



LAO PEOPLE'S DEMOCRATIC REPUBLIC

Peace Independence Democracy Unity Prosperity

**NATIONAL
SOCIO-ECONOMIC
DEVELOPMENT PLAN
(2006-2010)**

Committee for Planning and Investment

Vientiane, October 2006

ABBREVIATIONS

ADB	Asian Development Bank
AFTA	Asian Free Trade Agreement
AIDS	Acquired Immune Deficiency Syndrome
APB	Agriculture Promotion Bank
ASEAN	Association of South East Asian Nations
BOL	Bank of Lao PDR
BOT	Build-Operate and Transfer
CAMELs	Capital, Assets, Management, Earnings and Liquidity (Ratios)
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEPT	Common Effective Preferential Tariff
CPI	Committee for Planning and Investment
CSA	Civil Society Association
DAC	Development Assistance Committee (OECD)
DGP	Department of General Planning
DH	District Hospital
ECCE	Early Childhood Care and Education
EMIS	Education Management Information System
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GSP	General System of Preferences
ha	hectare
HC	Health Centre
HIV	Human Immunodeficiency Virus
HRD	Human Resources Development
ICOR	Incremental Capital Output Ratio
ICT	Information and Communication Technology
IDA	International Development Association
IEC	Information, Education and Communication
INGO	International Non-Governmental Organisation

ISO	International Standards Organization
IT	Information Technology
ITEC	International Trade Exhibition Centre
km	Kilometre
kv	Kilo Volts
kwh	Kilo Watt Hour
LAN	Local Area Network
LDC	Least Developed Country
LECS	Lao Expenditure and Consumption Survey
LSE	Lower Secondary Education
LWU	Lao Women's Union
M2	Broad Money
MAF	Ministry of Agriculture and Forestry
MCH	Maternal and Child Health
MDG	Millennium Development Goal
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MOJ	Ministry of Justice
MRE	Mine Risk Education
MW	Mega Watts
NAFES	National Agriculture and Forestry Extension Service
NAFRI	National Agriculture and Forestry Research Institute
NBCA	National Bio-Conservation Area
NCAW	National Commission for the Advancement of Women
NEPF	National Environment Protection Fund
NFE	Non-Formal Education
NGPES	National Growth and Poverty Eradication Strategy
NIC	Newly Industrialised Country
NPV	Net Present Value
NSC	National Statistics Centre
NSEDP	National Socio Economic Development Plan
NTFP	Non-Timber Forest Product
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development

OSPP	Office of the Supreme Public Prosecutor
PEMSP	Public Expenditure Management Strengthening Programme
PER	Public Expenditure Review
PHC	Primary Health Care
PIP	Public Investment Programme
PRF	Poverty Reduction Fund
PSC	Public Supreme Court
SARS	Systematic Acute Respiratory Syndrome
SEA Games	South East Asian Games
SME	Small and Medium Enterprise
SNA	Standard National Accounts
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
SSO	Social Security Organisation
STI	Sexually Transmitted Infection
STEA	Science, Technology and Environment Agency
TBA	Traditional Birth Attendant
UXO	Unexploded Ordinance
VAP	Vientiane Action Plan
VAT	Value Added Tax
VDRF	Village Drug Revolving Fund
VHC	Village Health Committee
VHV	Village Health Volunteer
WAN	Wide Area Network

TABLE OF CONTENT

EXECUTIVE SUMMARY	1
INTRODUCTION.....	11
PART I: IMPLEMENTATION OF THE FIFTH NATIONAL SOCIO ECONOMIC DEVELOPMENT PLAN (2001 – 2005).....	11
I. FIFTH PLAN GOALS AND TARGETS.....	13
A. Context	13
B. Goals and Targets.....	13
1. <i>Goals</i>	<i>13</i>
2. <i>Targets.....</i>	<i>13</i>
II. FIFTH PLAN ACHIEVEMENTS.....	16
A. Economic Growth.....	16
B. Sectoral Performance.....	16
1. <i>Agriculture Sector</i>	<i>17</i>
2. <i>Industry and Construction Sector.....</i>	<i>20</i>
3. <i>Services Sector.....</i>	<i>21</i>
C. Other Macroeconomic Achievements.....	23
1. <i>Investment.....</i>	<i>23</i>
2. <i>National Budget.....</i>	<i>24</i>
3. <i>Monetary Management.....</i>	<i>25</i>
D. Structural Changes	26
1. <i>Economic Sectors</i>	<i>26</i>
2. <i>Private Sector</i>	<i>27</i>
3. <i>Employment</i>	<i>27</i>
E. Foreign Trade	27
1. <i>Exports.....</i>	<i>27</i>
2. <i>Imports.....</i>	<i>28</i>
3. <i>Trade Balance</i>	<i>29</i>
F. Official Development Assistance	29
G. Foreign Direct Investment.....	29
H. Social Development	30
1. <i>Education, Training and Human Resources Development.....</i>	<i>30</i>
2. <i>Health.....</i>	<i>31</i>
3. <i>Labour and Employment</i>	<i>33</i>
4. <i>Other Social Sectors</i>	<i>33</i>
5. <i>Poverty Reduction</i>	<i>35</i>
III. CONSTRAINTS AND LIMITATIONS	Error! Bookmark not defined.

A. Economic Growth	.....Error! Bookmark not defined.
1. Agriculture Sector	.....<i>Error! Bookmark not defined.</i>
2. Industry and Construction Sector	.....<i>Error! Bookmark not defined.</i>
3. Services Sector	.....<i>Error! Bookmark not defined.</i>
4. Infrastructure Use	.....<i>Error! Bookmark not defined.</i>
B. Monetary and Fiscal Management	.....Error! Bookmark not defined.
1. Savings and Investment	.....<i>Error! Bookmark not defined.</i>
2. National Budget	.....<i>Error! Bookmark not defined.</i>
3. Financial Sector	.....<i>Error! Bookmark not defined.</i>
4. Economic Base	.....<i>Error! Bookmark not defined.</i>
C. Structural Adjustment of the Economy	.....Error! Bookmark not defined.
1. Structure of the Economy	.....<i>Error! Bookmark not defined.</i>
2. Geographic (Spatial) Structure	.....<i>Error! Bookmark not defined.</i>
3. Labour Force	.....<i>Error! Bookmark not defined.</i>
D. External Economic Relations	.....Error! Bookmark not defined.
1. Foreign Trade	.....<i>Error! Bookmark not defined.</i>
2. Foreign Investment	.....<i>Error! Bookmark not defined.</i>
3. Official Development Assistance (ODA)	.....<i>Error! Bookmark not defined.</i>
E. Social Development	.....Error! Bookmark not defined.
1. Education and Training	.....<i>Error! Bookmark not defined.</i>
2. Health	.....<i>Error! Bookmark not defined.</i>
3. Employment	.....<i>Error! Bookmark not defined.</i>
4. Public Sector Salaries	.....<i>Error! Bookmark not defined.</i>
5. Poverty Reduction	.....<i>Error! Bookmark not defined.</i>
6. Social Security	.....<i>Error! Bookmark not defined.</i>
F. Limitations and Causes	.....Error! Bookmark not defined.
1. Limitations	.....<i>Error! Bookmark not defined.</i>
2. Causes	.....<i>Error! Bookmark not defined.</i>
IV. LESSONS LEARNED	.....Error! Bookmark not defined.
A. Implementation Focus	.....Error! Bookmark not defined.
B. Sustainable Development	.....Error! Bookmark not defined.
C. Resource Mobilization	.....Error! Bookmark not defined.
D. Economic Restructuring	.....Error! Bookmark not defined.
E. Integration and Autonomy	.....Error! Bookmark not defined.
F. Simultaneous Economic and Social Development	.....Error! Bookmark not defined.
G. Public Administration Reform	.....Error! Bookmark not defined.
PART II: SIXTH FIVE-YEAR NATIONAL SOCIO ECONOMIC DEVELOPMENT PLAN (2006-2010)	.....Error! Bookmark not defined.
V. OVERALL DEVELOPMENT STRATEGY	.....Error! Bookmark not defined.
A. Development Context	.....Error! Bookmark not defined.

1. International Context.....	<i>Error! Bookmark not defined.</i>
2. Domestic Context.....	<i>Error! Bookmark not defined.</i>
B. Overall Development Strategy	<i>Error! Bookmark not defined.</i>
1. Background	<i>Error! Bookmark not defined.</i>
2. Development Directions	<i>Error! Bookmark not defined.</i>
3. Overall Goals of the Plan.....	<i>Error! Bookmark not defined.</i>
C. Plan Targets and Tasks.....	<i>Error! Bookmark not defined.</i>
1. Targets.....	<i>Error! Bookmark not defined.</i>
2. Tasks & Economic Balance.....	<i>Error! Bookmark not defined.</i>
VI. MACRO DIRECTIONS.....	<i>Error! Bookmark not defined.</i>
A. Introduction	<i>Error! Bookmark not defined.</i>
B. Monetary Policy.....	<i>Error! Bookmark not defined.</i>
C. Financial Sector	<i>Error! Bookmark not defined.</i>
1. Banking Sector.....	<i>Error! Bookmark not defined.</i>
2. Insurance.....	<i>Error! Bookmark not defined.</i>
3. Information and Coordination.....	<i>Error! Bookmark not defined.</i>
4. Legal Framework	<i>Error! Bookmark not defined.</i>
5. Financial Market Development	<i>Error! Bookmark not defined.</i>
D. Fiscal Management	<i>Error! Bookmark not defined.</i>
1. Fiscal Management	<i>Error! Bookmark not defined.</i>
2. Some Important Initiatives in 2005/06.....	<i>Error! Bookmark not defined.</i>
E. Real Estate (Property) Market Development	<i>Error! Bookmark not defined.</i>
F. Trade Strategies and Regional and Global Integration	<i>Error! Bookmark not defined.</i>
1. Exports.....	<i>Error! Bookmark not defined.</i>
2. Imports.....	<i>Error! Bookmark not defined.</i>
3. Trade Balance	<i>Error! Bookmark not defined.</i>
4. Trade Development Strategies.....	<i>Error! Bookmark not defined.</i>
5. Regional and Global Integration.....	<i>Error! Bookmark not defined.</i>
G. Labour and Employment.....	<i>Error! Bookmark not defined.</i>
1. Labour Force and Employment	<i>Error! Bookmark not defined.</i>
2. Exports of Labour.....	<i>Error! Bookmark not defined.</i>
3. Labour Imports.....	<i>Error! Bookmark not defined.</i>
4. Labour Market Development.....	<i>Error! Bookmark not defined.</i>
H. Role of the State in the Market Economy.....	<i>Error! Bookmark not defined.</i>
VII. THEMATIC AND CROSS-CUTTING AREAS.....	<i>Error! Bookmark not defined.</i>
A. Poverty Reduction.....	<i>Error! Bookmark not defined.</i>
1. Poverty Situation	<i>Error! Bookmark not defined.</i>
2. Poverty Reduction Strategy	<i>Error! Bookmark not defined.</i>
3. Targets.....	<i>Error! Bookmark not defined.</i>

