

I. CONSTRAINTS AND LIMITATIONS

Although the achievements attained in the five-year period 2001-2005 are highly positive and praiseworthy, a number of constraints and limitations still remain, which are enumerated briefly in the following:

A. Economic Growth

The growth of the economy remains unstable, and has not generated adequate investments nor realised its full potential. Although there has been progress, the quality of growth and the efficiency and competitiveness of the economy remain low and slow.

1. Agriculture Sector

In the agriculture sector, small scale and subsistence production is still widespread. The production in this sector has not achieved the planned target and its full potential. The introduction of modern cultivation systems remains slow. Agriculture production is still concentrated on rice. Animal husbandry needs to be further developed. Crop production, animal husbandry and the quality of agricultural products, albeit increasing, are still low and seasonal, dependent on the weather. The structural modification of agriculture production and the composition of the rural economy are still slow and do not yet guarantee stable components. Commercial production in several areas is not linked to processing industries and market demands. Overall food production is sufficient to meet the domestic demand, but about one-third of the districts do not yet have a sufficient production of rice for meet the consumption requirements for the whole year. The most important problems to agriculture development are; weak market institutions; formal and informal barriers to national and regional trade; high transport costs; and lack of supporting urban infrastructure and service.

The use of inputs in the agriculture sector remains inefficient, more particularly in the irrigation sub-sector. Although agricultural production has increased significantly, it has not met the economic requirements. Many goods could be produced locally and efficiently, but insufficient efforts for their development resulted in substantial imports of these goods. The sector-wide quality and efficiency remains to be improved further.

2. Industry and Construction Sector

The production costs in the industrial sector remain quite high. Very few enterprises use modern technologies and most of these are foreign-owned. Public investment in the industrial sector remains low due to the excessive focus on the agriculture sector (particularly irrigation), infrastructure (mainly roads and ports) and services. There is a lack of incentives

for different economic actors to invest in industrial development; and coordination between line agencies and local authorities to encourage industrial development remains weak. The handicrafts sector is not sufficiently developing at the local level. Although advanced techniques are used, its development remains limited.

3. Services Sector

The services sector infrastructure is still very limited and is not adequate to meet the socio-economic development requirements. As a result, the quality of many types of services is still low. Management of services shows several shortcomings, including control on investors, personnel management, and the management of family and private enterprises engaged in the provision of services. The coordination between Government officers and sectors at the local level in planning the development of infrastructure, tourism, and others is still very weak, resulting in low efficiency.

4. Infrastructure Use

The application/use of infrastructure in the activities of many sectors is still very low since production is not developed at the same pace as the development of physical infrastructure. Most prominent is the very limited capacity to make efficient use of irrigation schemes, ports, airports, etc. This results in waste and a reduction in the cost-effectiveness of investments.

B. Monetary and Fiscal Management

The macroeconomic ratios remain fragile and could be easily destabilised by external factors as demonstrated for example, in the following aspects:

1. Savings and Investment

The ratios of savings and investment to GDP, although significantly improving, are still low compared to the potentials and the development requirements. The difference between domestic savings and public investment is significantly high and requires the use of foreign funds, mostly in the form of loans. The mobilization of savings for investment is still limited since the Government has not yet secured the sources of adequate revenues and the enterprises in different economic sectors have not yet sufficiently developed. Also, there are still no policies and detailed mechanisms to convert land and other resources into sources of capital.

The mobilized funds for investments are limited and are not concentrated on strongly encouraging structural adjustments for the development of the potentials of different areas,

developing the skills of the labour force, eradicating hunger (scarcity of rice) and reducing poverty. Investments in infrastructure are scattered and the implementation of projects is often delayed. Debts incurred for financing the construction of infrastructure are substantial, and the debt service obligations create pressure on the budget and prices.

2. National Budget

Budget revenues are low and planned targets are not realised consistently. From 2001 to 2005, the monetary and fiscal situation faced numerous difficulties due to slow economic development and an even slower pace of growth in revenues, partly due to the tax incentives extended to investment projects at the start-up stage of their operations. At the same time, the legislative texts of the National Assembly and decrees on the remittance of duties and taxes by enterprises are not strictly enforced. Furthermore, negative phenomenon within the tax and customs administration has entailed a substantial loss in revenues. Throughout the five-year period, the investment ratio targets of the Plan have not yet been achieved. Excluding grants, this ratio represents only 11-12 percent of GDP, instead of 18% of the GDP as targeted.

Capital investment is the largest line of expenditure at 50 percent of the total budget, with approximately 70 percent of investments funded from external loans and grants. Given the high investment ratio, current expenditures are limited and do not meet the requirements, thus affecting the efficiency and outcomes of the public administration of social development and the delivery of health services. Also, low civil service pay is becoming an issue requiring an urgent solution.

Budget expenditures remain heavily subsidized as may be seen in several budget lines, such as cars and fuel, and the uncontrolled recruitment of additional civil servants, while expenditures for health and education may not yet be ensured.

Low revenues that are well under planned targets (partially due to exceedingly ambitious Plan targets) effectively undermined the national budget's balance since it was difficult to reduce expenditures, especially recurrent expenditures, the bulk of which are absorbed in the civil servants' wage bill. In fact, expenditures exceed the Plan target, resulting in confusion in the fiscal sector and imposing difficulties to enterprises.

The prolongation of such expenditures for several years and the substantial debts incurred by the Government has pushed the security of the nation to the threshold of fiscal non-sustainability. As a result, there is a real risk that inflation may return to higher levels and threaten the socio-economic balance.

3. Financial Sector

The administration of financial sector policies has been slow in solving several issues. The monetary policy framework is limited and incomplete. It is mainly based on the obligation and issuance of bonds of the Bank of Lao PDR while credit and marketing officers may not yet use them. It is for such reasons that the sources of money and credit are restricted. The exchange rate management mechanism is not yet fully consistent with the actual conditions, thereby limiting the efficiency of its implementation. The use of foreign currencies in transactions by enterprises and the general population is still widespread.

The central bank has not yet been able to set indicative interest rates to guide the market. The administration and the setting of guidelines for market rates still encounter severe difficulties. During the last two years of the Fifth Plan, interest rates on loans extended to economic entities remained substantially high although the rate of inflation declined significantly, thereby adversely affecting economic growth.

The financial market is developing within a limited scope. Credit is limited and meets only 15 percent of the requirements. The loan amortization periods are short and there is pressure on the operations of enterprises and the capacity of the commercial banks to recover loans. The volume of repayments overdue in the banking system is substantial and is concentrated mainly in the domestic commercial banks, which suffer from poor financial capacity and quality of transactions. High non-performing loans (NPL) are a drag on credit flow and high interest rates remain.

4. Economic Base

Until now, the economic base of the country remains to be relatively small. The total GDP in 2005 amounted to only USD 2.8 billion, with an average GDP per capita of USD 491. These indicators for Lao PDR are among the lowest for the countries in the region, and it remains one of the poorest countries in the world. The economy's growth rate is yet to reach its full potential. With the low economic base, even if the rate of growth of the economy accelerates significantly, the absolute value added to the GDP would remain modest. The gap between the GDP per capita of the Lao PDR and other countries in the region continues to widen.

