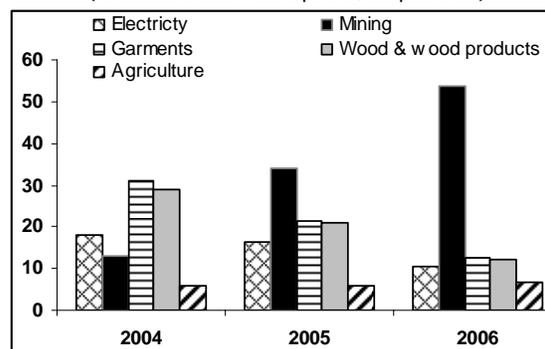
Source: Staffs estimates based on GOL data.

Figure 7. Lao Exports and Imports (mil. US\$)



Source: Staffs estimates based on authorities data.

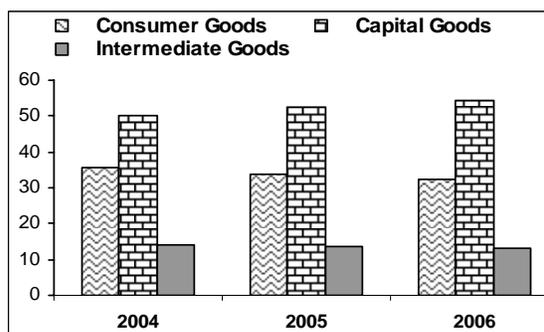
Figure 9. Contribution of Major Commodities
(as share of total exports, in percent)



Source: Staffs estimates based on GOL data.

Composition of Lao imports remained similar to previous years. Imports are classified into three main product categories: investment, intermediate, and consumption goods. Compared to other categories, share of imported investment goods (machinery and equipment) has gone up in recent years while the share of other groups has declined. The rapid expansion of large FDI projects in natural resources and other sectors has been the main reason for the change. In 2006, imported capital goods accounted for more than half of the total imports whereas consumer and intermediate goods made up around 30 and 15 percent respectively (Figure 10).

Figure 10. Imports of major commodities
(as share of total, in percent)

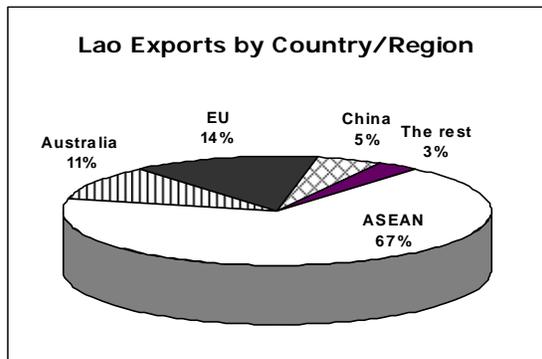


Source: Staffs estimates based on GOL data.

During the last decade, Lao PDR has been trading mostly with its Asian neighbor countries with a relatively slow expansion to other regions. In 2006, Lao PDR's exports to ASEAN made up

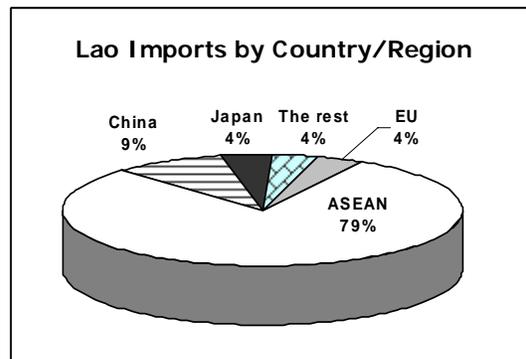
more than 60 percent (Thailand about 50 percent, Vietnam - 10 percent and Malaysia - 5 percent) and the rest to China (around 5 percent), Australia (11 percent) and EU - 14 percent (U.K. around 6 percent and Germany 3 percent), see Figure 11. Imports are also predominantly from its traditional trade partners – Asian neighboring countries, such as Thailand (about 60 percent), Vietnam (about 15 percent), China (9 percent), Japan (4 percent), EU (4 percent) and others like Korea, Taiwan, Hong Kong and Australia (see Figure 12).

Figure 11. Exports by Country/Region
(percent of total)



Source: WB staff estimates based on recent GOL (MOC) inputs

Figure 12. Imports by Country/Region
(percent of total)



Source: WB staff estimates based on recent GOL (MOC) inputs

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 program of legislation began to lay the foundation for the development of 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 of manufacturing production is in private hands and state-enterprises cover only around one percent of employment.

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

Foreign investments have been flowing into garments, wood processing, tourism, hydropower generation and mining. Between FY 2001 to 2002, foreign investment volume increased and approvals of investment increased tenfold (from US\$42m to US\$492m for the same period) while actual investment went up by 23 percent (or from US\$75 m to US\$93m). In 2003, the approved FDI declined to US\$466m but the actual investment increased to US\$155m (or by 67 percent). The growth was largely due to mining, hydropower and service sectors. The main foreign investors are from Thailand, Malaysia, Singapore, Vietnam (ASEAN), China, Australia, South Korea, Taiwan, France, the Netherlands and the United States.

In 2004, the government 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) further recognized the importance of PSD agenda and the needs for improving the business environment in the country and promoting domestic and foreign private investments to foster growths and poverty reduction and achieving the country development goals.