B. Poverty Focussed National Programmes	Error! Bookmark not defined.
1. <i>Drug Control</i>	<i>Error! Bookmark not defined.</i>
2. <i>Unexploded Ordnance (UXO)</i>	<i>Error! Bookmark not defined.</i>
3. <i>HIV/AIDS</i>	<i>Error! Bookmark not defined.</i>
C. Gender Equality	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Specific Strategies</i>	<i>Error! Bookmark not defined.</i>
3. <i>Targets</i>	<i>Error! Bookmark not defined.</i>
D. Governance	Error! Bookmark not defined.
1. <i>Governance Strategies</i>	<i>Error! Bookmark not defined.</i>
2. <i>Targets</i>	<i>Error! Bookmark not defined.</i>
E. Natural Resources and the Environment	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Specific Measures</i>	<i>Error! Bookmark not defined.</i>
3. <i>Targets</i>	<i>Error! Bookmark not defined.</i>
F. Private Sector Development	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Specific Strategies</i>	<i>Error! Bookmark not defined.</i>
3. <i>Foreign-Invested Sectors</i>	<i>Error! Bookmark not defined.</i>
4. <i>Targets</i>	<i>Error! Bookmark not defined.</i>
G. Science and Technology	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Specific Strategies</i>	<i>Error! Bookmark not defined.</i>
3. <i>Technology Market Development</i>	<i>Error! Bookmark not defined.</i>
VIII. SECTORAL AND REGIONAL DEVELOPMENT	Error! Bookmark not defined.
A. General Guidelines	Error! Bookmark not defined.
B. Agriculture Development	Error! Bookmark not defined.
1. <i>Objectives</i>	<i>Error! Bookmark not defined.</i>
C. Rural Development	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Specific Strategies</i>	<i>Error! Bookmark not defined.</i>
D. Education	Error! Bookmark not defined.
1. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
2. <i>Sub-Sector Strategies</i>	<i>Error! Bookmark not defined.</i>
3. <i>Targets</i>	<i>Error! Bookmark not defined.</i>
E. Health	Error! Bookmark not defined.
1. <i>Current Situation</i>	<i>Error! Bookmark not defined.</i>
2. <i>Overall Strategy</i>	<i>Error! Bookmark not defined.</i>
3. <i>Population Development Policy</i>	<i>Error! Bookmark not defined.</i>

4.	Priority Programmes and Strategies	<i>Error! Bookmark not defined.</i>
5.	Targets.....	<i>Error! Bookmark not defined.</i>
F.	Industry and Minerals	Error! Bookmark not defined.
1.	Overall Strategy.....	<i>Error! Bookmark not defined.</i>
2.	Sub-Sector Strategies.....	<i>Error! Bookmark not defined.</i>
3.	Targets.....	<i>Error! Bookmark not defined.</i>
G.	Infrastructure	Error! Bookmark not defined.
1.	Overall Strategy.....	<i>Error! Bookmark not defined.</i>
2.	Sub-Sector Strategies.....	<i>Error! Bookmark not defined.</i>
3.	Training	<i>Error! Bookmark not defined.</i>
4.	Investment Allocation.....	<i>Error! Bookmark not defined.</i>
5.	Investment Management.....	<i>Error! Bookmark not defined.</i>
6.	Targets.....	<i>Error! Bookmark not defined.</i>
H.	Services Including Tourism.....	Error! Bookmark not defined.
1.	Overall strategy.....	<i>Error! Bookmark not defined.</i>
2.	Sub-Sector Strategies.....	<i>Error! Bookmark not defined.</i>
3.	Targets.....	<i>Error! Bookmark not defined.</i>
I.	Regional Development	Error! Bookmark not defined.
1.	Targets for Regional Socio Economic Development	<i>Error! Bookmark not defined.</i>
2.	General Development Guidelines.....	<i>Error! Bookmark not defined.</i>
3.	Development Strategies for Specific Regions	<i>Error! Bookmark not defined.</i>
4.	Targets and Methods for Development.....	<i>Error! Bookmark not defined.</i>
PART III: IMPLEMENTATION MEASURES AND MONITORING AND EVALUATION ARRANGEMENTS.....		Error! Bookmark not defined.
IX.	Implementation Measures.....	Error! Bookmark not defined.
A.	Introduction	Error! Bookmark not defined.
B.	Key Measures.....	Error! Bookmark not defined.
1.	Implementation of the Market Economy:.....	<i>Error! Bookmark not defined.</i>
2.	Mobilization of Investment and Improving Productivity:	<i>Error! Bookmark not defined.</i>
3.	Fiscal Management:	<i>Error! Bookmark not defined.</i>
4.	Monetary Management:	<i>Error! Bookmark not defined.</i>
5.	Improve Effectiveness of State Organizations:.....	<i>Error! Bookmark not defined.</i>
C.	Other Implementation Actions.....	Error! Bookmark not defined.
X.	Monitoring and Evaluation Arrangements	Error! Bookmark not defined.
A.	Introduction	Error! Bookmark not defined.
B.	Existing Arrangements	Error! Bookmark not defined.
C.	Implementation Monitoring and Evaluation	Error! Bookmark not defined.
D.	Impact Monitoring and Evaluation	Error! Bookmark not defined.
E.	Strengthening the Statistical System	Error! Bookmark not defined.

XI. Plan Formulation Process Error! Bookmark not defined.

XII. The Situation in 2010 Error! Bookmark not defined.

A. The EconomyError! Bookmark not defined.

B. The SocietyError! Bookmark not defined.

C. The Roles of Lao PDR in the international settingError! Bookmark not defined.

D. Conclusion.....Error! Bookmark not defined.

Tables

Table I-1 Fifth Five-Year Socio Economic Development Plan (2001-2005) Targets 14

Table II-1 Fifth Five-Year Socio Economic Development Plan (2001-2005): Targets & Achievements 37

Table V-1 Projected Structure of the Economy (2006-2010) (percent)..... **Error! Bookmark not defined.**

Table V-2 Sixth Plan Targets and Fifth Plan Targets and Achievements..... **Error! Bookmark not defined.**

Table V-3 Sixth Plan Resource Envelope..... **Error! Bookmark not defined.**

Table V-4 Sixth Plan Resource Allocations by Sectors..... **Error! Bookmark not defined.**

Table V-5 State Budget during Sixth Plan Period (2006-2010) **Error! Bookmark not defined.**

Table VIII-1 Regional GDP Growth Targets and Investment Needs **Error! Bookmark not defined.**

EXECUTIVE SUMMARY

Part I. Implementation of the Fifth National Socio-Economic Development Plan (2001-2005)

Macroeconomic Achievements: During the five-year period 2001-05, the Lao economy maintained rapid and sustained expansion with GDP growing at about 6.24 percent per annum, which is an increase of about 0.3 percentage point over the average growth rate of the previous five-year period (1996-2000). The total (public and private) investment mobilized rose significantly from 21.3 percent of GDP in 2001 to about 29 percent in 2005, and averaged at 27.8 percent for the five-year period. However, budget revenue mobilization remained at around 13.6 percent of GDP. The monetary balance was positive and improved significantly; which contributed to the control and reduction of inflation and the stabilization of the exchange rate for the Kip. The aggregate value of exports over 2001-2005 was estimated at USD 1.83 billion, achieving an average growth rate of 7 percent per year. The total value of imports over the five-year period amounted to USD 2.86 billion with an average annual increase of 4.9 percent. The ratio of the trade deficit to GDP declined from 11.1 percent in 2001 to 8 percent in 2005. The ODA disbursements shown in the budget totalled USD 935 million, averaging at USD 187 million per year. The Lao PDR received 585 FDI projects with a total committed capital of USD 2.8 billion, and USD 1.07 billion in disbursements during the period. About 505,000 new jobs were created in the five-year period surpassing the target of 500,000 jobs.

Sectoral Performance: The economic sectors have undergone significant restructuring. This restructuring has been concentrated on production capacities, quality and efficiency, thus contributing to economic growth and meeting the initial requirements for international integration. The Government has concentrated on the development of agricultural production, to reorient the agriculture sector from semi-subsistence and subsistence to commercial production to ensure the enhanced supply of raw materials to the processing industries, meeting the growing domestic requirements for agricultural products, and rapidly expanding agricultural exports. Consequently, the value of production in the agriculture sector has increased on average by 3.4 percent per year. Industrial production has grown at a steady and rapid pace, with the sector-wide average growth reaching 11.3 percent per year. In the industrial sector, several significant activities have been implemented during the five-year period, a number of industrial zones were established and there has been a general increase in the number of new factories and companies created. The services sector has taken positive steps forward to better meet the requirements of production, trading and daily life of the citizens. Over the five-year period 2001-2005, the growth in services averaged at 6.7 percent per year.

Social Development: Advances have been made in developing the country's education and health care systems; increasing the quantity and quality of education facilities, and improving literacy rates; and expanding and improving primary health care and lowering mortality rates. The infrastructure has been further developed; improving people's access to basic services and connecting more rural areas to urban centres. The country maintained a low prevalence

rate of HIV/AIDS; and recently reached its goal of eliminating opium cultivation. The poverty reduction initiatives were implemented aggressively in the localities (provinces, districts and villages) with the participation of the poor people, especially in some of the poorest districts and about 137,500 poor families graduated from poverty.

Lessons Learned: Based on the actual conditions of completed and ongoing activities during the five-year period 2001-2005, a number of lessons have been learned, including the following. There is a need for increased focus on the implementation of the restructuring policy, with the decisions expeditiously translated into detailed, complete and consistent programmes. Regulations, policy guidelines and laws have to be fully enforced. More decentralization has to take place. A sound understanding of and commitment to sustainable development and proper approaches to achieve it are required. The sustainable development must align economic growth with social and cultural development, social equity, environmental conservation, overall human development and democracy. Domestic resource mobilization has to be increased. It is necessary to further develop human capacities and the resources of the multi-ethnic people to efficiently exploit and utilise the country's natural resources; ensure the protection of private property rights and develop a supportive enabling environment for business. It is necessary to promote further economic restructuring, accompanied by the development of the domestic market. International integration and the opening of the external market, whilst retaining ownership, are requisite objectives. Continued reform of the public administration, including central and local organisations and the civil service, consistent with the country's socio-economic development level is essential.

Part II. SIXTH NATIONAL SOCIO ECONOMIC DEVELOPMENT PLAN (2006-2010)

Overall Development Strategy

The Sixth National Socio Economic Development Plan (2006-2010) plays a crucial role in achieving the overall targets outlined in the Ten-Year Socio-Economic Development Strategy (2001-2010) approved by the 7th Party Congress (2001) and the directions set by the 8th Party Congress (2006). The overall directions for the Sixth Plan include transforming the multi-sectoral economy from uneven performance to fast and stable development within the market mechanism guided by the State. It will require the mobilization of all resources including a renewed drive for mobilization of more internal resources to take full advantage of the opportunities. The main focus areas are: promoting economic development, with human development as a key vehicle; increasing competitiveness and utilizing comparative advantages to implement effectively international economic commitments in the framework of the ASEAN and other bilateral and multilateral commitments, including WTO; and strengthening the positive linkages between economic growth and social development, in addressing social issues such as poverty and other social evils, and help keep the socio-political situation stable. The indicators and targets for the Plan coincide with most of those for the Millennium Development Goals (MDGs) and the Brussels Programme of Action for the Least Developed Countries (2001-2010).

Economic Balance: The basic principles of the Sixth Plan (2006-2010) and the fundamental economic balance are based on the development guidelines identified by the resolution of the 7th Party congress in the Ten-Year Socio-Economic Development Strategy (2001-2010); the expectation of capabilities of development activities in the Sixth Plan (2006-2010); the various abundant development potentials that can be exploited and utilised to support economic balance in the future; and economic integration and globalisation. The annual average growth rate of GDP should reach 7.5-8 percent, with agriculture and forestry increasing by 3-3.4 percent, industry by 13-14 percent and services by 7.5-8 percent. By 2010, the agricultural sector is projected to account for about 36 percent of GDP, with industry about 36.4 percent and services about 27.6 percent. The GDP per capita is projected to reach USD 827.

Labour and Employment Balance: Various measures will be implemented to upgrade the quality and productivity of the labour force. By 2010, approximately 3,366,000 people will be able to have access to employment opportunities. It is expected that in the period 2006-2010, the number of people who need employment (new entrants) will be 1,217 million and that the new employment opportunities will be able to meet the demand of 652,000 people. The sectoral share of employment of the agriculture and forestry sector will drop to 73.9 percent in 2010, while that of industry and handicrafts sector will increase to 9.3 percent and of service sector to 16.9 percent. The unemployment rate will reduce to 3.8 percent in 2010. The focus will be on providing additional employment and developing human resources, particularly developing professional skills for the industrial sector. The export of labour will be supported, with a target of about 5,000 workers working abroad each year. A policy on the use of foreign labour will be formulated to attract people with professional skills that are not available in the Lao PDR. The Labour Code will be improved to ensure the balance of benefits for both employees and employers.