C. Structural Adjustment of the Economy

1. Structure of the Economy

The adjustments in the structure of the economy largely focus on the sectoral composition of GDP, concentrating on the rate of industrialization. They do not take into account adequately the goals in structural adjustment in line with the direction of industrialization and modernization, with strong technological and technical developments. Therefore, the development of domestic industries is characterised by obsolete technologies, high costs and low efficiencies. This requires high protection/subsidies and reduces the competitiveness of the economic sectors in the long-run in the process of international integration. Structural adjustments in the agriculture sector have only recently been initiated with the conversion of low productivity (and low value) rice cultivation land into industrial plantations. The economic components of the agriculture sector are not strongly linked to the processing industries and markets. The economic structure in rural areas is mainly and solely reliant on agriculture, which accounts for 84% of the people's livelihood. The sale of a number of agricultural products is difficult due to high production costs and low quality. Many products are not competitive.

2. Geographic (Spatial) Structure

The geographic (spatial) structure of the economy shows considerable disparity, with large variations in the growth rates, with a relatively low level of development in many Northern and Southern Provinces. The economies in many areas remain unbalanced and the territorial potentials have yet to be strengthened. At the same time, the economic transition still remains slow, and a large share of the land is in agro-forestry. The development gaps between urban and suburban, provinces/territories, economic sectors, and the ethnic groups are large. Therefore, it is difficult to identify the intrinsic (but concealed) potentials in each province/territory.

3. Labour Force

The skill level of the labour force is developing slowly compared to the improvements in the economic components in each sector and area. The capacity development of the labour force is characterized by self-improvement, with only occasional opportunities for training, resulting in casual labour. Without proper institutional arrangements and training programmes, it would be difficult to achieve the objective of appropriately redistributing the labour force and population to meet the requirements of industrialization and modernization.

D. External Economic Relations

1. Foreign Trade

Exports and imports still face severe constraints. Exports per capita are still extremely low due to constraints in large-scale commercial production and in processing higher quality products. The export of unprocessed and low value added agricultural products accounts for a major proportion (about 50 percent) of the export revenues. Therefore, the value of exports is low and may be reduced easily due to fluctuations in price. Moreover, more than half the revenues from Lao exports are generated from products for which markets are unstable (e.g. garments), or the volume has reduced (e.g. wood), or which suffer from price declines (agricultural products). Interestingly, the rate of growth of exports is not yet stable and is lower than the GDP growth rate; while the exports of many countries in the world are increasing twice as fast as or faster than the growth in their GDP.

The foreign trade management policy framework and measures need to be further developed in detail. The existing framework and measures do not ensure overall coverage and lack long-term vision, affecting their efficiency. In many cases, they demonstrate a lack of ownership, especially in the management of imports. Coordination between central and local authorities on exports and imports is still weak and inefficient. There is still a widespread shortage of management officers, technical staff and workers with high technical skills.

Even though substantial imports have significantly contributed to the successful growth of domestic production and exports, they are increasing faster than the rate outlined in the Fifth Plan. The management of imports still faces severe difficulties. There is a general lack of market information and most of the imports are concentrated on smaller markets, and many technologies have been imported but obsolescence is still pervasive.

2. Foreign Investment

Foreign investment increased at a slow pace. Investments in the agriculture, forestry and fisheries sectors and areas with difficult access are very limited. At the same time, the capacity to attract investments in the industrial sector remains low. The licensing process is time consuming and cumbersome. Foreign investors face many difficulties due to the insufficiently open investment environment, inadequate facilities, and the lack of consistency and predictability. The costs of inputs such as fuel, electricity, telecommunications and shipping are much higher than in many other countries in the region, restricting the competitiveness of Lao products and services and the attractiveness of the Lao PDR to foreign investors. Also, there are very few investors with the capacity to raise large volumes of funds from the regional and international economic groups.

One of the main causes restricting the growth of foreign investment in the Lao PDR is the insufficiency of skilled labour. Currently, skilled labour represents only 2 percent of the total

labour force and is not able to meet the requirements of foreign enterprises which need highly skilled labour.

3. Official Development Assistance (ODA)

The delayed disbursement of ODA negatively affects the mobilization of funds and their efficient use.

E. Social Development

1. Education and Training

In the education and training sector, repetition and dropout rates are high and increasing. In 2005, the dropout rate was 8.9 percent at the primary level, 7.2 percent at the lower secondary level, and 3.2 percent at the upper secondary level. The repetition rates at primary schools, mostly in year 1, stood at 34.1%. Due to the low quality of graduates, few are accepted in the labour market, while the remainder are forced to work in sectors other than their areas of training.

The issue of insufficient teachers and sub-standard teachers has dragged on for many years, but efficient solutions have still not been applied. By 2005, about 19 percent of the teachers had not been properly trained. The curriculum is obsolete, while enrolment at the lower and upper secondary levels remains generally high. Current treatment of teachers and the management of the teaching corps are characterized by many inconsistent elements and fail to encourage teachers to undertake proper training as well as capacity enhancement activities. Teachers are paid very low salaries irregularly. Class-rooms are insufficient to accommodate the rising number of students. This leads to a phenomenon where classes need to be rescheduled in lower and upper secondary schools. The ratio of students per class is high at around 70-80.

The literacy rate remains very low. The survey data show that in 2005, only about 68.2 percent of the people aged 15 years and over are literate, which include the 15-39 years age group with a literacy rate of 78.6 percent. According to another review, only about 45.2 percent of the population are literate with a breakdown of 53.7 percent for men and 36.3 percent for women. This review also indicated that only 37.7 percent of the literate have a normal level of application of their literacy skills and 30.8 percent are able to make good use of their literacy skills in their activities.

The training of personnel, workers and skilled artisans do not meet the requirements of the labour market and the society. The development of education in isolated, ethnic and highland areas is very slow. Illiteracy eradication efforts are not yet based on strategic plans and detailed procedures, and a substantial portion of the population is still illiterate.

The implementation of scholarship awards is slow. In 2005, only about 7.5 percent of persons with merit have received assistance, representing only 30 percent of the Plan target. (The Plan provides for the provision of assistance to 25 percent of students through different means.)

The education sector suffers from a severe lack of equipment and tools; foremost among them are textbooks, learning materials and school facilities; and teaching fails to meet the requirements. The ratio of schools meeting the standards set by the Government is still very low. The budget allocations made to education are very limited and not constant, with a peak of only 10 percent of the total budget expenditures. Within such allocations, up to 80 percent are provided from external grants, and the mobilization of these funds is subject to increasingly difficult conditions. The National Assembly agreed to allocate 12 percent of the budget to the education and training sector, but none of the provinces have yet received such an allocation.

2. Health

The health sector and the health care services delivery do not fully meet the requirements of the population, either in quantitative or qualitative terms. The health system does not yet meet the health requirements of isolated areas, particularly poor areas with difficult access. The level of competence of health personnel is not consistent with the actual needs. Dispensaries still need the presence of medical doctors. The deployment of health personnel is not in accordance with their training and the pharmaceutical sub-sector is developing very slowly. Ethnic groups still uphold superstitious beliefs, lead unsanitary lifestyles and mainly rely on shamans for cures.

3. Employment

The need for new employment opportunities is huge, but employment generation is slow and there is a high level of unemployment. The allocation of the labour force is shifting slowly, and has not brought about significant changes in socio-economic development. Subsistence production results in the underemployment of labour and makes the management of social issues more difficult. The lack of external communication results in an inward-looking (insular) economy. The labour cooperation mechanism is not yet open to facilitate labour movement among districts and provinces, as well as other countries in the region.