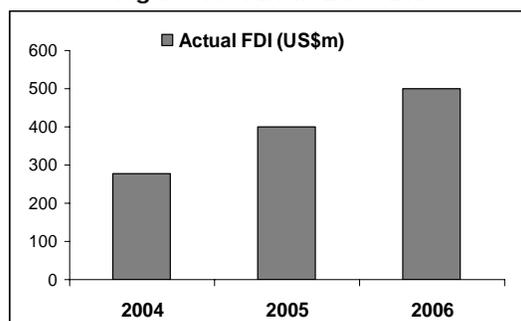
According to a recent Investment Climate Assessment that included a survey of enterprises, done by World Bank and ADB, firms in manufacturing and tourism sectors face significant constraints to investment, productivity increases, and growth. The key constraints identified by manufacturing firms are infrastructure (in particular cost and quality of electricity), regulatory burden, taxation, macroeconomic uncertainty and access and cost of financing. Firms in tourism highlighted infrastructure, inadequate skills and education of workers, taxation, macroeconomic uncertainty, and regulatory burden to be the most important impediment to doing business in their sector.

Domestic private investments and gross capital formation still remain relatively low in comparison to the neighboring countries or pre-crisis levels, as above constraints to investment and

firm expansion remain binding, especially for small firms. While foreign direct investments has been increasing (see Figure 13 and Figure 14), it is concentrated in hydropower and mining sectors, and it does not contribute to the private sector-driven, non-resource sectors growth. While some expansion has been happening in agriculture (plantations of various crops and industrial trees) and services, more needs to be done to improve the investment climate for firms in these and other sectors (especially manufacturing) to increase productivity, invest, and expand.

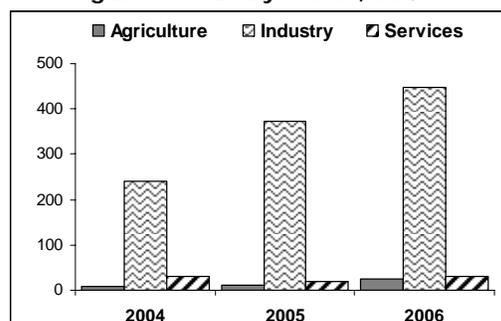
Foreign Direct Investment (FDI). In 2006, the gross FDI in Lao PDR was estimated at more than US\$500m⁸ and of which about 70 percent made up by three hydropower projects under construction, such as NT2, Nam Ngum 2 and Xekaman 3 and the rest came from key mining activities by Phubia Mining (Pan Australian) and LXM (Oxiana) as well as other processing industries and agricultural plantations (see Figure 14). The largest foreign investors in Lao PDR include Thailand, Australia, Vietnam, China, France, and Korea. In addition, new non-traditional countries started to put their investments into various sectors of economy, as described in the previous Monitor.

Figure 13. FDI in Lao PDR



Source: WB staffs estimates (preliminary for 2006)

Figure 14. FDI by sector, US\$ m



Source: WB staffs estimates (preliminary for 2006)

Implementation of the Enterprise Law. The Enterprise Law promulgated in 2005, represents a significant step forward with respect to easing private sector entry and streamlining regulations. It is however not yet effective. The PM Order No. 37/PMO (issued on October 24, 2006) introduced a time-bound action plan for this law's implementation, as well as division of responsibilities: Ministry of Industry and Commerce (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.⁹ During the last few months 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. This progress has been slow and now lags behind schedule with respect to the initial action plan.

Preparation of SME Development Strategy. 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 and is awaiting its final approval. One of the main underlining visions of the SME Development Strategy is to create a conducive business environment, enabling SMEs to increase their productivity, which in turn will create employment opportunities and improve the availability of goods and services for the people. A major emphasis of this vision is to reduce the cost of doing business by ensuring that regulatory compliance requirements are kept as simple as possible and that clear guidance is provided for SMEs to help them comply with regulations.

The proposed strategy has developed specific measures for improving the business environment through the following measures:

⁸ The net FDI was estimated at a bit more than US\$300m in 2006.

⁹ 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.

- Business registration procedures will be streamlined through effective implementation of the Enterprise Law and development of national business registry;
- The government will begin a process of reviewing licenses to measure impacts and identify ways to reduce the burden of regulation on businesses. This will reduce the cost of doing business by streamlining and removing the overly burdensome administrative requirements facing the private sector;
- The commercial legal framework will be enhanced by strengthening the capacity of the judicial system to resolve commercial disputes and enhance means of alternative dispute resolution through arbitration and mediation;
- Trade facilitation will be improved through further simplification of import and export procedures, and other measures to simplify processes. This will enhance access to inputs for manufacturers and improve access to export markets;
- Important measures aimed at improving SMEs' access to finance, include enhancing legal infrastructure to strengthen creditor security rights, strengthening the capacity and expanding outreach of the banking sector, building capacity of SME borrowers, and creating conditions, which will allow new types of financial services to emerge as alternative sources of financing for SMEs such as financial leasing, specialized financial products for SMEs, and an SME development fund;
- Domestic and foreign private investment will be facilitated through further improvement of incentive structures and streamlining investment approval procedures; and
- Measures aimed at improving SMEs' access to market information, business development services such as training, counseling, trade fairs and exhibitions will contribute to improving SMEs overall competitiveness and their ability to compete in both domestic and international markets.