Investment Balance: In order to ensure the economic growth of 7.5-8 percent, a total investment of 73.9 thousand billion Kip is projected to be required to support the Sixth Plan (2006-2010), which is equivalent to about 32 percent of GDP. The investment would increase at about 19.3 percent per year, from 29 percent of GDP in 2005 to 34.3 percent in 2010. Of the total, about 23.1 thousand billion Kip would come from the Government budget accounting for 31.25 percent of the total investment in the society. The investment from the private sector, both domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75 percent of total investment. The ODA is projected to average at about USD 357 million per year over the five-year period 2006-2010; with about USD 600 million of foreign direct investment (FDI) will be mobilized each year. The sectoral shares of investment are projected at 16 percent for the agriculture sector, and 42 percent each for the industry and services sectors.

Budget Balance: The overall objective is to implement a policy of sound State Budget striving for higher revenues and prudent expenditures. The total expected budget revenue of the state for the five years will reach approximately 34,600 billion kip, growing at 19.9 percent per year on average. The state budget revenue collection is expected to increase from 14 percent of GDP in 2005 to 16.2 percent in 2010, or on average at 14.8 percent of GDP over the five-year period. The budget revenue collection performance will be increased and budget expenditures will be allocated more appropriately. The total expenditure for the five-

year period will be about 49,600 billion kip (21.4 percent of GDP), growing at 17.8 percent per year. The budget deficit over the Sixth Plan period will be about 15,000 billion kip or 6.07 percent of GDP. The budget deficit will decrease gradually from 7.3 percent in 2004 to 5.8 percent in 2010 and will be financed mainly through foreign concessionary loans and the mobilization of domestic investments to a certain extent. The State Budget Law will be amended.

Export-Import Balance: The objectives are to develop the export of high value-added products with a stable growth rate, whilst reducing the amount of raw materials exported. The total exports in the five years would reach USD 3.48 billion, with an annual average growth rate of 18.1 percent. New technologies and skilled labour are required to upgrade the quality and quantity of exports. One of the main objectives is the expansion and diversification of markets, while strengthening the present position in existing markets. On the imports side, the guiding principle is to prioritize imports of materials and equipment for industrialization to enhance the competitiveness of locally produced commodities in the domestic market. The import turn-over in the five year period is estimated to be USD 4.5 billion, increasing on average at 8.8 percent per annum. In 2010 the imports should reach USD 1,045 million. The trade deficit in the five-year period 2006-2010 is projected to be about USD 1.02 billion, which is equivalent to 29.3 percent of total export turn-over, or 5 percent of GDP.

Monetary Balance: The overall objective of monetary policy in the five-year period 2006-2010 is to control inflation and keep it below 7 percent per annum; and to ensure the safety of the banking and credit organizations, in order to stabilize the investment environment and strengthen economic development. The rate of inflation will average at about 6-6.5 percent per year. Money supply and open market operations will be regulated to smooth out unduly large fluctuations in the Baht and the US Dollar flows. The capabilities of the BOL will be improved and the BOL will establish Units in charge of managing available capital in order to define and assess market demand, and adjust the purchase of fixed duration bonds and Government bills. The Government will issue relevant regulations to utilize capital replenishment tools, which will help supplement the other tools such as the key interest rates of BOL. The overuse of the US Dollar in the economy will be limited and foreign exchange will be controlled to accumulate more foreign reserves. The confidence in the Kip is growing, as the Kip remains relatively stable. Higher denomination Kip notes (50,000 and 100,000) will be issued. The target is to decrease the share of foreign currency in the total money supply from 65 percent in 2005 to 30 percent in 2010.

Role of the State in the Market Economy: In the five-year period 2006-2010, it is necessary to ensure that the Government agencies effectively implement the tasks, including the promotion of the market economy. The Government's role is to strengthen the effective coordination between the market economic mechanisms and the macroeconomic management. This is to be done through the process of reform and improvement of concerned sectors such as taxes, banking and the promotion of investment, to facilitate the promotion of the market's role. The socialist state, through the role of macro management, should effectively use the economic tools and coordinate with the management and legal tools, especially the tools for prioritization of the national planning and programming, the formulation of mid-term and long-term development strategies, and the development of the

growth potential of the economic system, in order to guide the development of the market economy. The economic laws should be firmly enforced ensuring transparency.

Thematic and Cross-Cutting Areas

Poverty Reduction: The various indicators have all shown commendable results on poverty reduction since 1990. The impressive declining trend in poverty incidence, if continued, would enable the country to achieve the MDG target of reducing the proportion of people below the poverty line by half by 2015. The Government is committed to poverty eradication and the promotion of equity among different groups of the Lao multi-ethnic population. The overall strategy is to assist the poor to help themselves to fully utilise their labour and other modest resources, improve their situation and exit poverty. The Government will help enlarge the economic opportunities, enable the provision of basic social and essential economic services, ensure security and facilitate the participation and empowerment of the poor in economic, social, political and other arenas to reduce poverty on a sustainable basis. Proposed initiatives within the Plan include the rehabilitation and construction of infrastructure, the development of agricultural production and SMEs, the extension of credit to the poor, and the provision and effective use of basic social services. Additionally, it is important to provide a secure environment by ensuring the security of people and property against violence, destruction, theft and unexploded ordnance (UXO), food insecurity and protection against unforeseen calamities such as natural disasters. Also, targeted interventions are to be implemented in the 47 poorest and 25 poor districts to achieve more rapid reduction in poverty. Decentralisation and the two-way flow of information will be enhanced, to enable the poor to actively participate.

Poverty Focussed National Programmes; The Lao PDR has maintained a low prevalence rate of HIV/AIDS as compared to that in the neighbouring countries by raising awareness and monitoring the situation. The National Strategy and Action Plan on HIV/AIDS/STI for 2006-2010 have been formulated, with the goal of maintaining this low prevalence. The Lao PDR has recently reached its goal of eliminating opium cultivation in the country, with the number of opium addicts also being reduced by a third. The national strategy for the post-opium scenario is being put into action to sustain opium eradication, provide alternative livelihoods, cease drug trafficking, rehabilitate addicts, and increase awareness of the negative effects of drug addiction. The UXO contamination poses an ongoing development challenge to the Lao PDR. Community education, victim assistance and UXO survey and clearance operations are priority activities for the Government. The foundations of the “National Regulatory Authority” (NRA) for the UXO sector in the Lao PDR were established and the Authority has begun to function effectively.

Gender Equality: The Government is taking concrete steps to achieve gender equality in all spheres by: supporting poor women’s economic activities; improving their access to basic services such as education and health, and productive resources, such as extension services; involving them in local decision-making; and generally increasing their involvement and taking their needs into account in developing policies and plans. It is planned that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village levels. More training will be provided to promote the role of women in the agricultural and business sectors and their access to credit will be improved.

Women's legal awareness and access to justice will be improved and the number of women in leadership positions is being increased.

Governance: The Government intends to build an effective and ethical public service, to ensure that all Lao people can fully enjoy their constitutional rights by being educated and well informed, to establish a credible legal framework and to have accountable and transparent financial management practices. The governance programme aims to improve four main areas: public service improvement, people's participation, rule of law and sound financial management. The capacities and ethics of civil servants will be further upgraded, along with systems such as the intranet, and working conditions. It is important that the public's confidence in and knowledge of the legal system and access to it is increased. Additionally, accountable and transparent financial management practices are necessary to achieve macro-economic stability. The Government plans to make the budgetary framework more supportive of private sector growth and investment.

Natural Resources and the Environment: The rich natural resources of the Lao PDR play a vital role in the country's socio-economic development. It is therefore important that they are protected and exploited in a sustainable manner. The Government plans to prepare and implement the national strategic plan on the environment. This entails improving environmental management, plans, policies and laws; increasing environmental education and awareness; establishing mechanisms and promoting investment; and improving international coordination and cooperation. More surveys and information need to be collected to further assess the situation and to develop relevant plans and policies. Industries will have to reduce and minimize pollution.

Private Sector Development: A more favourable environment for the promotion of the private sector and the attraction of FDI will be created by primarily improving the legal system and maintaining socio-economic stability. Additionally, existing regulations, laws and procedures will be modified and the administrative application system for business activities of enterprises will be reformed to accelerate the process of setting up a business. A favourable environment will be created to attract FDI by accelerating investment procedures and developing a technically educated workforce. The policies on investment priorities will be reviewed including the regulations on granting investment permits especially land acquisition fees, transport and telecommunications service charges.

Science and Technology: The Government aims to create a technologically advanced nation with a highly skilled workforce. Upgrading the science and technology sector will reduce disparities between the Lao PDR and other countries in the region and facilitate economic integration. Importance is to be given to research in basic sciences for technological development, the exploitation of natural resources and the protection of the environment. Scientific and technological research and teaching will be upgraded along with the facilities, laboratories and equipment. There will be dissemination of basic information about intellectual property rights and copyright registration for people and organisations to register their science-technology products for industrial (patent) rights.

Sectoral and Regional Development

The sector-specific development guidelines for the five-year period 2006-2010 will be to develop sectors and regions aiming to strengthen the nation's advantages and ability to compete in the international arena, by developing and utilising the country's natural and human resources.

Agriculture, Forestry and Fisheries: The vision is to transform the agriculture sector into a thriving sector based on innovative technologies and practices in high value-added production and processing, catering to domestic and world markets. The rural economies will be diversified and farming methods and infrastructure upgraded. A detailed development structure will be established for prioritised plants and domestic animals in the direction of large-scale production. The Ministry of Agriculture and Forestry (MAF) will implement four strategic programmes on the sustainable use of natural resources, land allocation, food security, support services and others. The Government will actively seek and promote markets in order to improve the sale conditions for farm products. Significant changes will be made in the management and exploitation of forestry products through limiting logging and planting forests for economic and protection purposes. The Government will continue to invest in the introduction and breeding of high value aquatic products.

Rural Development: The vision is to reduce the disparities between rural areas and urban centres by enhancing the transport and communications networks and improving the living conditions of the rural people, especially those in remote areas. The overall strategy is to create employment, increase incomes and restructure the rural economies. The Government will support the development of small-scale industries. Industrial centres in the three regions will be developed. Investments will be made in the development of the border economic zones to provide services for import-export, tourism and border transport. The largest health programme in the next five years is the expansion of the rural health service network. Additionally, the education of the rural population will be improved by increasing access to quality education.

Education: The education system will be strengthened as the cornerstone of a human resources development strategy focussed increasing labour productivity. In order to improve the education of the whole population, it is necessary to concentrate on equitable access, quality, relevance and management of the education system. It will implement the principle of compulsory primary education and the development of education at all levels, paying particular attention to the ethnic areas and the disadvantaged groups. The Education for All programme will be the main vehicle for increasing primary and lower secondary school participation and completion and reducing adult illiteracy. In the five-year period 2006-2010, it is hoped that illiteracy will be completely abolished and that peoples' access to and attendance at quality primary, secondary, vocational and tertiary schools and universities will increase. More schools will be upgraded, constructed, and supplied with appropriate equipment and qualified teachers.

Health: The main objectives in improving the health status of the population of the Lao PDR are to reduce urban-rural health differentials, lower mother and child mortality rates, raise life expectancy and reduce the spread of communicable diseases. Prevention and increased treatment are the key methods in the health sector to achieve these objectives. Most of the priority programmes in the health sector are focussed on primary health care covering both preventive and curative aspects. People will be taught how to lead more hygienic lifestyles and encouraged to get vaccinated and seek hospital/clinic treatment when sick. The number of health centres and properly qualified medical staff will be increased as well as the quantity and quality of equipment and medicines. Access to the health service that is fair and equal will be increased.

Industry and Minerals: The orientation of industrial development in the five-year period 2006-2010 is to give priority to developing the electricity and processing industries catering to domestic consumption and exports; while continuing to promote mining, and developing selectively some industries serving agricultural and rural economic development. Attempts will be made to bring new power stations into operation to boost the electricity exports and to meet the needs of domestic production and consumption. Investment in mining and regional industries will be encouraged. The idea is to concentrate investment in innovative technologies, modernising the manufacturing foundations, reducing imports, and gradually increasing exports. The distribution modes of some products will be improved to increase the transaction ability and commodity circulation.