4. Public Sector Salaries

In recent years, the public sector salaries are very low and are not adequate for civil servants to meet their daily requirements. In addition to office work, a second job is sought to support family expenses and the children's schooling and health care. This has impacted significantly on the quality of work and performance of civil servants. Therefore, the reform of civil

service pay and the increase of salaries for civil servants are currently urgent matters to uplift the quality of performance.

5. Poverty Reduction

In poverty reduction efforts, due to insufficiently firm coordination between the relevant agencies and unified guidance from the Government, each agency is left to carry out their sector's activities independently. The overall supervision, assessment, control and monitoring of poverty reduction activities have not been entrusted to any agency.

Clear and specific credit policies need to be outlined to allow public funds to reach producers when required and proper mechanisms need to be established to mobilize domestic and foreign resources to establish funds that would extend credit to the poor for the development of production activities and the reduction of poverty.

The civil servants including the technical staff of local administration authorities are insufficient in number and have inadequate capacities, and a substantial number have minimal qualifications. This is a major constraint to the dissemination of policies and programmes and the implementation of policy guidelines adopted by the Party and the Government, thereby affecting the efficiency of poverty reduction efforts.

6. Social Security

The establishment of an efficient social security system for all Lao people to alleviate poverty is a long-term objective. Public servants are covered by a comprehensive range of provisions including pensions and health care financed partly through a six percent deduction from salaries and partly from the state budget. In 1999, the Government adopted a Decree on Social Security System for Enterprise Employees, establishing the foundation of a National Social Security Scheme. It called for the creation of a Social Security Organisation (SSO) which began operating in June 2001. The SSO administers the Social Security Scheme for enterprise workers in the private and the SOE sectors. The scheme provides protection coverage in respect of a range of contingencies/risks including the following:

Access to health care from an approved health care provider for insured workers and their families;

Long-term pensions in case of invalidity or old age and to surviving dependants;

Short-term benefits in respect of incapacity to work by virtue of sickness or maternity; and

Benefits in case of incapacity to work by virtue of an employment-related injury or sickness.

However, a very low proportion of workers are covered under the formal social security systems. Only 4.7 percent of the total labour force, with about 28 percent in Vientiane City,

has social security coverage. In 2005, care and aid were given to only 7.5% of the total beneficiaries, accounting for 30% of the set target.

Information and Culture: The creation of favourable conditions for cultural exchange between ethnic groups is irregular and discontinuous and still requires necessary materials. The mass media grows slowly and the quality of the media is not high. Thus, the dissemination of the Party-state policies does not go thoroughly to those in remote areas. Efforts of transforming the behaviour and livelihoods of ethnic people in rural areas are slow. The awareness campaign on the struggle against drugs is not launched thoroughly.

National Defence and Public Security: The development of the national defence and public security has not received sufficient attention as it should, which makes the defence and security work insufficiently strong and leaves a gap leading to social evils. The socio-economic development is not closely connected with the improvement of the national defence and public security forces as well as the two strategic duties defined by the Party. Due to the insufficient collaboration between these two tasks, investment costs are high but the yields are low. The budget allocation for the armed forces is limited, causing difficulties to them in their operations and living conditions.

F. Limitations and Causes

1. Limitations

Nevertheless, the economy of Lao PDR needs to overcome the following limitations:

The economic growth rate remains below the Plan target and has not met its full potential, while ODA is stable and remains significant, covering a major proportion of the national budget's development investments specifically and more generally of the total investments. FDI sources have increased and cover a higher share of the total investment. Funding from enterprises, the domestic private sector and bank credit for investment remain low and are characterized by inward-looking self-sufficiency. Capacities in production, and the quality and efficiency as well as competitiveness are still low. The main types of markets are newly set up and less developed, especially the capital market;

There is a severe shortfall in revenues, expenditures are excessively high and the budgetary targets are not firmly maintained. Public debt – including domestic and foreign debt – incurred by the Government is overwhelming and the debts of enterprises are also substantial; and

Many social issues are problematic, including the delay in the payment of salaries and very low salary packages for Government officials and people whose main income is from the

Government budget. This fact is likely to result in the low quality of services provided by Government officials.

2. Causes

These limitations are a result of the following:

The lax implementation of instructions and resolutions issued by the Party and legislation enacted by the Government, which are even disregarded in certain areas; a substantial number of civil servants and Party members have lost their qualities and are engaged in corrupt practices; and coordination between ministries, sectoral authorities and between central and local authorities is still very weak;

A new legislative framework is in the process of being established and is currently incomplete. More specifically, there is a slow acceptance of new economic concepts delaying the establishment of a market-oriented economic framework meeting the socialist directions and obstructing the process of realizing the socio-economic development goals;

There is confusion about the timeframe for international economic integration. There is no long-term strategy or appropriate policies to attract and use foreign direct investments and ODA funds, which explains the low efficiency in the use of such funds;

Slow institutional (re)organization, slow reform of the civil service and public administration means that they fail to meet the requirements. Guidance and supervision in the civil service and reform of public administration does not ensure high efficiency. Socio-economic information systems suffer from many limitations and are not timely, especially in the case of statistical data, which causes significant constraints in the administration of the economy by the Government and line agencies; and

There was a need for substantial funding to implement the Plan, but resource mobilization has not yielded the required results due to the insufficient attraction exerted by the different mechanisms and policies to encourage investment by various economic sectors. Efficiency in using funds is low and the use of such funds is inconsistent, with excessive concentration on infrastructure, while investments in production and skills development are very low. The investments in agriculture and services still do not match with the investment in human development. In particular, the development of education and quality health continues to lack capital investment and can not enjoy greater attention.

II. LESSONS LEARNED

Based on the actual conditions of completed and ongoing activities during the past five years, the following lessons of experiences may be drawn:

A. Implementation Focus

Increased focus on the implementation of the Party's policy of restructuring is needed; with the Party's decisions expeditiously translated into detailed, complete and consistent programmes. This assessment is in accord with the principles and actual conditions in the administration of socio-economic development during the past five years. Concepts, basic approaches, goals, tasks and remedies mentioned in the Ten-Year Strategic Plan (2001-2010) adopted by the 7th Party Congress have important guiding significance, encouraging restructuring and creating new potentials for the nation.

During the past five years, the resolution of the 7th Party Congress and following resolutions of the Party Central Committee were developed and strictly implemented in all sectors from the central to the local levels and from the macro level down to the executing levels. The Party's policy of restructuring was developed into detailed activities through plans and programmes to be performed in each sector and at each level. Mechanisms were institutionalized to administer socio-economic development, ensure strong coordination and unity in supervising such administration and ensuring the enforcement of rules and regulations, and the consistency and accountability of each sector and each level.

These are the main reasons for the success gained in the past five years. Nevertheless, in practice, many fundamental matters in different sectors were not pursued at different levels. Due to inconsistent decentralization, approaches to development are not unified. The implementation of detailed activities is confused and not fully consistent with the eight priority programmes of the Government (food production, commercial production and others) and hence delayed the execution of a number of policies, such as commercial production, increased budget revenues, the promotion of foreign investments, and international integration. Regulations, policy guidelines and laws are not strictly enforced, but are implemented in a discretionary manner or contradicted voluntarily, thereby re-orienting the purpose of the rules and regulations and obstructing the development process.