Drafting of the new Accounting Law. 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. Further reviews and consultations of the draft with the Legal Committee of NA are expected to happen in coming months and the final draft will be submitted to the NA for endorsement in June 2007.

Mining Sector Developments. 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. It is government's ambition to adopt a single format of regulation and contracts which will be applicable for all operators. The regulatory revisions should be encompassed in the planned revision of the Mining Law which is scheduled for 2008. At this stage, it is unclear what will be the duration of the current moratorium.

The Lao Business Forum (LBF). 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. The half-day meeting drew more than 300 participants from the private sector, government and donor agencies. Several issues were raised by the private sector during the LBF. Among these:

- The Manufacturing Working Group asked for improved implementation of tax collection rules at the provincial level for the coffee sector. The Standing DPM instructed the Ministry of Finance and provincial governments to address the issue of taxation of Lao coffee and to implement tax collection based on prevailing laws and regulations.
- The Trade and Services Working Group commended the government for issuing revised guidelines on regulating goods in transit and asked both the government and the private sector to implement these accordingly. The government accepted the private sector's proposal to establish a committee led by the Prime Minister's Office that will study and streamline customs procedures for goods exempted from import duties.
- The Tourism Working Group raised the issue of standardizing visa-on-arrival fees rather than charging different fees based on nationality. The government acknowledged the

importance of this issue and committed to studying it further and finding an appropriate solution.

- The Energy and Mining Working Group requested the government to revise the mining law to improve transparency regarding regulation of the industry, and in particular royalty policies. The Standing DPM acknowledged the need to revise the mining law and encouraged the private sector to work with the government on revising the legal framework.
- Other issues raised by the private sector included the need to ensure better access to raw materials by the wood processing industry, the implementation of a control mechanism to prevent smuggling through the use of tax stamps, the need to improve dissemination of information regarding laws and regulations and the need for clear standards for regulating the publishing industry. The Standing DPM committed to take all the issues raised at the Forum into consideration and emphasized the necessity of continuing this constructive dialogue in the future.

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

PART III – DONOR ASSISTANCE TO THE REFORM AGENDA

Lao PDR is highly dependent on external support, some of which flows into considerable technical assistance. This Part examines technical assistance and other donor-funded support to the Government's policy reform agenda. This information has been provided by donors and has been collated by the Monitor.

Public sector governance. Governance is one of the areas that seem to receive a lot of donor assistance. Currently, there are more than 20 active projects in this category, which are supported by both multilateral and bilateral donors, such as ADB, Australia, EC, France, Japan, New Zealand, Singapore, SNV, Sweden, UNDP, and The World Bank. These projects cover various aspects of public sector governance, especially public administration, capacity building for various government agencies and National Assembly, decentralization, public financial management, as well as legal and judicial reform.

In recent years, with donor support, GOL has made some improvements in the public sector governance. However, overall it remains weak and much more effort and assistance is needed in this area in order to increase the efficiency and improve the quality, especially for public administration and public financial management (PFM). To achieve that objective, GOL has recently adopted a number of reform programs, PEMSP is one among others. By planning to adopt the new budget law (November 2006), GOL has made a strong decision to optimize revenue collection and strengthen PFM by centralizing customs, tax and treasury administrations and improving fiscal planning and budgeting processes. In this regard, donor support to the implementation of the new budget law is critical, especially through PEMSP -- a multi-year PFM reform program owned and led by GOL. Currently, several donors have expressed their interest to support the program; however, greater involvement of other donors is vital. Successful execution of the program will fundamentally improve public financial management and ensure an efficient use of government revenues and donor resources in socio-economic development: enhancing growths and reducing poverty in the country.

SOE and financial sector. The key donors in this area include ADB, IMF, WB and other like 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 reform was slow. Since Lao banking sector is very small with poor and limited services, continuous support in this area is essential to build capacity, raise quality and broaden services and improve access to credits to facilitate rapidly growing investments and trade in the country, including SMEs and micro businesses. However, much will depend on the commitment of the Government to reform this sector. *SOE reform* is another front of reform that aims at resolving NPLs of the state-owned commercial banks (SOCBs) and improving overall business performance of SOEs. Currently, only WB is providing support to the SOE restructuring agenda.

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, trade development agenda in Lao PDR is seen by GOL as the driver for growth and poverty alleviation and regional integration and WTO accession as the engine for reforms. Although there were some achievements in the past, extensive work remains to be done in the coming years, especially with regard to creating a favorable environment for enhancing trade and investment in the country and acceleration of preparation for AFTA and WTO accession.

Recently, GOL has adopted at the National Validation Workshop the DTIS and Action Matrix (AM), which articulates a comprehensive trade-related policy reform actions and programs to support its implementation. With limited capacity and resources of GOL, donor assistance in this extremely important agenda is inevitable. Although many donors providing support to various aspects of trade-related work in Lao PDR (ADB, Australia, EC, ITC, SECO, UNCTAD, UNDP, US and WB) streamlining their assistance and coordination under the IF framework and the Action Matrix is very important. Moreover, active participation and involvement and support to the implementation of the AM from various donors (both multilateral and bilateral) is critical. To pick up the momentum, some of above donors have already shown their interest and started to work with GOL and discuss the modalities for possible support on trade-related issues. Active participation from other donors is

crucial to fill the large gaps of support to the AM. Consequently, the outcomes of the future trade and trade-related reforms will very much depend on extent to which donors participate and provide support to the GOL. On the other hand, it's very important that GOL/MoIC continues to realize its ownership and leadership and coordinate well with other line ministries and other stakeholders concerned.