Infrastructure: The objective for infrastructure is to continue to maintain, improve and develop the socio-economic infrastructure with focus on such areas as inland, international, river and air transport; telecommunications; schools; and health centres to create favourable conditions for development. The necessary infrastructure will be provided to allow people in all parts of the country to easily participate in development activities and interact with businesses and markets outside the country. Integrated inland infrastructure will be further developed, with particular emphasis on major roads. New airports will be built and the current ones upgraded. A number of river routes and main river port systems will be improved and constructed. The construction of a railway system will commence. The distribution of sanitised water to the population and irrigation systems will be increased.

Services including Tourism: In the five-year period 2006-2010, the quality of service activities will be upgraded to meet the demands of production, consumption and exports, contributing to economic growth, the expansion of employment and the improvement of the people's welfare. The Government will concentrate on developing services with a quick turnover of capital and those that generate sufficient revenues to the state budget. It will promote the effective and convenient exchange and flow of commodities in and outside the country. The human capacities and infrastructure of basic necessary services such as information and telecommunication systems, transport, trade, and banking will be upgraded. More sports facilities will be made available to athletes, which coincide with the preparations for the 25th SEA Games.

Regional Development: The long-term vision is to achieve balance between the three regions and among provinces within the regions, building upon the natural and human resources in each area. The Government aims to address the disparities among and within

regions through mobilising funds from all economic sectors and directing the funds for each region and the local authorities to follow-up on these. The potentials of each region in areas such as agriculture, forestry, hydropower, mining and tourism will be utilised in developing the regions equitably and boosting economic growth. The Government will continue investing in socio-economic infrastructure, expanding the production of goods, providing health and education facilities for the people and reducing poverty.

Part III. IMPLEMENTATION MEASURES AND MONITORING AND EVALUATION ARRANGEMENTS

Implementation Measures: The implementation measures for the Sixth Plan (2006-2010) are formulated within the framework of the Ten-Year Socio-Economic Development Strategy (2001-2010). The focus will be on the mechanisms supporting monetary stability, sound management of finances, production of improved quality commodities, and effectively strengthening the economic structures. The Government will consistently manage the multi-sectoral market economy with a socialist orientation, establishing different types of markets, creating favourable conditions for enterprises and people to do business, and improving the environment for investment attraction. The Government will formulate an action programme to fully utilize expertise and knowledge of the Party, all the people, and all Government Officials to fully achieve the set targets and missions of the Sixth Plan. The public administration will be reformed and upgraded, enhancing abilities to implement the Sixth Plan fully. The Lao PDR will look to other more developed countries, particularly those in the region, to learn from their experiences. The State policies will be implemented in a transparent manner with the aim to increase income and effectively utilize the budget by lowering expenditure. In coordination with the Ministry of Finance and the Bank of Lao PDR (BOL), the Committee for Planning and Investment (CPI) will lead and facilitate the conditions for growth in production and foreign direct investment; and the improvement of financial management.

Monitoring and Evaluation Arrangements: All levels of the Government from the centre to the localities have been and are involved in the monitoring and evaluation process. Monitoring can be seen at two broad levels: (i) implementation monitoring carried out by CPI, and (ii) impact monitoring undertaken by the National Statistics Centre (NSC). An important purpose of monitoring implementation is to utilise the information to improve future implementation. Information compiled on implementing entities should be used through appropriate assistance from the stakeholders to overcome constraints. The CPI is responsible for the coordination and formulation of the National Socio Economic Development Plans (NSEDPs) and the Public Investment Programmes (PIPs).

The Department of General Planning (DGP) in CPI has been coordinating the activities among the ministries and sectors to prepare the monthly, periodic and annual progress reports on the implementation of the Plan. Albeit the quality of the information provided is often incomplete due to limited capacities and inadequate communications systems. The Government is taking steps to build upon the existing system, at the CPI, in the line ministries, agencies and the localities. The results of the exercise will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010). The NSC has begun to take steps to establish a uniform and consistent national database on economic, social and

governance indicators. Many of these indicators are incorporated in the LaoInfo 4.1. Simultaneously, work on the compilation of the National Accounts using the 1993 Standard National Accounts (1993 SNA) system is continuing. The Government will create a strong statistical system to collect and provide the necessary information for the formulation of policies, strategies and plans, and monitor and assess progress and outcomes and impacts.

Plan Formulation Process: The formulation of the Sixth Five-Year Plan (2006-2010) commenced in February 2004, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), and priorities for the Sixth Plan. The central Ministries in the four priority sectors undertook to cost the priority programmes in the NGPES (and the NSEDP) for the five-year period 2006-2010. The emerging priorities and suggestions formed the basis for preparation of the preliminary draft of the Sixth Plan. The Government shared the main ideas in the preliminary draft with the partners in development, domestic and foreign private investors, Lao researchers, mass organizations and the localities. The feedback received was incorporated into the Plan. The four priority sector Ministries continued the work on the refinement of the costs for the priority programmes taking into account the focal area development programmes identified for the ten pilot districts. The results have been shared with the Central Committee of the Party in September 2005 and the National Assembly in October 2005.

In January 2006, the draft Sixth Plan (work in progress) incorporating the guidance from the Party and the National Assembly and the feedback from the localities, was shared with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations; and discussed at the Annual Round Table Process Information Meeting on 29 January 2006. Their feedback has been incorporated as appropriate. The revised draft has been considered and endorsed by the Party at the Eighth Congress in March 2006. The final draft of the Plan has been considered and approved by the Sixth National Assembly at its inaugural session in June 2006.

It is recognised that the planning work will continue to be upgraded and decentralised, and also more technical support will be provided. A monitoring and evaluation mechanism will be established for planning. The Sixth Plan will be disseminated nationwide to build the foundations for sector programmes. An information system will be created successfully to improve forecasting.

INTRODUCTION

This Sixth Five-Year National Socio Economic Development Plan (NSED) document is organized in three parts. Part I provides an assessment of the implementation of the Fifth NSED (2001-2005). It covers the goals and targets of the Fifth Plan, achievements, constraints and limitations, and lessons learned from implementation of the Fifth Plan. It forms a valuable backdrop for Part II, which presents the main elements of the Sixth NSED (2006-2010). Thus, Part II of the plan comprises the overall development strategy including the Plan targets; macro directions including macroeconomic policies, financial sector, fiscal management and SOEs; strategies for thematic and cross-cutting areas including poverty reduction, governance and private sector development; and sectoral, rural and regional development strategies. Part III describes some of the main implementation actions; monitoring and evaluation arrangements; the Plan formulation process; and the situation likely to prevail in 2010. Some macroeconomic projections are provided in Annex 1 and the localized Millennium Development Goals (MDG) indicators and targets in Annex 2. A listing of some consultation steps followed in the formulation of the Plan is in Annex 3.

**PART I:
IMPLEMENTATION OF THE FIFTH NATIONAL
SOCIO ECONOMIC DEVELOPMENT PLAN
(2001 – 2005)**

I. FIFTH PLAN GOALS AND TARGETS

A. Context

From mid-1997 to the end of 1999, the economy of the Lao PDR faced arduous difficulties, especially the significant negative impacts of the Asian Economic Crisis and recurring severe natural disasters. However, the Fifth National Socio Economic Development Plan (NSEDPP) spanning the five-year period 2001-2005 was developed under more favourable conditions. The economy has begun to resume expansion and build up the potential for growing at a faster pace in the following years. Production forces and socio-economic elements have built the necessary initial base for future growth. The legal frameworks were gradually adjusted and their positive impacts on socio-economic development have been increased. The market-oriented economy emerged further and operated in a more efficient manner. Political and social stability were enhanced. Relations with countries in the region and outside on economic and other fronts were expanded, with significant strengthening of the capacity and standing of the Lao PDR in the region and the global community. The developments outside the country also provided significantly favourable conditions. Stability and economic recovery in the Asian region and at the global level, scientific and technological innovations and globalization brought about many opportunities to overcome the difficulties and obstacles.

B. Goals and Targets

1. Goals

The 7th Party Congress has set goals for the Fifth Plan (2001-2005), which included the following: (i) ensuring social order and political stability; (ii) achieving rapid and sustainable economic growth; (iii) reducing the number of poor households at the beginning of the Plan by 50 percent by the end of the Plan; (iv) ensuring complete and firm food security for the population; (v) providing appropriate alternatives to shifting cultivation, the definitive eradication of opium cultivation, and encouraging sedentary agricultural activities; (vi) ensuring initial saving; (vii) strengthening the organization and efficiency of enterprises, especially state-owned enterprises; and (viii) developing skilled labour resources at different levels to serve the industrialization and modernization process.

2. Targets

These goals were further concretized by the 7th Party Congress into the major socio-economic development targets that include the ones set out in Table I.1.

Table I-1 Fifth Five-Year Socio Economic Development Plan (2001-2005) Targets

No.	Item	Target
1	GDP growth	7-7.5%
2	Agriculture-forestry sector	4-5%
3	Industrial sector	10-11%
4	Services sector	8-9%
	Sector shares in GDP (2005)	
5	Agriculture-forestry sector	47%
6	Industrial sector	26%
7	Services sector	27%
8	Exports growth	8.6%
9	Imports growth	8.6%
10	Trade deficit as % of GDP	6%
11	Inflation rate	Less than 10%
12	Exchange rate	Stabilised
13	Budget revenue as % of GDP (2005)	18%
14	Budget deficit as % of GDP (2005)	6%
	Total investment as % of GDP	
15	Public investment as % of GDP (2005)	12-14%
16	Private (domestic and foreign) investment as % of GDP	
17	Total GDP (2005 current prices)	
18	GDP per-capita (2005)	US\$ 500-550
19	New jobs created each year	100,000
20	Provide vocational training and skill development	350,000 workers
21	Total population (2005)	5.9 million
	Population growth rate	
22	Poor households (hh) graduating out of poverty (2005)	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)
23	Primary school enrolment of 6-10 year olds (2005)	86%
24	Lower secondary school enrolment (2005)	52%
25	Upper secondary school enrolment (2005)	24%
26	Literacy among people 15 to 40 years old (2005)	85%

No.	Item	Target
27	Life expectancy at birth (2005)	61 years
28	Infant (children under one) mortality (2005)	60 per 1,000 live births
29	Child (children under five) mortality (2005)	98 per 1,000
30	Maternal mortality (2005)	350 per 100,000

II. FIFTH PLAN ACHIEVEMENTS

The regional and global contexts have evolved in line with the basic expectations outlined by the 7th Party Congress. The global situation developed in a complex manner after the 11th September 2001 event in the United States, which was followed by the Afghanistan and Iraq wars. Terrorism and anti-terrorism became dominant issues, but peace and development cooperation remained major priorities at the international level. The global and regional economies have been recovering, with firm continuation of globalization and increasing competition. Within Southeast Asia, SARS, Avian Flu, and floods and droughts have occurred. These developments have imposed severe difficulties on the Lao social and economic bases. Under the circumstances, the Party, the Government and the people of the Lao PDR have endeavoured to overcome the various constraints and obtain significant achievements. The results of implementation of the Fifth Plan (2001-2005) in major sectors are discussed briefly in the following sections.

A. Economic Growth

During the five-year period 2001-2005, the Lao economy has maintained rapid and sustainable growth. On average, the GDP grew at about 6.24 percent per annum, which is about 0.3 percentage point higher than the average growth rate in the previous five-year period (1996-2000), but about 0.8 percentage point lower than the Fifth Plan target. The growth rate failed to reach the target set by the Plan and the full potential of the economy was not utilized. However, it is heartening to note that the growth rate achieved is higher than that recorded in the previous Plan period (1996-2000). Useful to highlight the relative growth rates of: domestic private sector output; output from FDI enterprises; and State output. This was possible in spite of the domestic and international constraints, thanks to the tremendous efforts of the people, the Government and the Party. Furthermore, the average economic growth rate in the Lao PDR during the past five years is among the highest in the region (e.g. Cambodia: 5.5 percent; Indonesia: 4.2 percent; Malaysia: 4.3 percent; Philippines: 4.2 percent; Singapore: 3.7 percent; Thailand: 4 percent; Hong Kong: 2.8 percent; South Korea: 4.7 percent; Taiwan: 4.2 percent; and Vietnam: 7.5 percent). By 2005, the GDP per capita reached USD 491.