B. Sustainable Development

Sound understanding of and commitment to sustainable development and proper approaches to achieve it are required. Such recognition and approaches are reflected in the macro policies and in detailed matters of socio-economic development. First of all, the less than projected

sustainable development in quantitative growth accompanied by enhanced quality, efficiency and economic competitiveness will limit future development. Further efforts are required to exploit cross-sector development factors, such as funds, land, resources, and labour. More specifically factors that increase the depth of development should be upheld, such as modern technologies, improved management mechanisms, and enhanced production and marketing capacities. Sustainable development must align economic development with social and cultural development, overall human development, democracy and social equity, through the creation of employment, the improvement of living conditions, and the promotion of lawful wealth accumulation that is accompanied by the simultaneous eradication of hunger (scarcity of rice) and the reduction of poverty. Also, the sustainable use of the natural resources and the protection of the environment must be upheld from the initial stage of development.

C. Resource Mobilization

Economic theory and practice in different countries have demonstrated that domestic resources play a critical role in development. Through the growth of domestic resources, external resources may be mobilized and used with increasing efficiency. Strong domestic resources ensure independence, economic ownership and successful international economic integration. The actual conditions prevailing in the Lao PDR indicate that the mobilization of domestic economic resources is a critical element for national development, stability, firm participation and development. External sources of funding are important. The mobilization of such sources of funding in combination with domestic resources would both ensure their full and proper use and create the required conditions for economic growth. The Government of the Lao PDR has applied many measures to promote such sources of funding. It is for such reasons that the domestic sources of funding were more easily exploited.

Developing domestic resources involves first of all developing human capacities and the resources of the multi-ethnic people in efficiently exploiting and using the country's natural resources. Appropriate policies are required to develop internal resources that play such a critical role, and develop the potentials of the economic sectors (e.g. Government, private sector and households) firmly pushing forward socio-economic development, industrialization and modernization. Transparency is important when reporting on results, to ensure greater accountability and more efficient use of limited resources.

Simultaneous with the development of resources, the Government upholds the efficient use of such resources and calls for investing the resources in re-structuring the economy mainly in the agricultural and rural sector. More specifically, the Government upholds the efficient use of budget funds that are considered as core sources of funding to attract funding from other sources to invest in line with the Plan's goals. Protection of private property rights and the development of a supportive enabling environment for business are important ways to increase domestic resource mobilisation.

However, the exploitation of funding sources (both domestic and external) remains very weak and limited given the incomplete and undeveloped domestic market that contains high risks. The population's low income, the incomplete policy framework and other constraints

limit the capacity to attract foreign sources of funding for development. Investment licensing remains a cumbersome and complex process.

D. Economic Restructuring

Economic restructuring has become an urgent issue and a factor that may no longer be postponed to ensure rapid and stable economic growth and competitiveness. The Government has disseminated this lesson among sectors and levels. The proper restructuring of the economy in line with the directives requires macro (global), area and sectoral arrangements consistent with the market-mechanisms and the adoption of innovations in science and technology.

A number of policy frameworks were developed in detail for each type of tree, animal species, and industrial and agricultural products in the previous five-year period, which initially affected the economic restructuring of sectors, areas, groups of products and more particularly the agriculture and rural sectors. Even though these elements emerged inherently in certain areas, they need to be further strengthened. Past economic restructuring has built the capacity to realize development and build the springboard for further development in the following years.

Economic restructuring must be accompanied by the development of the domestic market to promote the growth of production and realize the goal of upgrading the living conditions of the population. When the participation in the external market is still limited, development of the domestic market will help the population sell their agricultural products, enhance their purchasing power and continue the programme of eliminating hunger (scarcity of rice) and reducing poverty. It will strongly promote commercial production, thereby making the domestic market more lively and encouraging production and business. The inevitable increasing share of industry and services in total employment means that there will be increased internal migration, rural-urban migration in particular.

E. Integration and Autonomy

International integration is an objective requirement over which ownership must be maintained following positive, stable and firm steps forward without excessive rush, carelessness or inadequate preparation. The external market must be actively opened to strongly promote exports, while ensuring ownership in opening domestic markets, including service markets to attract financing sources, advanced technologies and know-how in management from the world, enhance efficiency and economic competitiveness by firmly attracting foreign investments.

In the process of market opening and international economic integration, the Lao PDR needs to develop all its potentials in order to compete with outside. However, actual conditions clearly indicate that to ensure long term development, stability, autonomous capacities and

economic ownership, the internal resources must be strengthened urgently including the efficient development of certain sectors as well as essential economic products, the building of comprehensive infrastructure, and increasing foreign exchange reserves.

F. Simultaneous Economic and Social Development

Economic growth must be linked to social progress (including poverty reduction and gender equality) and equity, cultural development and environmental conservation, including the strong development of education and training, and scientific and technological capacities. The Government outlined many policies, and mobilized significant sources of funding, including budgetary funds for social and cultural development, to remedy urgent issues and stabilize the living conditions of the people in flooded areas, concentrating on the elimination of hunger (scarcity of rice) and poverty. Although certain targets could not be attained and the economy is struggling with certain difficulties, the social outcomes have been positive.

This new development phase requires the deepening and overall coverage of the restructuring efforts the Lao PDR. Comprehensive socialist market-oriented economic legislative framework must be urgently established, and the principles of the market economy must be comprehensively implemented. At the same time, as a more firmly orientated market economy is established, social protection must be improved. Employment must be ensured, hunger (scarcity of rice) eliminated and poverty reduced. Education and culture must be developed for the vulnerable groups in society. The role and accountability of the Government and the society as a whole must be firmly enhanced to meet these requirements.

G. Public Administration Reform

Continued reform of the public administration, including central and local organizations and the civil service, consistent with the country's socio-economic development level is essential. This is a critical element in the development process. Lessons drawn on supervision and guidance were disseminated in the Government's policy programmes and in their further development at sectoral level. More particularly, progress made by the local authorities in public administration during the past years has contributed to flexible and efficient socio-economic development. Through close supervision and monthly meetings with the aim of eradicating poverty, applying decisive measures, focusing on products and each focal area, firm progress was ensured towards achieving the Plan's goals.

The experience accumulated during the period of restructuring and more particularly during economic crisis, indicates that macro-economic indicators risk being affected. The Government and ministries, central and local agencies of the Lao PDR are ready to seek solutions. It is for such reasons that development resources are strengthened, additional resources are joined, obstacles are overcome and different goals are achieved.

The actual situation indicates that on the basis of identical mechanisms, policies and resources, the locality with strong leadership and administration will more efficiently achieve the required outcomes in economic and social development compared to others where the public administration still needs to undergo the process of reform. In the next five-year plan, the outcomes of reform and socio-economic development efforts will depend significantly on consistent endeavours and the implementation capacity of the sectors which include the human factor (including civil servants), and especially key decision-making staff who play a vital role.

To ensure efficient implementation, staff deployment must be consistent with the development requirements. Defined tasks and corresponding rights and responsibilities at the institutional and individual levels must be clearly identified. At the same time, strong accountability is required from civil servants and more particularly from leaders. Whenever a task is not duly performed, delayed or improperly performed, timely solutions must be sought, including replacements. More specifically, at the beginning of the forthcoming five-year period, detailed mechanisms will be designed to ensure that the performance of civil servants meets these requirements. In addition, proper attention is to be paid to the rights and benefits of officials including solving the delays in salary payment and the very low salary level.