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. Currently, many donors, such as ADB, Germany, Japan, MPDF/IFC/WB, 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).

Tourism development is another area that received donor support. So far, there are few donors providing assistance in tourism (ADB, Australia, EC, Japan, NZAID and SNV). Among other donors, ADB is seen to be the most active player for developing tourism related infrastructures in Lao PDR (tourism sites, access roads, airports and other under Mekong Tourism Development Program). 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*. GOL has been implementing the land reform agenda since a few years ago, especially under the land titling program supported by WB and Australia. The land reform work, as compared to other areas, received huge funding from the donors (WB, Australia, Germany), however, there still need to enhance capacity of GOL to be able to absorb and accelerate the reform program. On the other hand, there's also a need to promote the use of land titles as collaterals for bank credits, simplify procedures for registering property and facilitate real-estate business in the country. Additional donor support to these matters is needed.

A description of these and other assistance projects is provided below (updated in March 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.

- **Enhancing Government Accounting Regulations and Procedures – Phase II** (\$0.62m, 2003-2006). The TA provides capacity building support to the Government for: (i) provision of reliable, timely, and relevant financial information by all ministries, agencies, and offices of government; and (ii) improved accountability of public financial resources at central and provincial governments.

- **Institutional Strengthening of the National Audit Office** (US\$0.7m, 2001-2006). The overall objective of the TA is to strengthen the state audit function in the Lao PDR by building the capacity of the National Audit Office staff. The TA specifically aims to assist the Government in upgrading NAO's capacity to effectively conduct audits on the basis of modern audit methodologies, systems, and procedures.

- **Capacity Building for Gender Mainstreaming in Agriculture** (US\$0.4m, 2005-2006). The TA aims to support the Government to (i) reduce poverty through gender mainstreaming in policies and programs to ensure equal benefits for men and women; and (ii) help build capacity of the National Commission on Advancement of Women.

- **Promoting Governance in Financial Transactions.** (US\$0.65m, co-financed by the Government of Luxembourg, 2006-2007). The TA aims to strengthen the formal and informal mechanisms for commercial dispute resolution so as to ensure predictable, transparent and speedy resolution supported, where needed, by court judgments effectively enforced. A

reliable system for commercial dispute resolution in accordance with the rule of law and a fully operationalized secured transactions registry will reduce the risk of doing business in the Lao PDR and thereby facilitate foreign direct investment and private sector development.

- **Improved Financial Management Systems** (\$0.78m, 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.

Australia/AusAID

- **Asia Regional Trafficking in Persons Project – ARTIP** (A\$21m for Lao PDR, Cambodia, Myanmar, Thailand and Indonesia 2006-2011). 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). **Regional Partnerships Scheme** component supports governance sector in areas of taxation, banking, enforcement of intellectual property rights and program and project design. **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.

European Commission (EC)

- **Support to the Public Expenditure Management Strengthening Programme** (Euro 0.15m, January-June 2007) The purpose is to strengthen the internal audit functions as well as the cash management with two Technical Assistant working with the Inspection Department and the Treasury Department of the Ministry of Finance. They will assist the MOF in the design of the new systems with the drafting of regulations, strategy and project documents for the full implementation of the strategies.

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 Lao, in partnership with a French university (Lyon III), the Lao 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\$0.975, 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

- **Legal and Judicial Development Project** (US\$ 4million, JICA; Technical Cooperation Project 2003–2007). This project aims at developing human resources and the legal and judicial infrastructure with the Ministry of Justice, People's Supreme Court and Office of Public Prosecutor General. The project will support development of legal database, statute book, law textbooks and dictionaries in civil and commercial laws, prosecutor's manual, and People's Supreme Court casebook.

- **Project for Capacity Building for Public Investment Program Management** (US\$ 3million, JICA; Technical Cooperation Project 2004-2007). This project aims at improving overall management of domestic PIP (implemented by the Lao budget) in cooperation with the Committee for Planning and Investment (CPI). 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\$ 0.3 million, JICA; Advisor and Training, 2007-2008). This technical assistance mainly aims at (1) assisting to draft regulations, guidelines, and procedures related to "Law on Local Administration" and other concerned rules, and (2) assisting PACSA to design and implement a national local administration capacity building program.

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.

Sida

- **Institutional capacity building for National Statistical Centre** – twinning cooperation between National Statistical Centre and Statistics Sweden finance by Sida since 1992. A new and final phase was concluded in July for the period 2005-2008, amounting to about US\$3.2 million USD. The project objective is: to provide users with statistical information in accordance with the Strategic plan, following the defined quality concepts. The specific outputs 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 has continued the support to Lao National Radio with the aim to reduce poverty and promote human rights through professional and interactive public radio services. The current objectives are: 1) enhance ability of management and staff of Lao 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 period starts from April 2007. The objectives are to develop productive and sustainable upland technologies and land management recommendation 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 December 2006, a total of 4,535 Lao 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 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 laws to English. In addition, 17 Lao 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 of October 2006 to February 2007, Singapore has organised training for Lao officials in basic English language, legal communication, PC maintenance and troubleshooting as well as human resource management at the Lao-Singapore Training Centre. In January 2007, Lao officials also attended an Executive Programme on Public Policy and Public Management for Senior CLMV Officials that was held in Singapore. From 26 February - 23 March 2007, a course in English language training will be held in Savannakhet for officials from the southern provinces in Lao PDR.