B. Sectoral Performance

All the economic sectors experienced growth, which has been linked to structural changes and the enhancement of product quality. The sectoral performance is presented in the following:

1. Agriculture Sector

During the past five years, the Government, line ministries, sectoral and local authorities of the Lao PDR have concentrated on the development of agricultural production, following the direction set, i.e. orienting the agriculture sector from subsistence and semi-subsistence to commercial production to ensure the enhanced supply of raw materials to processing industries, meeting the growing domestic requirements for agricultural products, and rapidly expanding agricultural exports. The composition of production and products has been restructured positively with increasing economic effectiveness. This therefore allowed a stable growth in the production of agriculture, forestry and fisheries, albeit under constrained development conditions. Over the last five years, the value of production in the agriculture sector has increased on average by 3.4 percent per year.

By 2005, the production of many crops increased significantly compared to the last year of the fourth five-year Plan (2000). For example, maize (corn) production tripled to 372,560 mt as compared to that in 2000. Maize is grown largely in the Northern Provinces of Bokeo, Sayaboury, Houaphanh and Xiengkhouang and some Central Provinces. The production of coffee, concentrated in the Provinces of Champasack, Saravane and Sekong, increased by 6 percent reaching 25,000 tons. Peanut production, largely in the Provinces of Sayaboury, Luang Prabang, Vientiane, Saravane and Champasack, doubled to 26,990 tons. Soybean production concentrated in the Provinces of Luang Prabang, Bokeo, Houaphanh and Champasak, also experienced a two-fold increase to 11,100 tons. The sesame plantation yielded 8,710 tons, up by 2.6 times, and was largely found in the Provinces of Luang Prabang, Sayaboury, Oudomsay, and Vientiane. The mung bean production was up by three times to 3,700 tons, and was concentrated in the Provinces of Luang Prabang, Vientiane, and Champasak. Tobacco planted in the Provinces of Borikhamsay, Khammouane, and Savannakhet provided a total harvest of 28,100 tons. Sugar cane concentrated in Vientiane Capital and the Provinces of Luang Namtha, Phongsaly, and Borikhamsay, had a harvest of 196,100 tons. Vegetable production increased by 17 percent to 744,450 tons. Most noticeable is the plantations of vegetables, such as cabbage, Chinese cabbage, bananas, potatoes and ginger, on the Boloven Plateau for export. Having won popularity, rubber trees are extensively planted in the Provinces of Luang Namtha, Oudomsay, Bokeo, Khammouane, Champasak, Saravane, Sekong and Attapeu. Orchards are being grown in a number of Provinces, particularly orange plantations in Luang Prabang, Sayaboury, Borikhamsay, Vientiane and Vientiane Capital.

The move to commercial production is growing strongly in the high-potential areas. Prominent among these are the emphasis on the cultivation of rubber in Luang Namtha Province; cashew nuts in Oudomxay and Phongsaly Provinces; corn, vegetables and fruit trees in Vientiane Province and Vientiane Capital; seeded-trees for oil extraction and sugarcane in Savannakhet Province; and rice in Vientiane Province.

Emphasis is placed on research and the adoption of high-yield/high productivity crops and livestock. Currently, several new varieties have been introduced, such as rice, maize, vegetables, beans, coffee, tobacco, tea, fruit trees and a number of domestic animals. By 2005, the farming sector ensured 80 percent of the seed requirements for the rainy season crop and 100 percent for the dry season crop. Many modern cultivation and animal raising techniques have been introduced.

The number of irrigation schemes has continued to increase from 19,170 in 2000 to 24,695 by the end of 2004. Irrigated crop areas during the dry season increased from 197,100 ha in 2000 to 215,000 ha in 2004, while the irrigated area during the rainy season increased from 296,000 ha to 315,000 ha. Due to the increase in irrigation and the introduction of new crop varieties, rice yield increased from less than 3.06 mt per hectare in 2000 to 3.6 mt per hectare in 2005. Rice production reached 2.65 million mt in 2005, which translates to an average per capita availability of approximately 457 kilograms per capita.

The livestock and fisheries sectors are developing quite rapidly mainly due to the industrial farming systems applied in many localities and because of increased market opportunities and reductions in marketing costs. In 2005, the livestock numbers rose to 1.09 million buffalos (6 percent increase over 2000), 1.27 million cows (15.6 percent increase), 1.82 million pigs (28 percent increase), 19.8 million poultry (51 percent increase), and 190,000 goats and sheep (56 percent increase).

Thanks to such rapid development, meat production in 2005 was projected to reach 96,000 mt (an increase of 17.5 percent over 2000). It is notable that about 10.2 percent of the meat production is provided by industrial farms with high technology, which grew at the rate of 9.8 percent in the 2003-2004 period. At the end of 2005, about 10 percent of the cattle and 20 percent of the poultry were raised in the commercial farms. More specifically, the farms have focused on raising new high quality cattle and poultry species, with high productivity in the production of swine, chicken, and ducks.

Also, fish production rose to 143,000 mt (an increase of 15 percent), with fish farms accounting for 68.5 percent of the total and capture fisheries accounting for the rest (31.5 percent). Fish fingerling production rose to 320 million, which was adequate to meet about 50 percent of the national demand. Fish farms have achieved high productivity in the production of fish raised in baskets. In 2005, both meat and fish production met a large part of the population's consumption demands.

Forest conservation and development are given increased attention by line ministries and local authorities compared to the previous plans. The forestation movement by the people has regained momentum, especially in the central provinces, such as Vientiane,

Borikhamxay, Khammuane and Savannakhet Provinces. More specifically, many areas have combined forestation with the development of high commercial value industrial trees, such as teak in Luang Prabang, Sayaboury, Vientiane, Bokeo, Champasak, Bolikhamxay and Attapeu Provinces, and rubber in the provinces of Luang Namtha, Khammouane, Champasack, Saravane, Sekong, Attapeu, Bokeo and Oudomxay.

Between 2001 and 2005, about 325 tree nurseries were set up for the germination of tree saplings for afforestation and forest restoration. About 240,000 kg of tree seeds were used for the production of some 119 million tree saplings. During 2001-2005, afforestation covered 91,000 ha, accounting for 91 percent of the target (target of 100,000 ha) while efforts were made on forest restoration on 481,000 ha.

According to the data from the forest exploration in 2002, the area of dense forest, which included forests of high and medium density with a canopy of over 20 percent, accounted for 41.5 percent (9,724,700 ha) of the country's total land surface. If the brushwood, bamboo forests, degraded forests, and mixed deciduous forests with a canopy of less than 20 percent were combined with the dense forests, the forestry coverage accounted for 72 percent (17 million hectares) of the country's land surface.

The exploitation of perennial trees has reduced significantly in the last five years. In 2001, about 300,000 cubic meters of natural trees were exploited, which declined to 150,000 cubic meters in 2005. Wood exploitation is currently subject to more careful consideration, for example, combining exploitation with the plantation of alternative trees.

In the past five years, over 1.09 million ha of arable land and 3.6 million ha of forestry land were allocated to 7,125 villages composed of 419,250 households, to reduce the practice of shifting cultivation while ensuring sedentary highland and lowland cultivation to reduce poverty among the ethnic people. As a result, the shifting cultivation area declined from 118,900 ha in 2001 to 29,400 ha in 2005, mainly in the Northern Provinces (26,800 ha) with the remainder in the Central Region (2,600 ha). Shifting cultivation has ceased completely in the Southern Provinces. The number of farm families practicing shifting cultivation has reduced from 174,036 in 2000 to 32,790 in 2005.

The development of agricultural and rural economies has begun to diversify. A large number of farms have been established and the production of traditional handicrafts has been resumed. The development of traditional handicrafts has generated additional jobs for the local people and contributed to the changes in the rural economic structure as well as the improvement of the population's living conditions. The government has removed barriers to private sector investment and trade in the agricultural sector. At the same time, it has increased the population's purchasing power and contributed to the eradication of poverty in rural areas.

2. Industry and Construction Sector

Industrial production has grown at a steady and rapid rate, with the sector-wide average growth reaching 11.3 percent per year, exceeding the Plan target of 10-11 percent. The mining industry increased by 33.87 percent; food processing 9.17 percent; tobacco 20.75 percent; textiles 20.11 percent; garments 11.15 percent; footwear 7.57 percent; and wood processing 1.17 percent. The sectors receiving foreign investment have achieved an impressively rapid growth rate, followed by the non-state sector, with the domestic private sector growing slowly.

In the past five years, the industrial sector has implemented several significant activities, such as the exploitation of gold and copper at Sepon; zinc in Vientiane Province; construction of a cement plant in Vangvieng and a steel factory in Vientiane; setting up of a number of motorcycle assembly plants; completion of the Nam Leuk and Nam Mang III hydropower plant and a number of other hydropower projects, expansion of the installed capacity of the Nam Ngum 1 from 150 MW to 155 MW; completion of a number of high voltage transmission lines; and pilot installation of solar energy production systems. The total installed capacity of power plants by 2005 reached approximately 690 MW. The construction of some other major power plants/projects – as part of the five-year Plan has commenced, including the Nam Theun 2 Hydropower Project. Trade liberalisation, improvements in the enabling environment for business, and reduced logistics and transport costs contributed to increasing incentives for investment in industrial production.

Most of the industrial products have achieved higher growth rates compared to 2000, including coal, salt, beer, soft drinks, tobacco, animal feed, soap, leather shoes, pharmaceutical drugs, plastic products, furniture, ready-made clothing, bricks, cement, manual agricultural instruments, and agricultural machinery. In particular, the operation of the Sepon gold mine in Vilabouly District, Savannakhet Province, started in 2003 with a production of approximately six mt each in 2003 and 2004, with a projected increase to 6.5 mt in 2005. The mining industry has developed rapidly, as illustrated by the investments by 90 companies in mining at the end of 2005, of which 34 are foreign, 56 domestic. The number of handicraft businesses in the country also increased rapidly in the last five years, especially in Vientiane City and in a number of major urban centres. By 2005, there were 26,200 industrial-handicraft units (rising from 23,574 units in 2001).

Currently, a number of industrial zones have been established in such places as Vientiane and Savannakhet. They include many standard to modern technology zones, attracting investment from many enterprises. The development of such industrial zones has helped to attract more foreign investment. Industrial development in certain areas and focal economic zones was firmly maintained. Areas with a high proportion of industries, such

as Vientiane City, Champasak, Khammouane, Bolikhamxay, Luang Namtha, Xayaboury, and Savannakhet Provinces, maintained high growth rates.

The participation of different economic sectors (such as domestic and foreign private investors and the State) in the manufacturing industries has facilitated its diversification in terms of manufacturing scale, level of technology, types and quality of products. The industries are thus able to meet the various demands of the market. The industrial sectors were responsible for creating the most jobs.

3. Services Sector

The services sector has taken positive steps forward to better meet the requirements of production, trading and daily life. The availability and quality of products and services is higher compared to the beginning of the period. Over the five-year period 2001-2005, the growth in total retail sales and revenues from services averaged at 10 percent per year. The value added in the services sector grew at an average of 6.7 percent per year over the five years, which exceeds the GDP growth rate, although the growth rate is still less than the Plan target of 8-9 percent per year.

A number of services have developed quite effectively, such as trade, transport, telecommunications, tourism, hotels and restaurants. More specifically, several services sectors essential for the development of new economic bases such as finance, banking and insurance have experienced strong growth. An increasing and more diversified number of enterprises are entering the trade and services markets. In 2003, about 61,200 enterprises were registered. Trade infrastructure has been improved. By the end of 2003, there were 209 large markets, including 11 markets at international border cross-points and 28 markets at local border cross-points.

The service sub-sectors are currently being restructured and moved towards the market mechanism under state guidance. The legal framework has clearly defined the direction for market operations. The Business Law, the Investment Law, and decrees relating to business operations within the country, export and price regulations, have been put in place with increasing efficiency. The central Government is currently continuing the process of decentralization in order to enhance local ownership of the regulation of commerce, mainly in such areas as investment licensing, business licensing, issuing certificates of origin and export permits.