**PART II:
SIXTH FIVE-YEAR NATIONAL SOCIO
ECONOMIC DEVELOPMENT PLAN
(2006-2010)**

III.OVERALL DEVELOPMENT STRATEGY

The development of the Sixth Five-Year Plan is based on: (i) the Long-Term Strategy of Socio Economic Development to the Year 2020; (ii) the Strategy on Industrialization and Modernization; (iii) the National Growth and Poverty Eradication Strategy (NGPES); (iv) the Regional Development Strategy; (v) various sector, thematic area and sub-sector strategies and plans; and (v) the analysis of the international and domestic contexts for the development of the Lao PDR.

A. Development Context

1. International Context

It is hoped that the general trend of cooperation for development in today's world will continue over the five-year period (2006-2010). The world economy has been recovering and advancing, with the growth rate in the period 2006-2010 likely to be slightly higher than that during the preceding five years (2001-2005). Official development assistance (ODA) has been growing and is expected to rise significantly during the next five years.¹ The international financial markets are likely to be more active, with FDI and indirect investment flows recovering and expanding. However, the rapid, sustained and large increases (more than doubling) in petroleum (oil) prices in the past two years continue to have adverse impacts on the global economy in general, and particularly the low-income oil-importing countries including the Lao PDR, and the lives of the poor people in these countries. The scientific and technological revolutions, especially in information technology and bio-technology will grow strongly. The economization of intellectual property will spread globally, which is a good opportunity for the country. Although there are many challenges of integration into the global economy, it is necessary to open opportunities to other nations, especially the Lao PDR, to play their roles on the international stage for utilizing the opportunities for their development.

The 2005 World Summit in September at the UN Headquarters in New York has reiterated the commitment of the community of nations to eradicate poverty and achieve the Millennium Development Goals (MDGs). The Summit also emphasised the need to increase aid to the least developed countries (LDCs) and assist them in implementing the

¹ ODA increased from the low USD 50 billion range in 2001 to USD 79 billion in 2004. The Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD/DAC), which monitors aid flows, expects the ODA to rise to USD 97 billion in 2006 and USD 128 billion in 2010. However, most of the additional aid has been utilized so far to write off the debts of developing countries including those of Iraq and Nigeria.

Brussels Programme of Action for LDCs (2001-2010). Accordingly, bilateral and multilateral relations would widen and strengthen among nations, and between nations and international organizations. These developments in the international arena will help the Lao PDR take advantage of increased opportunities to push forward with its development, reduce poverty and successfully implement the industrialization and modernization strategy, narrowing the gap with neighbouring countries in the region, while improving the country's status in the global community of nations.

2. Domestic Context

On the positive side, there has been political and social stability over the past five years, and this situation is to be strongly maintained. The production capacities and abilities of many industries have increased substantially, and the economic structure has changed significantly. The enterprises and the national economy have adapted better to the international market and the competitiveness of Lao products has improved steadily. The economic structure has changed progressively, and the implementation of the Party's instruction has been implemented methodically in priority projects. The market economy structure has been adjusted and progressively improved. The geographic location and natural resources of the Lao PDR attract tourism and investment. The country has been recognized as the transit center of the region.

By the end of the Fifth Plan (2001-2005), the production capacity and ability of many industries increased substantially, and the economic structure changed significantly. The quality of growth in many industries and regions has improved somewhat, with the enterprises and the national economy adapting better to the international markets. New and more radical policies introduced in the recent five years had positive impacts; attracting more investment from the society, especially utilizing internal resources for targeted investments, and bringing about structural changes in the economy.

The country has been recognized in the region and globally as having a dynamic economy within a stable political situation, and a safe destination for investment and tourism. Socio-political stability is an important foundation and an essential precondition for socio-economic development, which is an advantage that the Lao PDR enjoys now. The full membership of the Lao PDR in the regional and global political, economic and monetary organizations including the WTO will boost the dynamism of the economy and accelerate the country's development.

However, the country faces many challenges in the five-year period 2006-2010. These include the moderate size of the economy and the small-scale of much of the domestic production; low GDP per capita; insufficient domestic income, savings and investment to increase production and accelerate development; and weak financial and monetary systems. Although the economic and social infrastructure has been developed for several

years, it is still not fully adequate to meet the growing development needs. The technological base is low and far behind that in other countries in the region. The services sector is still growing slowly. The skilled human resources and skilled labour force are limited. It is necessary to invest immediately to improve the skills, but there is limitation of the budget, which restricts the ability of the nation's development. The effectiveness of state administration is still limited. Erratic weather and climate changes, widespread diseases such as SARS and Avian Influenza (bird flu) are real threats. There are many social problems such as poverty, drug abuse, AIDS, prostitution and low salaries, which need to be solved immediately

The ability of Lao enterprises for regional and international economic integration is still limited. But implementation schedules of commitments under AFTA, WTO and other international agreements will put increased pressures on enterprises to adapt. Also, there is likely to be pressure on the stability of the nation's economy, which is inevitable. The competition for development, especially the attraction of foreign investment, free trade in the region and other regions in the world, are intense. At the same time, there are pressures on developing countries resulting from the revision of political and economic policies of powerful nations, such as rising oil prices, currency fluctuations, price subsidies and non-tariff trade barriers.

B. Overall Development Strategy

1. Background

The 7th Party Congress has set out the Ten-Year Socio-Economic Development Strategy (2001–2010) for the country, which includes improving and building the economic infrastructure to ensure fast and sustainable economic growth, with emphasis on agricultural production, eliminating forest fires and deforestation, reducing the number of poor households, promoting industrialization and modernization. The country's human resources are to be developed step-by-step both in quality and quantity to cater to the emerging needs and make the country a regional centre for exchange of goods and services. The strategy encourages a socialist-oriented industrialization and modernization with infrastructure development to prepare the nation for graduation from the Least Developed Country (LDC) status by 2020 and to achieve improved well-being for all the Lao peoples. The objectives set out in the Strategy support the achievement of the MDGs and the implementation of the Brussels Programme of Action for Least Developed Countries (2001-2010).

The Sixth Five-Year National Socio Economic Development Plan (or Sixth Plan) covering the five-year period 2006-2010 plays a crucial role in implementing the socio-economic development policy guidelines set out by the 7th Party Congress. It is the

vehicle for facilitating the implementation of the second half of the Socio-Economic Development Strategy (2001–2010) approved by the Congress. Thus, the Sixth Plan institutionalizes and concretizes directives and tasks that will be carried out further during the five-year period 2006-2010, to ensure that the overall targets outlined in the Ten-Year Strategy (2001-2010) are achieved.

2. Development Directions

The directions set in the Sixth Plan (2006-2010) are to achieve the highest outcomes and make general changes along the following lines:

- (i) Turn from under-development to fast and stable development, producing high value-added goods both in quantity and quality step-by-step in order to meet domestic market demand and increase exports;
- (ii) Increase competitiveness and utilize comparative advantages to implement effectively international economic commitments in the frameworks of ASEAN and other bilateral and multilateral commitments, including the WTO;
- (iii) Strengthen links between economic development and social development, and protect natural resources and the environment. Social problems should be solved first, with attention paid to such issues as the reduction of poverty, unemployment and social evils, and keep the social and political situation stable; and
- (iv) Accelerate the building of a comprehensive socio-economic infrastructure and finalize the establishment of a market-oriented economy with socialist orientation to form the basis for industrialization and modernization.

Thus, the Sixth Plan (2006-2010) is seen to be a break-through plan for creating a fast but firm and qualitatively enhanced development, with increased capacity for economic competitiveness, lifting the society to new heights both in material and moral wellbeing, significantly improving the quality of life of all the people and boosting the nation's status in the international arena.