- **Singapore Cooperation Programme** (Ongoing since 1992). This is Singapore's technical assistance programme. More than 48,000 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, to be started in 2006, has the medium term goal of building pro-poor and gender sensitive advocacy, planning and resource allocation skills within the Lao 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 other Donors

- ***Governance and Public Administration Reform*** - GPAR Central Phase II. (Total US\$2.5m: UNDP-US\$0.92m and SDC-US\$1.35 2001-2007). During the first project had aimed at generating a high degree of understanding and commitment to the reform concept at senior political and bureaucratic levels of the government. Phase II focuses on strengthening the government's capacity to implement GPAR by supporting: (1) Strategic Management of the GPAR Program, (2) Capacity Development of the Cabinet of the Prime Minister's Office, (3) Priority Civil Service Reforms, (4) Implementation of the Decentralization Policy, (5) Targeted Central and Local Administrative Improvements, and (6) Priority GPAR Related Training.

- ***The GPAR: 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\$3 million; UNCDF US\$1.9, UNDP US\$0.5, 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

- ***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.

- **Development of Lao PDR Legal Sector Reform Program** (US\$0.47m: UNDP – US\$0.27m and Sida - US\$0.20m, 2004-2006). This Preparatory Assistance (PA) project has intended to initiate a long-term programme of support to the government for legal sector reform. It has led to the development of a long-term, strategic vision for legal sector reform (Legal Sector Master Plan 2006-2020), which is being finalized and is expected to be approved by the GoL during the last quarter of 2006. A follow-up phase of this project is currently under development and will focus on implementation of some of the priority reforms outlined in the Master Plan, in cooperation with the Ministry of Justice, Ministry of Public Security, Supreme People's Court, and Office of the Supreme Prosecutor, among others.

- **Enhancing Access to Justice** (US\$0.54m: UNDP – US\$0.41m and DGTTF - US\$0.13m, 2004–2007). The government intends to make the Lao Bar Association (LBA); presently supervised by the Ministry of Justice, an independent institution. This project aims to assist the government in i) strengthening the Lao Bar Association to function eventually as a professional, independent institution; and (ii) creating an enabling environment for the implementation of a legal aid system in Laos. The LBA phase II project 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 contribute to the following outcomes i) improved functioning of the LBA as a professional, self-regulatory organisation; ii) improved legal knowledge, skills and professionalism of members of the LBA; iii) improved awareness of the role and function of the LBA; iv) increase in the number of practicing lawyers and the LBA membership; and v) improved access to justice for the poor and vulnerable, particularly women and children. In addition, UNDP is in discussions with the Ministry of Justice and other legal institutions to shortly commence support to the Implementation of the Legal Sector Master Plan, together with other development partners.

- **Support for Implementation of the Sixth Five-Year Plan (2006-2010)** (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 CPI, 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 CPI is the implementing partner for the project.

- **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, CPI 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

- **Support to PEMSP and Budget Law Implementation** (through the Financial Management Capacity Building Project, US\$11 million, 2002-2011) The project has been operational and supported three main areas of reform: Financial and banking sector, SOE, and

public financial management capacity building. It is currently being topped up and additional grant will assist the GOL in the implementation of the new Budget Law. Specific areas of interventions to be financed by the 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** (A programmatic operation of about US\$8-10m per year during 2005-2007, co-financed by JBIC by approx \$4.2 in 2006, and expected to continue during 2008-2011 with similar yearly financing and other donors joining). 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, infrastructure, and revenue management. The first PRSO of US\$10m (US\$4.5m credit and US\$5.5m grants) to GOL was approved by the Board of the World Bank (on March 31, 2005) and the second PRSO in the amount of \$8 million in grants was approved by the WB Board in April 2006. PRSO3 has become not only an important instrument in supporting policy reform in Lao PDR, but also a good vehicle for increasing donor coordination and alignment with country systems; it is expected to be considered by the World Bank Board in June 2007, and is proposed in the amount of \$10 million in grants. A new programmatic operation with similar financing arrangements is being planned for 2008-2011.

3.2 REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

ADB

- **Banking Sector Reform Program** (US\$15m, 2002-2005). 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 Governance in Banks Program** (US\$4m, 2002-2005). The project intends to support the Government's to restructure and reform commercial banking, by engaging two resident international banking advisors (IBAs) for 3 years for each of the two state-owned commercial banks (SOCBs). An information technology (IT) upgrade will support these new governance structures by enabling improved financial reporting to management, shareholders, and the supervisory authority.

- **Strengthening Corporate Governance and Management of SOCBs II** (US\$0.9m, 2002-2006). 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, 2005-2007). 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 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'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). 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). 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; 2005-2007). This technical cooperation provides an advisor to Fiscal Policy Department, MOF, and a series of counter-part training in Japan in order to improve financial statistics and fiscal policy of GoL.

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.