The tourism sector has also developed rapidly compared to the 1990s, despite the unfavourable international context during the first three years including the Iraq War and the outbreak of SARS. Since 2004, with more favourable domestic and international conditions, tourism has regained momentum and resumed strong development. Tourism

infrastructure was quite efficiently improved, with the number of hotels and guesthouses increasing from 468 in 2000 to 887 in 2003 and about 1,200 in 2005. The number of hotel rooms increased from 7,333 in 2000 to 20,000 in 2005. A number of new tours, including tours among countries in the Mekong Basin, have been designed, introduced and are attracting a substantial number of international tourists. The different types of tourism are growing in a diversified manner, offering more attractive tourism products. By mid-2005, the country had 364 tourism sites to attract domestic and foreign tourists.

In the five-year period 2001-2005, about four million foreign tourists visited the Lao PDR, averaging at about 800,000 tourists per year, with 900,000 in 2004 and about 1.05 million in 2005. Overall, the total number of foreign tourists to the Lao PDR over the five-year period 2001-2005 increased annually by 9 percent. The sector revenues reached over USD 100 million per year. The number of Tourists from wealthy regions and countries, such as the United States, Canada, Belgium, Germany, Holland, Norway, the United Kingdom, France, Japan, Sweden, Switzerland and others is increasing. Specifically, the proportion of tourists from the European countries increased from 11.7 percent in 2000 to 14.8 percent in 2003 and about 16.5 percent in 2005.

The strong growth experienced by the tourism sector in recent years was supported by the Government's increasingly open tourism policy, which upholds tourism as one of the eight focal economic sectors to be developed in the five-year Plan. The Lao PDR has established tourism relationships with many countries around the world with a focus on ASEAN members and countries in the Mekong Sub-Region. By the end of 2005, entry visa requirements were lifted for tourists from several countries in the region. 13 land border crossing points were upgraded into international border crossing points to welcome tourists and facilities provided for the issuance of visas on arrival. Also, participation in different events was ensured to attract tourism from different markets and a multitude of events relating to domestic and international tourism were organized in the Lao PDR. The country hosted an ASEAN Tourism Forum in 2004 (ATF 2004) in Vientiane Capital, which marked a cornerstone in the opening of a new era in tourism in the Lao PDR. In 2006, Luang Prabang was awarded a gold medal as the most popular town in tourism through the voting by over 100 travel companies of the UK.

The transport and freight services have shown quite positive and uniform development, with initial improvements to the quality of services, in spite of the severe impacts of the Iraq War and the SARS outbreak. The freight volume increased at an annual average rate of about 11 percent and circulation by 15 percent. The passenger volume increased by about 7 percent per year and circulation by 5 percent per year. In particular, the volume of trans-border shipping increased strongly at an average of over 20 percent per year. The number of deaths due to road accidents was reduced significantly from 19 per 10,000 vehicles in 2001 to 10 in 2005.

During the last five years, the transportation sector emphasized the implementation of different projects, including the maintenance of existing roads, bridges and the transportation system. Simultaneously, the construction of regional roads, national roads, a railway system, airports, bridges and a number of important local roads has continued. Significant achievements include the completion of the construction or paving of many roads to ensure smooth year-round transport. A number of important projects including new construction, improvement and upgrading of over 1,130 km of roads and 39 bridges with a total length of 2,611 metres were completed. The number of transportation services by land and river has increased by about 10-12 percent per year. At the same time, many ports were built and upgraded, especially along the routes of the Mekong River. The airport system was also built and upgraded, including the improvement of the Wattay International Airport and the upgrading of the Luang Prabang and Pakse airports to international standards. About 14 kilometres of the railway along the Friendship Bridge to Khamsavat village was surveyed and designed. Also, the survey and feasibility study of the railway project from Thakhek to Kiumuya was carried out.

The telecommunications services have continuously developed and reached both urban and rural centres, including in mountainous and remote areas; with the quality of services significantly improved. The number of telephone users has increased, with the landline telephone subscribers reaching 87,500 and mobile telephone use to 327,000 respectively, by the end of 2004/05. The number of public telephone booths increased to 404. In general, telephone subscribers of all types reached 415,900 with the average coverage of 7.3 lines per 100 people, which exceeded the Plan target of 2.5 lines per 100 people by 2005. There are 2,570 internet shops all over the country. By 2005, 80 percent of the districts and 60 percent of the communities will be contactable by telephone. There will be around 130 post offices in 104 districts and about 23,247 public post boxes. Postal and telecommunications services are being provided to accelerate modernisation. Freight, mail and money order (transfer) services in country and internationally have increased at a moderate level.

The finance, banking, insurance and other services have also continued to be established and expanded. The insurance market has been established with the participation of both domestic and foreign actors.

C. Other Macroeconomic Achievements

1. Investment

The balance of development funding (investment) has steadily improved. The investment funds mobilized showed a rapid increase from 21.3 percent of GDP in 2001 to approximately 29 percent in 2005, and averaged at 27.8 percent for the five-year period.

Total investment mobilized over the 2001-2005 period reached 30,623 billion Kip (in current prices), exceeding the Plan target of 27,900 billion Kip. The total investment funds included 14,990 billion kip of state investment, 2,266 billion kip of investment from the Lao society, and 13,367 billion kip of foreign investment.

The proportion of public investment in total investment has decreased sharply from 63.8 percent in 2001 to 35.7 percent in 2005. The same pattern was reported in the Lao people's investment, which dropped from 14.2% to 4.4% during the period. However, the ratio of foreign investment rose dramatically from 22% in 2001 to 59.9% in 2005. Over the five years, public investment accounted for 10.8% of GDP while domestic and foreign private investment accounted for 17% of GDP.

During the five-year period (2001-2005), domestic financing reached 7,571 billion kip, accounting for 27.6% of total investment. The Government budget and official development assistance (ODA) funds concentrated on important sectors with urgent requirements, such as agriculture and rural development, poverty eradication, human resources development (HRD), science and technology developments and infrastructure development, in particular.

The efforts made to mobilize foreign investments resulted in positive achievements. The total value of FDI increased rapidly in recent years, with the total registered FDI in 2004/05 expected to reach USD 1,500 million. This total includes some major projects, such as Nam Theun 2 and Sesaman 3 Hydropower projects. Over the last 20 years of restructuring (1986-2005), about USD 8.5 billion of FDI was invested in 1,087 investment projects. The sectors attracting most investment include electricity, mining, agricultural development and services. The countries with the largest investments in the Lao PDR include Australia, Canada, Japan, France, South Korea, China, Malaysia, Singapore, Thailand and Vietnam.

2. National Budget

Total revenues in the national budget over the five years are expected to reach 15,010 billion Kip, at an annual growth rate of 17.2 percent. Budget revenue mobilization tends to remain at the level of 13.6 percent of GDP. By 2005, revenue mobilization reached 14.6 percent of GDP, far below the previous five-year plan target of 18 percent of GDP. Government revenue targets were not met, which is one of the major shortcomings for the last five-year plan. During the five-year period (2001-2005), the average fund mobilisation ratio in the state budget stood at 13.6% of GDP.

Annual budget revenues increased rapidly and steadily due to the various measures taken by the Government, including tax policies and measures to increase and promote investment, such as the reduction of income tax rates from four (3 percent, 5 percent, 10 percent and 15 percent) to three (3 percent, 5 percent and 10 percent); the reduction of the excise duty applied on tobacco production by 50 percent; and the increase in the income tax exemption threshold from 200,000 Kip per month to 300,000 Kip. Due to the changing structure, particularly the tax revenues collected on domestic production rose quickly and constituted the main part in the state budget revenue, rising from 63% of the total budget revenue in 2001 to 71.5% in 2005.

Total budget expenditures over the five year period are expected to reach 22,830 billion Kip, at an average growth rate of 13 percent per year. It accounted for 21.3% of GDP overall and 19.7% in 2005. The proportion of development expenditure (investment) in total public expenditure remained at a high and stable level of about 49.5 percent. However, the domestic share in total public development expenditure (investment) accounts for only one-third and is decreasing, while the international share accounts for two-thirds and is increasing.

The state budget deficit in the past five years (2001-2005) reached 7,820 billion kip, averaging around 7.4% of GDP annually, which was a fairly high rate. The deficit was covered mainly by external loans and grants, with domestic borrowings covering only a small part.

3. Monetary Management

The monetary balance improved positively and significantly and contributed to the control and reduction of inflation. The monetary policy and management has been strengthened during the Plan period. The money supply (broad money or M2) grew on average at 20 percent per year, while bank deposits increased by 19.2 percent per year. Both rates are close to the Plan targets. However, the credit (outstanding loans) expanded at a lower rate of 11.4 percent per year, which is far below the Plan target.

The Kip's value has been gradually stabilized. The high inflation rate has been reduced. It averaged at 7.8 percent in 2001, 8.9 percent in 2002 and 15.5 percent in 2003. Thereafter, it showed a downward trend reaching 8 percent in 2004 and 7.7 percent in 2005. Over the five-year period, the inflation rate averaged at 9.6 percent per annum. Greater macro stability has been important in stimulating increased domestic private investment to Lao PDR.

The value of the local currency "Kip" was quite stable on both domestic and foreign fronts. The inflation threat was reduced gradually. The average rate of inflation in 2001

was 7.8%, which rose to 8.9% in 2002, further to 15.5% in 2003, but declined to 8% in 2004, and to 7.7% in 2005. The average rate of inflation during the five-year period was 9.6%. The exchange rate between the Lao Kip and the US dollar increased annually at around 7%, although it increased by only 0.7% in 2004. In 2005, the local currency gained strength against the US dollar by 2%. The difference between the official and unofficial (market) rates of exchange was reduced to a quite narrow gap as compared to the early stage of the Plan implementation. Foreign currency reserves increased from 2.6 weeks of imports in 2001 to 12.8 weeks of imports in 2005, which laid a major foundation for the control of the exchange rate.

D. Structural Changes

The various sectors and markets of the economy continued to evolve in a positive direction facilitating the beginning of the process of exploitation of national comparative advantages. Some of the notable achievements of economic restructuring include the following:

1. Economic Sectors

In the past five years, economic sectors have undergone significant restructuring; the shares of industry and service sectors in GDP have increased. Economic restructuring has been more concentrated on production capacities, quality and efficiency, thus contributing to economic growth and initially meeting the requirements for international integration. The share of agriculture in GDP decreased from 51.9 percent in 2000 to 45.4 percent in 2005 as compared to the Plan target of 47 percent. The share of industry and construction sectors increased continuously from 22.4 percent in 2000 to 28.2 percent in 2005 against the Plan target of 26 percent. The share of services increased from 25.7 percent in 2000 to 26.4 percent in 2005 versus the Plan target of 27 percent.

The structure of the agricultural economy continued to evolve positively, but its share in GDP declined continuously. The manufacturing industries developed in line with the potentials of each sector and each product by strengthening linkages between production and markets. The share of processing industries in the sector-wide incremental value gradually increased. The processing industries initially exploited the potentials in raw materials in domestic production to increase the value added to exports. The structures of services sectors developed positively towards the direction of better meeting the increasingly diversified needs in manufacturing, businesses and living conditions. Some services sectors, such as trade, transport, telecommunications, tourism, hotels and restaurants have been developing quite strongly. More specifically, a number of services showed a high value added ratio to production costs, such as banking and insurance, with

initial growth contributing to increased value added in the services sector and the proportion of these sectors in the economy.

2. Private Sector

The economic structure developed and changed in the state sector, whilst the potentials of the private sector were strengthened in each of the economic sectors. The shares of the domestic private sector and FDI in the economy have increased. In particular, FDI has facilitated the production of new products and enlarged the markets including through entry into new markets. Thus, the private sector has become increasingly important in the economy of the Lao PDR.