3. Overall Goals of the Plan

The 7th Party Congress identified the general goals of the Socio-Economic Development Strategy for the ten-year period 2001-2010 as follows: *“Improve and establish the basis for the economy to progress strongly in firm steps, especially to strongly develop the agriculture sector; entirely eliminate the slash-and-burn cultivation practices; complete the tasks in solving the problem of poverty of people; create the foundation for industry and prepare the quality and quantity of human resources to be ready for industrial development and gradually turn to industrialization; develop our country to become the central point of transit of the region in the future ”*. The Party Congress identified key expectations: GDP in the ten years (2001-2010) to increase on average at least 7.5% per

annum; GDP per capita in 2010 to be USD 700-750; the population growth at rate in 2010 to be reduced to about 2% per year.

The main goals of the Sixth Plan (2006-2010) are to maintain all targets and views that have been set in the ten-year Strategy (2001-2010). Therefore, the goals for the Sixth Plan are as follows:

“Accelerate economic growth and improve the people’s quality of life, restructuring the economy and employment in building a market economy, based on the country’s rich resources and international integration. Further build the market economy with a socialist orientation. Continue to enlarge and develop effective external economic relations. Create breakthrough changes in education and training in terms of quality and quantity, utilising the advances in science and technology, protecting the environment, and taking human, scientific and technological players as vehicles for development. Develop culture and society in synchrony with economic growth. Continue poverty reduction, creating jobs, and eliminating social evils. Continue strengthening the socio-economic infrastructure as fundamentals for development in the Sixth five-year Plan and for the next (Seventh) five-year plan. Maintain political stability and social security, protecting sovereignty, territorial integrity and national security.”

Based on the goals set out above, the following tasks and guidelines are to be followed:

- (i) Economic growth should be increased to an average of 7.5 - 8% per annum; establishing the fundamental economic players to support the next (Seventh) five-year Plan. Accelerate the progress of economic systems and enhance the potentials of products by region. To do so, the quantity and quality of goods and services and the level of competitive ability of all business enterprises and economic sectors must be improved, paying attention to the development of information technology and establishing the foundations for human resources development;
- (ii) Ensure the balance in economic development in parallel with social development and protection of the environment, solving urgent social problems and actively solving other ill behaviours in the society. Create job opportunities, reduce unemployment, uplift the people’s level of material and mental wellbeing and living conditions; improve salary scales; reduce poverty; and take care of people who are national heroes and sacrificed themselves for the nation;
- (iii) Encourage economic development in the various sectors by paying attention to the state economy as the leading sector; concurrently establish and develop other forms of the economy: collectives and private and foreign businesses; establish and implement the instructions and regulations related to the market economic arrangements with socialist orientation as a strong step. Pay

attention to the creation of facilitating environments for investment and business activities in a consistent manner; and ensure transparency and a high level of economic competitiveness in the region;

- (iv) Promote and develop small and medium enterprises (SMEs) to expand rapidly; create the conditions to strengthen the financial status of state-owned business enterprises step-by-step, including the improvement of their debt situation;
- (v) Ensure the maintenance of existing infrastructure; establish additional infrastructure specifically to support the socio-economic development activities aiming to promote trade, investment and tourism; increase the investment in the infrastructure for socio-economic development; explore national resources including human resources to be used as potentials for development in an effective manner; establish and prioritize investment projects to establish effective economic structures and to be in a good position and ready for competition;
- (vi) Continue to broaden economic opportunities and upgrade the level of external economic relations. Create facilitating conditions to increase exports; attract investment in terms of funding and technology as inputs from external sources to support the production of goods and exports while taking ownership in economic integration at the international level: and actively and strictly implement bilateral and multilateral agreements at the central and local levels;
- (vii) Continue to improve and strengthen the financial and monetary sectors by increasing the capacity of the national financial administration bodies, solving the problem of long standing debts by utilizing many financial sources including financial balancing at local levels. Implement national policies on economization strictly; maintain macroeconomic balance; establish and develop financial markets to meet the needs of socio-economic development activities;
- (viii) Continue with progress on new changes to create comprehensive development approaches in the areas of education and capacity building; implement compulsory primary education programs; apply science and technology; upgrade the level of quality of human resources to catch up with the new changes in the economic structures; apply advanced and modern technologies in areas with favourable conditions with primary focus on economic areas at the center and in the provinces, municipalities and cities;
- (ix) Enhance the public administration activities with strong steps; and improve and upgrade the effectiveness of state organizations. The relations between the state bodies and local people and business enterprises must be organized with transparent approaches allowing audits to be conducted; solve the problems of bureaucratic phenomena and corruption; and uplift the capacity of government officials in performing their duties;
- (x) Strengthen the areas of national defence, public security, social and political aspects, and broaden foreign relations; maintain the society with stability; and

create a favourable environment to support the development and protection of the nation.

The goals coincide with the MDGs and those in the Brussels Programme of Action for Least Developed Countries (2001-2010).

C. Plan Targets and Tasks

1. Targets

The 7th Party Congress has also set some specific targets, including an average annual GDP growth rate of more than 7 percent during the first decade of the new millennium (2001 to 2010), with the population growth rate slowing down to an annual average of about 2.0 percent by 2010 and GDP per capita reaching USD 700-750 by the end of the decade. The Sixth Plan (2006-2010) will maintain and build on these targets as follows:

Economic Targets

The total GDP in 2010 should be 1.95 times (or about two times) that in 2000. GDP at current prices in 2010 is projected to be 59.5 thousand billion Kip, equivalent to USD 4.97 billion. The average GDP per capita will reach USD 827, which will meet and exceed the target set in the Plan (USD 700 - 750). The GDP annual average growth rate should reach 7.5-8%, with agriculture and forestry increasing by 3-3.4%, industry by 13-14%, and services by 7.5-8%.

In particular, the growth rate in industry will be considerably accelerated, as there will be more industrial opportunities, especially hydropower dams and cement factories, which will begin operation at the end of the Sixth Plan. Therefore, the GDP growth rate will accelerate, from approximately 7.2% in 2006 to perhaps 8.2-9% in 2010 (depending on the progress in implementing the large-scale projects meeting prioritized plans, particularly the construction of hydropower dams).

By 2010, the agriculture sector is projected to account for about 36% of GDP, with industry about 36.4% and services about 27.6%. The projected annual changes in the structure of the economy are shown in Table V.1.

Table III-1 Projected Structure of the Economy (2006-2010) (percent)

Sectors	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	43.1	41.3	39.6	37.8	36.0
Industry	29.9	31.4	33.0	34.6	36.4
Services	27.0	27.3	27.4	27.6	27.6
GDP	100	100	100	100	100

The total budget revenue in the five years (2006 -2010) would be 34.6 thousand billion Kip. The ratio of budget revenue to GDP would average at 14.8%. The total budget expenditure would reach 49.6 thousand billion Kip, averaging at 21.5% of GDP over the five years. The budget deficit would reduce from 7.8% of GDP in 2005 to 5.8% in 2010.

The total exports in the next five years would reach USD 3.48 billion, with annual average growth rate of 18.1%. The total imports in the next five years would reach USD 4.5 billion, with an annual average growth rate of 8.8%. The rate of inflation (consumption prices) will average at about 6 - 6.5% per year.