World Bank

- **Poverty Reduction Support Operations - PRSO** (A programmatic operation of about US\$8-10m per year during 2005-2007, co-financed by JBIC by approx \$4.2 in 2006, and expected to continue during 2008-2011 with similar yearly financing and other donors joining). 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, infrastructure, and revenue management. The first PRSO of US\$10m (US\$4.5m credit and US\$5.5m grants) to GOL was approved by the Board of the World Bank (on March 31, 2005) and the second PRSO in the amount of \$8 million in grants was approved by the WB Board in April 2006. PRSO3 has become not only an important instrument in supporting policy reform in Lao PDR, but also a good vehicle for increasing donor coordination and alignment with country systems; it is expected to be considered by the World Bank Board in June 2007, and is proposed in the amount of \$10 million in grants. A new programmatic operation with similar financing arrangements is being planned for 2008-2011.

- **Financial Management Capacity Building Credit – FMCBC** (US\$11m, 2002-2011). The FMCBC aims to provide a comprehensive and strategic framework for the capacity building activities to improve the financial management in Laos 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.

- **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.

3.3 TRADE REFORM

ADB

- **Integrating the Poor in Regional Trade through Standard-Setting for Private Sector Development - Phase II** (US\$0.70 million, 2004-2005). The TA will work with Government to implement the national standardization framework with STEA and develop a consistent methodology and procedures on standards development across line ministries in coordination with private sector stakeholders.

- **Regional TA on Implementing the GMS Agreement on Facilitation of Cross-Border Transport of Goods and People** (Phase II, proposed amount US\$0.8m, 2006-2007): 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.

- **Regional TA: Support Development of the Action Plan on Trade & Investment Facilitation in GMS** (\$0.15m, 2005-?). The TA aims to assist the GMS countries in formulating an action plan on trade and investment facilitation that would strengthen competitiveness, complement trade liberalization initiatives (including AFTA, etc.), and promote GMS as an integrated production base.

Australia/AusAID

- **Support for the Role of Integrated Framework Facilitator** (A\$1.5 million, 2006-08). Australia has been invited by the Lao Government to serve in the role of IF Facilitator to support Lao 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: Laos, 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.

- **Singapore-Australia Trilateral Cooperation Program (SATCP)** (2004 -2007). The program covers 8 countries in the ASEAN region. The selection of Laos as the first trilateral partner under the program reflects the commitment of both Australia and Singapore to providing quality technical assistance and capacity building for Laos officials, particularly in relation to important trade and WTO related matters and economic integration.

- **Sanitary and Phyto-Sanitary Capacity Building Project - SPS CBP** (A\$3.9m, 3 years (2004-06). The program is for support of 8 ASEAN focal countries: Philippines, Indonesia, Malaysia, Thailand, Vietnam, Cambodia, Laos 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.

- **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 Laos 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 phyto-sanitary measures and land transport policies.

European Commission (EC)

- **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.

- **Asia Trust Fund**. Building research and advisory capacity of the Economic Research Institute for Trade, Ministry of Industry and Commerce. (Euro 0.19m, April 2006 to February 2007). The project is to upgrade the research and advisory capacity of Economic Research Institute for Trade (ERIT), Ministry of Commerce in support of Lao PDR's further integration into the world

economy by: (i) enhancing knowledge on international trade (ii) developing trade-related research and analytical skills necessary for in-depth analysis on international trade issues; (iii) familiarizing with international practices of commercial law reforms so as to effectively implement newly promulgated commercial laws.

- **EC-Lao PDR Project on Standards, Quality and Conformity Assessment** (Euro 0.5 m, 2005-2006). The overall objective of the action is to enhance the capacity of Lao PDR to integrate into regional and international trade system. The project will support the national capacity in the area of setting standards, metrology, accreditation and conformity assessments.

- **EC-ASEAN Intellectual Property Rights Co-operation Programme ALA/96/25** (Euro 0.5 million 2005-2006 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.

- **AsiaInvest - Upgrading Lao companies of the wood-processing industry for better prospects on the European Market** (Euro 0.2m 2005-2007). The project aims at enhancing production and marketing skills of Lao companies of the wood-processing industry with regard to better prospects on the European and other foreign markets. Target groups are enterprises of this sector in the regions of Vientiane, Luang Prabang and Pakse and local trainers and consultants to be trained during the project.

- **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 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.

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.

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, service quality management, trade negotiation strategies and export competitiveness strategies. Lao officials also attended other trade related courses conducted in Singapore.

UNDP

- **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 Laos 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 phyto-sanitary measures and land transport policies.

- **Enabling more effective Integration of Lao PDR into the ASEAN** Phase II (UNDP – US\$0.57m, 2006-2009). This project will build on Laos' 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.

- **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. The fourth NHDR which will be started this year will deal with the issue of labour force, its multiple aspects and challenges for human development in Lao PDR.

United States (USA)

- **Public Sector Governance: SEA CLIR by Booz Allen Hamilton** (US\$1m in FY 2005 and \$400k in FY 2006). This is the Southeast Asia Commercial Law and Trade Diagnostic, carried out by Booz Allen. The Laos report was recently completed. The project assesses the legal framework, implementing institutions, supporting institutions, and social dynamics surrounding key areas of commercial law and trade, including: Bankruptcy, Collateral, Commercial Dispute Resolution, Company Law, Competition Policy, Contracts, Court Administration, Financial Crimes, Flows of Goods and Services, Flows of People and Money, Foreign Direct Investment, International Trade, Real Property.