3. Employment

From 2001 to 2005, about 505,000 new jobs were created surpassing the target of 500,000 jobs. Of the total, 343,000 workers were in the agriculture, forestry and fisheries sectors, 58,000 in the industry and construction sector, and 104,000 in the trade and services sectors. By 2005, the economy of the Lao PDR employed a total of 2,714,000 workers allocated as follows: agriculture, forestry and fisheries sector employing 2,080,000 workers; 210,000 workers in the industry and construction sector; and 424,000 workers in the services sector. The proportion of labourers engaged in the sector of agriculture, forestry and fisheries reduced from 78.6 percent in 2000 to 76.6 percent in 2005; while that in the industry and construction sectors increased from 6.9 percent to 7.7 percent; and in the trade and services sectors increased from 14.5 percent to 15.6 percent. However, the proportion of workers engaged in the agriculture, forestry and fisheries sector remains quite high and further strong measures are required to reduce the proportion. The number of unsuccessful job hunters has reduced to 5 percent in 2005.

E. Foreign Trade

Foreign economic activities developed well. The Lao PDR has been more proactive in regional and global economic integration. It is important that the Lao Government work with potential domestic and foreign investors to ensure that Lao benefits from the liberalisation of trade in agriculture products under AFTA and various bilateral agreements.

1. Exports

The aggregate value of exports over the five years 2001-2005 is expected to reach USD 1.83 billion. Export growth rate averaged at about 7 percent per year, exceeding that achieved in the previous five-year period 1996-2000 (average of 1.6 percent per year). However, the growth rate was lower than the Plan target of 8.6 percent per year. The average value of exports per capita was USD 86.7 in 2005; it remains far lower than that in other countries in the region.

Until now, a group of key export products have been developed, including electricity, coffee, wood, handicrafts, garments and minerals, in addition to a number of new emerging products with potential such as tea, rubber, vegetables, fruits, oil plants, fragrant rice, corn, and many types of beans. The share of agriculture, forestry and fishery products in export revenues shows a decreasing trend. In contrast, the proportion of light industry and small industry products in exports increased significantly with garments ranking at the top.

Conducive foreign policy has allowed the Lao PDR to gradually integrate into the regional and international economies and help to diversify its markets. From the period when traditional markets consisted of Thailand, Vietnam and China to the end of the Plan, exports are now destined to 40 markets, which include the larger markets such as the European Union, USA, Japan and Australia, the United Kingdom, France and Germany. Border trade too has developed strongly. More prominently, during 2001-2005, many FDI enterprises have invested in export-oriented manufacturing activities.

In 2005, export revenues reached approximately USD 456 million (USD 500 million was planned for 2005) of which agriculture and forestry exports represented 10.2 percent, heavy industry (electricity, electronics, machinery, etc.) and minerals covered 42.8 percent, with light industry and handicraft products accounting for the rest (47 percent). The exports accounted for 1.5 percent of GDP.

2. Imports

The total value of imports over the past five years amounted to USD 2.86 billion with an average annual increase of 4.9 percent, exceeding that in 1996-2000. But, it remains lower than the Plan target of 8.6 percent per year. The value of imports per capita in 2005 was about USD 122.30. The composition of imports has changed in accordance with the capacity and requirements of the economy. More importantly, the proportion of rice and food products in imports declined significantly from 32.6 percent in 2000 to 9.9 percent in 2002 and approximately 4 percent in 2003. By 2005, the value of imports is expected to reach approximately USD 595 million, with equipment, machinery and parts making up 39.2 percent; raw materials and fuel 47 percent; and consumption goods 13.8 percent. By 2005, imports accounted for 1.9 percent of GDP.

3. Trade Balance

The trade balance (deficit) over the five years amounted to about USD 1.03 million, representing 57 percent of total exports, and the annual average trade deficit accounted for 9.4% of the GDP. Outstandingly, the ratio of the trade deficit to GDP fell from 11.1% in 2001 to 8% in 2005.

F. Official Development Assistance

At the beginning of the new millennium, the global official development assistance (ODA) resources seemed to show a declining trend due to economic difficulties in donor countries. Notwithstanding, ODA committed by donors to the Lao PDR during the first four years of the Fifth Plan continued to be relatively stable, but increased significantly in 2005 due largely to the approval of the projects associated with Nam Theun 2. This reflects the endorsement and support of the international partners of the socio-economic development policies set out by the Party and the Government.

The ODA disbursements shown in the budget in the past five years totalled USD 935 million, averaging at USD 187 million per year. The counterpart contributions from the Government equalled USD 115 million. In general, the effectiveness of ODA showed an improving trend, with the implementation of ODA projects making a remarkable contribution to the socio-economic development of the country, but over reliance on ODA though is potentially dangerous.

G. Foreign Direct Investment

From 2001 to 2005, the Lao PDR has received 585 FDI projects with a total committed capital of USD 2.8 billion. But, only USD 1.07 billion worth of funds were actually brought in (disbursed) during the period. The agriculture sector received 14 percent of the total number of projects accounting for 7 percent of the total investment capital; the industry and construction sector received 48 percent of the projects and 79 percent of the investment capital; and the services sector received 38 percent of the projects and 14 percent of the investment capital. In particular in fiscal year (FY) 2004/05, a total of USD 1.3 billion of FDI projects were approved, with USD 449 million brought into the country during the year. In the five year period, FDI disbursements reached USD 933 million of which USD 326 million was received in 2005. Capital injected from abroad reached USD 855 million, accounting for 91.6 percent of the total. Disbursements in industry and construction account for 69 percent; with the services sector at 27 percent and the agriculture, forestry and fisheries sectors at 4 percent. The proportions of investment in the agriculture and services sectors show an increasing trend.

Overall, FDI has made a positive contribution to the manufacture of goods, economic growth and the restructuring of the economy. It also helped to develop the private sector. These achievements were attributed to the incentives provided by the Government and other measures, such as the decentralization of foreign investment licensing. From 2005 onwards, provinces have been delegated by the authorities to license foreign investment projects valued up to USD 2 million. This has led to significant increases in FDI compared to the beginning of the Plan period. Annual forums with investors and businesses were organized to discuss constraints and explore solutions. At the same time, the infrastructure has been improved rapidly providing better facilities to attract FDI. In October 2004, the National Assembly revised the Law on Foreign Investment including the incentives, thereby paving the way for increasing FDI in 2005 and thereafter.

H. Social Development

The Fifth Plan (2001-2005) set the socio-economic development goals such as firmly improving education, training and human resources development (HRD); generating employment; reducing the number of poor households; fighting social evils; maintaining social order and political stability; and preserving national independence, territorial integrity and national security.

In order to implement these goals during the last five years, the Lao Party, the Government and the multi-ethnic peoples have endeavoured to strengthen linkages between economic and social development, to ensure that the national economic outcomes expand and maximize social development. As a result, the social sectors have developed significantly, as described in the following:

1. Education, Training and Human Resources Development

In the past five years, the Education sector has developed both in quantitative and qualitative terms. The kindergarten enrolment rate increased from 8 percent in 2000 to 8.2 percent in 2005, and the primary enrolment rate increased from 79 percent to 84.2 percent. The lower secondary enrolment rate increased from 46.6 percent to 54.8 percent, and the upper secondary enrolment rate rose to 34.4 percent in 2005 as compared to 22.6 percent in 2000. By 2005, the adult literacy rate increased to 73 percent and the ratio of students increased to 845 per 100,000 people. According to the human development index in 2005, the Lao PDR was ranked 133 of the 177 countries in the world, up from the 141st of the 173 countries in 1993.

In late 2005, there were 969 crèches and kindergartens, up by 215 over those in 2000, with 136 private schools, up by 49 schools. There were 8,573 primary schools, up by 381. About 85% of the villages had schools of which 42.8% were primary schools. 15 of the 18 provinces built boarding-schools. The number of secondary and higher secondary schools increased by 106 from a total of 926.

Efforts are being made to develop primary education at the national level with particular emphasis on isolated areas. Permanent school structures are being built in larger districts, and districts with difficult access received permanent and semi-permanent school structures. Educational campaigns were mounted frequently, which helped to increase the number of children entering school. In the Vientiane Capital, special schools for talented students were established. Courses in information technology (IT) and foreign languages are becoming popular in Vientiane.

Vocational, university and higher education are also being developed. In the five-year period (2001-2005), the National University opened two branches: Pakse University in Champasak Province, and Souphanouvong University in Luang Prabang Province, vocational education is being developed and strengthened. A new vocational school was opened in the Bolikhamxay Province, in addition to four technical schools providing courses in business management, administration, agriculture, construction and wood processing. Vocational education was also improved in the Khammuane Province and in Pakse. In 2004, Vietnam helped to establish an Economics and Planning Training Centre in Vientiane to enhance the in-country capacity to train civil servants.

The curricula were improved, and their implementation monitored and assessed. New curricula on law, medical care and business management were adopted. Strict and efficient supervision and administration were introduced.

Short-term training courses were organised for civil servants. The number of in-country and overseas training courses for teachers were increased. An increasing number of civil servants were sent abroad to study. From 2001 to 2003, Vietnam alone received 1,910 civil servants, which are 460 more than that in the period from 1996 to 2000.

However, in comparison to other countries in the region, the investment in human resources development in the Lao PDR is low.

2. Health

The strategic policy of the Lao Party and the Government in the Health sector is to strongly encourage health care by upholding prevention as a primary task and treatment as an important task to ensure the Lao people's health and participation in national socio-

economic development. In line with this policy, the health care system has developed during the last five years under the Government's guidance with the participation of communities and international cooperation. The health system has improved and gradually expanded to form a complete network from the central level to the districts and villages. Thus, it became an important factor in extending improved health services including primary health care to the population.

In the areas of prevention, attention is given to primary health care with emphasis on high risk groups; child immunization; recommendations on the use of safe and sanitized water; management and the control of transmittable diseases, such as diarrhoea, malaria, dengue fever, tuberculosis, leprosy and HIV/AIDS; and the close monitoring of other diseases caused by drug addiction. Eight hygiene, disease prevention, and health care centres have been built nationwide. So far, there have been six central and provincial laboratories. These establishments have maintained coordination, and made regular or emergency reporting on examination and health care to the Ministry of Public Health. Laos and Vietnam have signed an agreement on the implementation of a border disease prevention system.

Initial coordination was made with different agencies, authorities and line Ministries in charge of promotion and communications to promote hygienic lifestyles and protection from diseases, combat superstitions, and encourage infected people to seek treatment at hospitals. Child polio was eradicated in 2000, but Lao PDR still remains in a vulnerable position, as polio free status is under threat because of the low polio routine coverage. Immunization was expanded to children less than one year old for various diseases such as whooping cough, measles, tetanus, tuberculosis and others. The safe injection plan has been introduced nationwide. Efforts made in the prevention of transmittable diseases such as malaria, dengue fever and HIV/AIDS have shown positive results.

Investments were made to upgrade treatment in the central and regional hospitals and expand access to medical services. At the same time, traditional treatment systems were improved and developed in cooperation with Vietnam. About 57 percent of the patient beds at central and provincial hospitals were in use.

The private health network has also developed since 2001. There are currently 254 private clinics, 108 of which are located in Vientiane, which in turn contribute to the diversification of health care services. In the last five years, the country has provided 5,226 drug kits to the villages in the 72 poor provinces identified in the NGPES. Thus, about 94 percent of villages have been provided with drug kits.

Thanks to the health system's development, the population's health has improved significantly in the past five years. By 2005, the infant mortality rate has been reduced to 70 per 1,000 live births (viable infants), while that of children under five also reduced to

98 per 1,000 (viable children). The maternal mortality was also reduced to 405 per 100,000 live births (viable babies). The country has been able to meet 48 percent of the local population's demand for medicines from local production; and provided drug kits to 95 percent of the villages. In addition, the life expectancy has increased to 61 years.

3. Labour and Employment

During the past five years (2001-2005), a number of Articles in the Labour Code have been amended and supplemented. The Government's Decree guiding the implementation of the revised Labour Code, the Civil Service Law; the Law on Minimum Wages, and the Law on the Establishment of the Social Welfare and Social Security Reserves, were promulgated. A vocational training centre was set up in Vientiane. From 2001 to 2005, about 100,000 people have undergone vocational training, lagging behind the Plan target of 300,000.