Social and Environmental Targets

- Complete the establishment of compulsory primary education program nationwide; and to ensure that all children of school age are enrolled in primary schools. The enrolment rate of students in the middle level vocational schools and long-term study in vocational subjects will increase by 15%;
- By 2010, the population growth rate should be reduced to 1.91% per year, with the absolute number projected at 6,170,000 people.
- About 652,000 new jobs will be created with 20,000 workers sent abroad as labour export.
- Reduce the number of poor households to below 15%;
- Reduce the ratio of malnourished children under 5 years of age to less than 30%;
- Reduce the infant mortality (of children under 1) to 55 per 1,000 live births; and the child mortality (of children under 5 years of age) to 75 per 1,000 live births;
- Reduce the maternal mortality rate to 300/100,000 live births;
- The supply of clean water to rural communities to cover 70%;
- Maintain the accomplishment of entire eradication of opium cultivation; and
- Raise the ratio of forest cover (all natural forest areas) to higher than 50% of the land area.

The Sixth Plan (2006-2010) targets together with the Fifth Plan (2001-2005) targets and achievements are presented in Table V.2.

Table III-2 Sixth Plan Targets and Fifth Plan Targets and Achievements

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement
1	GDP growth	7.5-8%	7-7.5%	6.24%
2	Agriculture & Forestry sector	3-3.4%	4-5%	3.4%
3	Industrial sector	13-14%	10-11%	11.3%
4	Services sector	7.5-8%	8-9%	6.7%
	Sector shares in GDP (2005)			
5	Agriculture & Forestry sector	36%	47%	45.4%
6	Industrial sector	36.4%	26%	28.2%,
7	Services sector	27.6%	27%	26.4%
8	Exports growth	18.1%	8.6%	7.0%
	Imports growth	8.8%	8.6%	4.9%
9	Trade deficit as % of GDP	5%	6%	9.4%
10	Inflation rate	6-6.5%	Less than 10%	9.6%

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement
11	Exchange rate		Stabilised	Kip appreciated by 7% per year against US dollar
12	Budget revenue as % of GDP	14.8%	18%	13.6% (5-yr. average) 14.6% (in 2005)
13	Budget deficit as % of GDP (2005)	6.07% (5-yr. average) [5.8% in 2010]	6%	7.4% (excluding arrears) [7.8% in 2005]
	Total investment as % of GDP	32% (5-yr. average)		27.8% (5-yr. average) [29% in 2005]
15	Public investment as % of GDP (2005)	10.0%	12-14%	12.3%
16	Private (domestic and foreign) investment as % of GDP	22.0% (5-yr. average)		15.5% (5-yr. average)
17	Total GDP (2005 current prices)			US\$ 2.8 billion
18	GDP per-capita (2005)	US\$ 700-750	US\$ 500-550	US\$ 491
19	New jobs created each year	130,000	100,000	
20	Provide vocational training and skill development		350,000 labour	100,000 labour
21	Total employed By 2010	3,366,000		
	Sector shares of employed	2010		2005
	Agriculture & Forestry	73.9%		76.6%
	Industrial Sector	9.3%		7.7%
	Services Sector	16.9%		15.6%
22	Total population (2005)	6.17 million (2010)	5.9 million	5.61 million (2005)
23	Population growth rate	1.91% (5-yr. average) [1.85% in 2010]		2.0% (5-yr. average) [2% in 2005]
24	Total fertility rate	3.9 in 2010		4.5 in 2005

No.	Item	Sixth Plan (2006-2010)	Fifth Plan (2001-2005)	
		Target	Target	Achievement
25	Proportion of poor households (2005)	Less than 15% of total households	Half of 2000 level of 304,100 hh or 150,050 hh. (or 20-25% of total hh)	137,500 households (28.7% of total households)
26	Malnutrition among children under five (2005)	Less than 30%	30%	
27	Primary school enrolment of 6-10 year olds (2005)	90.6%	86%	84.2%
28	Lower secondary school enrolment (2005)		52%	54.8%
29	Upper secondary school enrolment (2005)		24%	34.4%
30	Higher education and universities enrolment (2005)		410 per 100,000 people	
31	Literacy among people 15 to 40 years old (2005)		85%	
32	Life expectancy at birth (2005)	63.5 years	61 years	61 years
33	Infant (children under one) mortality (2005)	55 per 1,000 live births	60	70
34	Child (under-five) mortality	75 per 1,000	98	98
35	Maternal mortality	300 per 100,000	350	405
37	Access to clean water	70% of rural communities		
38	Forest cover	More than 50%		

Many of the above targets coincide with those for the MDGs and in the Brussels Programme of Action for Least Developed Countries (2001-2010).

The reasons for setting the GDP growth rate to be 7.5-8 % are as follows:

- (i) The overall development target of Lao PDR by the year 2020 is to graduate from being an undeveloped country meaning that the GDP per capita must be higher than USD 1,000 in accordance with the UN standard. The average income per capita by the year 2010 will be higher than USD 700-750;

- (ii) The disparity in income per capita compared to other countries in the region (Laos USD 491 in 2005 as compared to China: USD1,000; Philippines: USD1,080; Malaysia: USD 3,780; Thailand: USD 2,190; South Korea: USD12,200) must be resolved;
- (iii) To maintain the political sustainability and to ensure that the society has increasing resources and to upgrade the living conditions of the people;
- (iv) Industrialization and modernization has the purpose to eradicate poverty, meaning to increase the employment opportunities and increase the incomes of the people. In order to quickly achieve these goals, the economic growth must be strongly supported; and
- (v) The need to uplift the status of our country to gradually become an equal development partner with other ASEAN countries and other countries in the region.

The above expected results are likely to be met because:

- (i) We have gained lessons and experience in implementing the Socio Economic Development Plans for many years;
- (ii) The country is rich in natural resources that can be explored and utilized;
- (iii) The country is located in the central point providing strong economic linkages;
- (iv) Our culture and natural environment are facilitating players for development activities, such as tourism, trade and investment;
- (v) The labour force is plentiful and cheap, and there are abundant resources for power generation that are attractive for investors;
- (vi) More opportunities are open for our country for regional and global economic integration; and
- (vii) There is political and social stability that is a favourable condition for development activities.

Apart from this, there are fundamental economic sectors with successful outcomes, such as:

Agriculture sector: There are high potentials in this sector, with the growth of this sector reaching 3-3.4% per year. More importantly, the value and quantity of production will increase quickly because of the development of processing industries and new export markets. The structure of agricultural production will also be changed by using more productive plant and animal breeds. In continuing the fundamental works laid down in the last (Fifth) five-year Plan the production of crops and industrial trees for export and distribution in the country have largely been increasing, especially the plantation of trees and industrial crops to meet the demand of new markets. This includes the plantation of

corn, tobacco, coffee, beans, rubber, cassava, sugar cane, vegetables, and many types of fruit.

Industrial sector: The main products such as electricity for export, which is produced from six hydropower dams that are expected to be constructed and operated within the Sixth Plan period is calculated at only 70% of the potential installed capacity of 3,000 MW. In addition, there are also high potentials of electricity that can be generated from about 6 - 8 small dams, which are capable of generating 600 - 800 MW. And the production of cement of one million tons has not yet been added into the total production capacity (Khammouane cement factory first phase with a production capacity of 600,000 tons per year; Saravan cement factory with a production capacity of 300,000 tons per year; and two small-scale cement factories in Savannakhet province with a production capacity of 400,000 tons per year). The exploitation and processing of minerals of different types have also increased.