- **ASEAN Technical Assistance and Training Facility by Nathan Associates** (US\$281k in FY 2006). Nathan Associates implements the Facility to provide demand-driven policy studies, assessments, trainings, and technical assistance through seven activity "streams": Sector Integration (including textiles, information and communications technology (ICT), and healthcare), Investment, Customs and Trade Facilitation, Trade in Services, Trade Negotiations, Trade-Related Coordination and Dialogue, and Strengthened Secretariat Resources. Each activity stream responds to one or more specific ASEAN-US Enhanced Partnership objectives. Specific to Laos, the Facility will address Trade Capacity Building. Technical assistance and training in Laos supports the Vientiane Action Program (VAP) goal of narrowing the development gap between ASEAN member states.

- **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.

World Bank

- **Diagnostic Trade and Integration Study (DTIS)** to be completed in the context of the Integrated Framework (IF) exercise led by GOL/WB and other core IF agencies and IFF. The main diagnostic trade and integration study (DTIS) mission took place during February-March and a follow up mission and workshops in July and November 2005. The DTIS consultation and action matrix formulation workshops were held jointly with GOL/MOC in Vientiane, Luang Prabang and Champasack in March 2006. The DTIS report was completed by mid-2006, followed by the pre-National Validation Workshop on September 11 and the National Workshop on 12, 2006. The dissemination workshops in provinces are tentatively planned for May-July 2007. A new WB Trade Facilitation Project to support the AM is currently under the preparation stage.

- **Customs and Trade Facilitation Project** (US\$4 million, 2007-2011). The project currently under preparation will be effective in January 2008 and will support Lao PDR customs in facilitation cross-border trade and reducing the number of barriers, modernization and streamlining of customs procedures through implementation of the computerized system ASYCUDA, and change management.

3.4 PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM

PRIVATE SECTOR DEVELOPMENT

ADB

- **Investment Climate and Productivity Study** (US\$0.15m, 2003-2006). 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.

Germany (GTZ)

- **Human Resource Development for Market Economy (HRDME) Program** (Phase 1: June 2004 – May 2007: USD 5.5 m; 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 partner organizations:

- ☞ Committee for Planning and Investment (CPI).
- ☞ Ministry of Education (MoE)
- ☞ Small and Medium-scale Enterprise Promotion and Development Office (SMEPDO)/ Ministry of Industry and Commerce (MOIC)
- ☞ Lao 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 Laos 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 Book (see UNCTAD below), 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 thorough 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.

MPDF (IFC/WBG)

- **Mekong Private Sector Development Facility** (MPDF). IFC-MPDF is a multi-donor funded initiative set up by the International Finance Corporation in 1997 in Lao PDR (also in Vietnam and Cambodia) to reduce poverty through sustainable private sector development. The Facility works through six interrelated programs that seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments. One of the main activities of the Lao program is the Lao Business Forum, which provides a platform for effective dialogue and consultation between the business community and the government. IFC-MPDF acts as the Secretariat of the LBF with the role of ensuring that issues raised are appropriately identified, broadly representative, adequately researched and are presented in a constructive, solutions-oriented manner. The LBF operates on three levels: 1) private sector working group meetings, 2) meetings between working groups and the government inter-ministerial team (IMT), and 3) semi-annual Business Forums, chaired by the Deputy Prime Minister.

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)

- **The Promotion of Organic Farming and Marketing in Lao PDR** (US\$0.70m, 2003-2006). The project aims at promoting organic farming through creating enabling conditions for organic production, transfer of know-how to farmers, and facilitating access to domestic, regional and international markets.

- **Small-scale Agro-enterprise Development in Rural Uplands of Lao PDR** (Xieng Khuang and Luang Prabang) and Vietnam (US\$2.60m, 2003-2006).

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.

- **Promoting Competition and Consumer Protection in the Mekong Region (Vietnam, Lao and Cambodia)** (USD 0.40m, 2004-2006). The Project aims at strengthening the competition culture in Vietnam, Laos and Cambodia, with a special focus on Vietnam. This will be achieved by enhancing the analysis capacity of research institutes; developing advocacy skills of the civil society; and improving training facility in the countries.

UNCTAD (funded by Japan/JBIC)

- Strengthening the investment climate: **Blue Book on Best Practices in Investment Promotion and Facilitation** (for Lao PDR and Cambodia, 2004-2006). The "Blue Book" for Lao PDR and Cambodia will contain concrete and measurable activities for the two governments in achieving best-practices in the following three broad areas: 1) Regulatory framework for investment; 2) Investment promotion strategy; 3) institutions.

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 Laos, 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 (\$0.9 m)
- Private Sector Development and SME promotion (\$0.9 m)
- Manufacturing productivity and environmental soundness (\$2.5 m)
- Market access, investment and trade facilitation (\$1.25 m)

World Bank

- **Investment Climate Assessment**. Joint report with ADB. The ICA is based on a survey of firms in six provinces and the capital, which was completed in October 2005. The firms were surveyed to identify the main constraints to doing business in manufacturing and tourism. The final report will be available in May 2007.

TOURISM

ADB

- **GMS: Mekong Tourism Development Project** (US\$10.9m, 2002-2007). The Project will 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: Preventing the Sexual Exploitation of Children in ASEAN Tourism Destinations through Community and Professional Education** (A\$0.6 m, 2005-06). The aim of this project is to establish Child Wise Tourism principles in the work of the National Tourism Administrations (NTAs) so that they work regionally in the prevention of child sex tourism. Participating countries include Thailand, Vietnam, Cambodia, the Philippines, Indonesia, Lao PDR, and Burma.