A new policy on foreign workers in Laos has been drawn up, especially applicable to technical workers in industrial plantations such as rubber, coffee, cashew, and a number of industries such as electricity, coal, cement and agro-processing. Thanks to the policy, thousands of foreign workers (from Vietnam, China and Thailand) poured into the country and facilitated technology transfer. At the same time, sister cities and provinces in Vietnam and the Lao PDR have established business networks to exchange experiences.

A number of labour centres were set up providing opportunities for Lao labourers to go to Japan, Malaysia and Singapore. A Government Decree guiding the movement of Lao labourers overseas was promulgated. Two state-owned enterprises (SOEs) and some private enterprises were established for "Employment Promotion." Additionally, an Agreement on Labour Cooperation was signed between the Lao PDR and Thailand.

One of the aims of the Government's policy is to encourage private enterprises to provide technical and vocational training. By the end of 2004/05, there are over 100 private training centres in operation in the country. In particular, they provide training for highly profitable and low investment professions, such as English language, computer applications and accounting. The Government also promulgated a policy, which allows foreign workers to open a Human Resources Training centre in the country.

4. Other Social Sectors

Handicapped, disabled and orphans: During the five years from 2001 to 2005, the Government has efficiently provided health care services to persons with merits, families of handicapped veterans and national heroes, and provided other assistance to

handicapped veterans and families of national heroes in accordance with Decree No. 145/PM and set up a national veterans federation. Five orphanages and SOS schools have been established to take care of and help homeless orphans. The National Committee for the Disabled and the Association for Disabled Women and Children were established to facilitate the self-development of disabled persons in their daily lives. Assistance was provided to the poor by distributing food and helping the poor build irrigation systems, extending credit for the acquisition of livestock, and providing assistance to victims of natural calamities, fires, accidents and others.

A policy of a single uniform assistance is outlined and developed in relation to the lump sum rewards to national heroes. Cemeteries of national heroes were maintained. Remains of Vietnamese volunteers were sought in coordination with Vietnam for repatriation.

In the prevention of negative social phenomenon, efficient measures were applied to restrict and eliminate (destroy) opium production in conjunction with programmes aimed at reducing poverty and promoting socio-economic development by supporting the population's efforts to develop their economy and stabilize their living conditions. Many cultivation techniques were disseminated in different opium growing provinces to encourage the population to orient towards other types of production. Communication facilities, electricity, piped water, and education and health infrastructure were built. As a result, the opium growing area reduced significantly from 26,387 ha in 1988 to 3,556 ha in 2004 and by the end of 2004/05, the Lao PDR has been able to completely eradicate opium production in advance of the schedule set out in the agreement with the United Nations. Drug addiction has also significantly reduced from 52,613 addicts in 2002 to 28,000 in 2004.

Strong measures were introduced in combating narcotics, encouraging communications and advocacy to demonstrate the negative effects of drugs. The rehabilitation of drug addicts in rehabilitation centres was organized. In combating narcotic producers and transporters, the Lao police, border patrol and customs officers have firmly coordinated with Vietnam and maintained order along the borders, contributing to the identification and restriction of offenders.

Information and culture areas: The information and culture network has been developed. The system of the mass media has been developed to localities. Efforts have been made for the preservation of memorial sites and artefacts. Simultaneously, the mass culture has extended. The number of culture-model villages grew from 65 in 2001 to 85 in 2005, while that of culture-model families grew from 6,000 in 2001 to 16,000 in 2005.

Sports activities and physical education: The movement has made a big stride over the achievement scored in the previous (Fourth) Five-Year Plan. Some sports trainers have been trained and sport cooperation has been expanded with many countries in the region.

Outstandingly, Lao sportsmen won three gold medals in the 23rd SEA Games held in the Philippines. The seventh national games were also organised in Savannakhet Province.

The scientific, technical and environmental activities have been progressing. From 2004 to 2005, a number of research institutes were set up. New technology has been applied to businesses such as seedling production, processing of aloe and extracting vegetable oils. The National Strategy on Environmental Protection until 2010, and the 2020 Vision have been formulated and implemented from 2004 onwards. Certification of environmental standards for projects in such areas as hydro-electricity, mine exploration and construction has been initiated.

The public administration reform is being implemented well, with significant progress in public management and approval processes both at the central and local levels. Strict disciplinary measures were applied to a number of government officials, including high-ranking officials, who lacked responsibility and were corrupt, which in turn has affected the credibility of the Government and the Party.

The training of officials aims at enhancing political ideology as well as professionalism. Senior officials are being sent for further training in politics. Professionals are encouraged to do further study, and are sent on field trips in and outside the country. A number of short-term courses on politics for leaders of central and local organizations were organized

5. Poverty Reduction

Poverty reduction is the core task in the socio-economic development guidelines of the Party and the Government of the Lao PDR. The Prime Minister's Decree No. 10 and other resolutions to implement poverty reduction efforts, which have progressed significantly during the past five years. These initiatives have been implemented aggressively by CPI, public organizations and the four priority sectors (Agriculture and Forestry, Education, Health and Infrastructure), in the localities with the participation of poor people, especially in the 10 pilot districts selected from the 47 poorest districts. The latter (47 poorest districts) include 2,935 communities with a population of around 1.2 million people in 111,850 poor households, which account for 55.4 percent of total poor households in the country.

In 2003/04, CPI issued regulations and mobilized village development funds (including from the budget) for poverty reduction. By 2005, there were 192 village development funds with 10,925 members. The Government injected an input of 18.3 billion kip into the funds. With a loan of USD 20 million from the World Bank, the Poverty Reduction Fund has implemented 1,212 projects, valued at USD 8 million in 1,913 villages in 20

districts in five provinces. There are also other poverty eradication projects, including the projects supported through foreign cooperation that made progress and are well-organised.

So far, the land-forest allocation program has presented 1.09 million ha of agricultural land and 3.6 million ha of forested land to 419,259 households in 7,125 villages. Areas under slash-and-burn cultivation have been reduced from 118,900 ha in 2001 to 29,400 ha in 2005, fulfilling 75% of the Fifth Plan target. Of this, 72,870 ha have been put under industrial trees.

Shifting cultivation and opium production have reduced in a most noticeable way. Almost 19,000 ha of opium fields were destroyed and nearly 30,000 ha of slash and burn fields were converted into industrial tree plantation areas. By the end of 2004/05, ten provinces – Oudomxay, Luang Namtha, Bokeo, Vientiane, Phongsaly, Huaphan, Xiengkhuang, Xayaboury and Bolikhamxay – and one special zone were officially declared to be free from opium production.

The Government has designed and implemented economic development projects (in different sectors, including agriculture and forestry, and industry and construction) and invested in the construction of infrastructure, such as roads, schools and electricity grids, as well as in the social sectors such as health, education and training, culture and communications with the purpose of reducing poverty. The labour and social welfare line authorities actively built and developed forms of model families in the poverty reduction movement through reorientation from shifting cultivation and opium production to the production of industrial crops, livestock, handicrafts, trade and services in order to gradually uplift the quality of life of the affected populations.

In 2000/01, about 38 percent of the population was below the national poverty line (or classified as poor). According to the reports from the provinces, there were 304,100 poor households in 2001 and the Plan target was to move some 150,050 households out of poverty. Over the five years from 2001 to 2005, some 137,500 families graduated from poverty, achieving about 90 percent of the Plan target. Model associations of villages and groups were formed and tested for the development of commercial production including the establishment of development funds promoting commercial production. Similar models were formed and tested for the elimination of shifting cultivation and the eradication of opium production. Local potentials have been tapped to generate incomes for the poor.

¹ The definition of poor families is based on the standards specified in the Prime Minister's Instruction No. 10, which includes income and access criteria. However, the number of poor households in 2004/05 will be much larger if the national (income) poverty line from the Second or Third Lao Expenditure and Consumption Surveys (LECS II or III) is used.

Savings groups were being organized and credit funds established by mobilizing the participation of poor households to assist the households to develop their production and increase their incomes through low interest loans. These funds are closely managed and shared equitably as demonstrated by the Women's Union Group of Somsavi Village (Saithany District, Vientiane Capital).

The achievements scored in the past years are of great and firm significance to the socio-economic development.

The targets and achievements of the Fifth Plan are summarised in Table II.1.

Table II-1 Fifth Five-Year Socio Economic Development Plan (2001-2005): Targets & Achievements

No.	Item	Target	Achievement
1	GDP growth	7-7.5%	6.2%
2	Agriculture-forestry sector	4-5%	3.4%
3	Industrial sector	10-11%	11.3%
4	Services sector	8-9%	6.7%
	Sector shares in GDP (2005)		
5	Agriculture-forestry sector	47%	45.4%
6	Industrial sector	26%	28.2%,
7	Services sector	27%	26.4%
8	Exports growth	8.6%	7.0%
9	Imports growth	8.6%	4.9%
10	Trade deficit as % of GDP	6%	9.4%
11	Inflation rate	Less than 10%	9.6%
12	Exchange rate	Stabilised	Kip appreciated by 7% per year against US dollar
13	Budget revenue as % of GDP (2005)	18%	13.6% (5- year average) 14.6% in 2005
14	Budget deficit as % of GDP (2005)	6%	7.4%

Lao PDR: National Socio-Economic Development Plan (2006-2010)

			(excluding arrears)
	Total investment as % of GDP		27.8% (5-year average)
15	Public investment as % of GDP (2005)	12-14%	12.3%
16	Private (domestic and foreign) investment as % of GDP		15.5% (5-yr. average)
17	Total GDP (2005 current prices)		US\$ 2.8 billion
18	GDP per-capita (2005)	US\$ 500-550	US\$ 491
19	New jobs created each year	100,000	
20	Provide vocational training and skill development	350,000 workers	100,000 workers
21	Total population (2005)	5.9 million	5.61 million
	Population growth rate		2%
22	Poor households (hh) graduating out of poverty (2005)	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)	137,500 hh
23	Primary school enrolment of 6-10 year olds (2005)	86%	84.2%
24	Lower secondary school enrolment (2005)	52%	54.8%
25	Upper secondary school enrolment (2005)	24%	34.4%
26	Literacy among people 15 to 40 years old (2005)	85%	78.6%
27	Life expectancy at birth (2005)	61 years	61 years
28	Infant (children under one) mortality (2005)	60 per 1,000 live births	70
29	Child (children under five) mortality (2005)	98 per 1,000	98 per 1,000

30	Maternal mortality (2005)	350 per 100,000	405 per 100,000
----	---------------------------	--------------------	--------------------

The achievements mentioned above indicate the tremendous efforts made by the Government, the various sectors and local administrations in taking responsibilities with active roles of leadership, and implementation of the socio-economic development plans. This also indicates the creativeness and the high sense of efforts of the people of all ethnic groups and classes, enterprises and Lao business people.

A. These achievements were attributed to:

The judicious policy guidelines set out by the 7th Party Congress and the resolutions of the Party Central Committee and the National Assembly; the unified and centralized leadership of the Party, and most of all of the Political Bureau and the Executive Committee of the Party Central Committee; the significant progress made in guiding and administering the activities of the Government, the central line ministries and local administrative authorities; and the enhanced quality and managerial competence of civil servants.

People of all ethnic groups have the high sense of efforts and they have used the strong traditions of integrity and hard-work; and the increasingly improved investment, production and business environment, with many enterprises growing gradually within the context of the market economic conditions. The Government is well aware of the market situation and organized production activities to meet the needs of the market demand in appropriate and effective manner. Many projects in which investments were made during the last five years have now begun to be operated effectively.

The role of external economic relations has gained constantly increasing recognition for the Lao PDR. Also, the international economy is currently receiving increasingly strong support from within the country and from the international community, the ASEAN countries, the Greater Mekong Sub-region (GMS) and beyond. This has improved our strengths.

The economic development was efficiently coordinated with solutions to social issues, thereby building preparedness throughout the society for national construction and development.

Because the Party uses and combines the two strategies of development and national defence (which are directly instructed by the Party), social stability and orderliness were maintained and national defence and security strengthened.