European Commission

- **Asia Invest-Marketing Responsible Tourism in Laos** (Euro 0.3m, April 2006 to 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.

Japan (JBIC)

- **Luang Prabang Tourism Sector Development Project** (US\$0.6m, April 2006 to March 2007). This study aims at sustainable tourism development in Luang Prabang, a major tourist destination in Lao PDR. It is expected that the study will reveal bottlenecks for sustainable tourism development, including conservation of heritage area, and prescribe how to address them.

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.

- **Village Assisted Mine Clearance in the Lao PDR** (US\$0.48m, Phase 1-2, 2004-2005). This project follows a pilot in Xieng Khouang province that established the merit of active village participation in UXO clearance in Lao. The project is scaling out the use of village-assisted clearance (VAC) in clearing both heritage sites and agricultural land and plans to demonstrate the merit of UXO clearance as an integral part of development planning and implementation. An operational partnership between MAG, UNESCO, CARE and the National Tourism Authority provides the means by which new agricultural, eco-tourism, and socio-economic development initiatives will be pursued.

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 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 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.

3.5 SEMINARS AND STUDIES BY DONORS IN REFORM AREAS

3.5.1 List of key training workshops conducted in late 2006 and early 2007

Topic of training/seminars	Organized by	Date	Venue
Governance			
Various training courses for Lao officials on (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.	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 prosecutors and legal professionals on American prosecutorial system	US Embassy	Nov 8-9, 2006	VTE
Workshop on "Civil Law" and "Commercial Law" Textbook	JICA and MOJ	Aug 2006 – May 2007	VTE & Provinces
Workshop on "Prosecutor's Manual"	JICA and Office of Supreme People's Prosecutor	May 2006 – May 2007	VTE & Provinces
Workshop on "Judgment Writing Manual"	JICA and People's Supreme Court	Oct. 2006 – May 2007	VTE & Provinces
Economic and sector Focus			
Provincial Public-Private Dialogue Sessions & Follow-up Workshops	GOL/CPI, 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
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 parliamentarians	IMF, UNDP, EC and the Lao NA	Oct 4-6, 2006	VTE
PIP (Public Investment Program) Seminar	JICA and GOL/CPI	2006 – 2007	VTE, provinces
Trade and Private Sector Development			
Second Lao Business Forum	GOL/CPI, 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 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
<i>Customs Valuation Workshop.</i>	Australia, GOL/MOF	Aug 2006	VTE
<i>ASEAN Rules of Origin Workshop.</i>	Australia, GOL/MoIC	Jul 2006	VTE
<i>Workshop on SPS Awareness in Plant Health.</i>	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/CPI, 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
<i>Governance</i>			
Access to Justice Survey	UNDP	2006	2007
<i>Economic and Sector Focus</i>			
The Lao Economic Monitor (issued twice a year: Spring and Autumn)	WB	2003	Ongoing
Enterprise Survey 2007 on business performance & environment	GTZ (HRDME), CPI, NERI, SMEPDO	2007	May 2007
FDI & SME Linkages in Lao PDR: Two Case studies	GTZ (HRDME), CPI, 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 Poverty Assessment	NSC, ADB, Sida and WB	2005	Oct-Nov 2006
Public expenditure review (PER)—2005/2006 (A joint report by WB, GOL, IMF, ADB, EU, and Sida)	WB with GOL and other donors	2005	Nov 2006
Public expenditure tracking survey (PETS)	WB	2005	Dec 2006
Study on Aid, Economic Growth, Inequality and Poverty Reduction	NERI/UNDP	2005	2006
Rural and Agriculture Sector Issues Paper	WB	2005	2006
<i>Trade and Private Sector Development</i>			
AFTA Opportunities & Challenges for Businesses in Lao PDR	GTZ (HRDME), CPI, 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
Initiative to Promote Investment in Agro-industry Sector	JBIC	Feb 2006	2007
Luang Prabang Tourism Sector Development study	JBIC	Apr 2006	Mar 2007
Study on the Tax and Tax Administrative Burden on small and medium enterprises (SMEs) in Laos	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

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 upgrade 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 priorities 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.

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.

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.

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 Lao Aviation;
- 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, DAF1, 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 (NPNL), 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.

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 regulation 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 January 2003 and started working since end February 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.17 and 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.
- BFSB 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 Prime Minister's 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.

Box 5. GOL Actions towards Trade Promotion

Measures taken in 2003

- Coverage of import and export restrictions is significant¹⁰. 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 tractors¹¹; 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 drinks (including beer) and animal medicines; seeds; Videos, movies, gambling machines, satellite TV receivers and telecommunications equipment; Sporting guns.

¹⁰ 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 to be relatively uncontroversial bans related to public safety and morals plus those related to logging & raw timber exports.

¹¹ Licensing of vehicles is now used only mainly as a registration device as importers can import as many as they want

- 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 ¹².
- 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.
- 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.

¹² 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 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.

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 policy¹³ 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).

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.

¹³ 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 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.



THE WORLD BANK OFFICE, VIENTIANE

Patou Xay, Nehru Road
Vientiane, Lao PDR.
Tel: (856-21) 414209, 450010-11
Fax: (856-21) 414210
www.worldbank.org/lao



THE WORLD BANK

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
Tel: (202) 473-1653
Fax: (202) 522-1560/1557
www.worldbank.org