Service sector: Tourism shows a rapid growth trend. According to the statistics on tourists entering the country, the number of tourists is about 1.7 million per year and the average period of their stay is about 5 days. The tourism infrastructure development and the tourism atmosphere have been improved to facilitate the tourism sector, encouraging more tourists to visit the country and increase the average stay to 8-10 days. Under the circumstances, the income from the tourism sector may increase to a higher level and reach over USD 500 million per year on average.

Therefore, these factors justify the GDP growth target of 7.5-8% per year, which is potentially achievable.

2. Tasks & Economic Balance

The major tasks for achieving the goals and targets include achieving and maintaining balance at the macroeconomic level such as, in labour and employment, in investment, in the budget and between exports and imports.:

The basic principles of the Sixth Plan (2006 -2010) and the fundamental economic balance are based on the following:

- Development guidelines identified by the resolution of the 7th Party Congress in the ten-year Socio Economic Development Strategy (2001 – 2010);
- Expectation of capabilities of development activities in the Sixth Plan (2006-2010) as mentioned above;

- The various abundant development potentials that can be exploited and utilized to support economic balance in the future, such as: (i) the total production power of the society, especially the private sector both domestic and external; (ii) the strong potentials of the services sectors, such as tourism and other services of higher quality; (iii) the potentials of the labour force that have not yet been fully utilized; (iv) the ability in using advanced technologies and science in development schemes; and (v) the possibilities for expanding potential domestic market channels; and
- Economic integration and globalization that is taking place in a rapid and comprehensive manner creating new favourable conditions for the macro-economic balance.

a) Balance in Labour and Employment

It is expected that in the five-year period 2006-2010, the number of people who need employment will be 1,217 million, including new entrants to the labour force of 592,000 people, about 144,000 unemployed people remaining from the last five years, and about 485,000 unemployed people during the short period of 2005. In the five-year period 2006-2010, it is expected that new employment opportunities will be able to meet the demand of 652,000 people (130,000 people per year), of which approximately 406,000 people will be employed in the agriculture and forestry sector, 102,000 in the industry and construction sector, and 144,000 in the service sector.

By 2010, approximately 3,366,000 people will be able to have access to employment opportunities of which approximately 2.486 million people will be employed in the agriculture and forestry sector, 312,000 in the industry and construction sector, and 568,000 in the service sector. The sectoral share of employment in the agriculture and forestry sector will drop from 76.6% in 2005 to 73.9% in 2010; while that in industry and handicrafts sector will increase from 7.7% to 9.3% and in service sector from 15.6% to 16.9%. The unemployment rate will reduce from 5% in 2005 to 3.8% in 2010.

Each year approximately 5,000 labourers can be sent to work in foreign countries meaning that in the next five years about 20,000 labourers will be sent to work outside the country.

b) Balancing investment

In order to ensure the economic growth of 7.5-8%, a total investment of 73.9 thousand billion Kip is projected to be required (incremental capital-output ratio or ICOR equal to 4.2) to support the Sixth Plan (2006-2010). This is equivalent to about 32% of GDP, and the investment would increase at about 19.3% per year. The sources of investment include about 23.1 thousand billion Kip from the Government budget accounting for

31.25% of the total investment in the society and equivalent to 10.0% of GDP. The investment from the private sector, both domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75% of total investment or approximately 22.0% of GDP.

As the investment in development schemes is the deciding factor for economic growth, mobilization of funds is therefore very important. In the next five years, it is expected that the ODA will be about USD 357 million per year on average. It is expected that USD 600 million of FDI will be mobilized each year. The mobilization of domestic savings is expected to reach about 51.3%, and the remaining fund of 48.7% will be directly invested by the local people. Therefore, in order to circulate the funds in the society, it is essential to improve the investment climate to be more attractive so as to create confidence and to encourage the people to invest by using their own funds to establish and expand their businesses. Furthermore, the Government will have to pay attention to the following measures:

- (i) Selling some assets (projects) or privatize some state enterprises that are not necessary to be operated by the state and use the revenues to invest in other projects that are more necessary;
- (ii) Utilize private investments in such forms as build, own, operate and transfer (BOOT) and build, operate and transfer (BOT) as well as other forms;
- (iii) Issue government bonds to invest in large-scale projects in an effective manner. So far, the income from selling government bonds has been used to fill different budget gaps, but in future income from issuing long-term bonds will have to be used to invest in large-scale projects;
- (iv) Receiving assistance and soft loans from international sources; and
- (v) Intensively convert land and properties into capital.

The investment as a proportion of GDP in the latter years of the Sixth Plan will increase quickly due to the rapid growth of the construction sector and financial liquidity for the investment projects in the industrial sector, especially for hydropower, mining, cement production and other projects. The investment will increase from 29% of GDP in 2005 to 34.3% in 2010. The overall resource envelope for the Sixth Plan is summarized in Table V.3.

Table III-3 Sixth Plan Resource Envelope

Item	Amount	Percent	As % of GDP		
			5-Year Average	2005	2010
Total investment	73,900 billion Kip	100%	32%	29.0 %	34.3%

Public investment		31.25%	10%		
Government budget	23,100 billion Kip				
ODA	USD 1,785 million				
Private investment	50,800 billion Kip	68.75%	22%		
FDI	USD 3,000 million				

With regard to the distribution of investment by sector, it is expected that the industry sector will receive 31,000 billion kip accounting for 42 % of the total investment during the five-year period (2006 – 2010). The agriculture sector will receive 11,800 billion kip or 16 % of the total; the transport, post and construction sector will receive about 19,200 billion kip (26%); the education and human resource development sector will receive about 2,590 billion kip (3.5 %); the health sector will receive about 2,220 billion kip (3%); the science, technology and environment sector will receive about 14,80 billion kip (2%); the culture - information and sports sector will receive about 1,110 billion kip (1.5%), and the remaining sectors will receive about 4,430 billion kip (6%). The projected investment allocations by sectors are presented in Table V.4.

Table III-4 Sixth Plan Resource Allocations by Sectors

Item	Investment (billion kip)	Percent of total
Total	73,900	100
Agriculture	11,800	16
Industry	31,000	42
Services	31,060	42
Transport, post and construction	19,200	26
Education and HRD	2,590	3.5
Health	2,220	3
Science, technology & environment	1,480	2
Culture, information & sports	1,110	1.5
Remaining sectors	4,430	6

c) Budget balance

The total expected budget revenue of the state for the five years will reach approximately 34,600 billion kip, growing at 19.9% per year on average, which would be 2.3 percentage points higher than that achieved during the last (Fifth) five-year Plan. The state budget revenue collection is expected to increase from 14% of GDP in 2005 to 16.2% in 2010, or on average at 14.8% of GDP over the five-year period.

The sources of the state budget revenue are: 12,500 billion kip (36.3% of the total revenue) from taxes, 10,000 billion kip (29%) from customs duties, 350 billion kip (1%) from land tax, 7,900 billion kip (23%) from real estate, and 3,700 billion kip (10.8%) from external assistance. The total expenditure for the five-year period will be about 49,600 billion kip, growing at 17.8% per year, which would be a two-fold increase over that in the last five-year period (2001-2005). The total expenditure will be about 21.4% of GDP on average, with the investment by the state at about 10% of GDP.

The budget deficit over the Sixth Plan period will be about 15,000 billion kip or 6.07% of GDP. The budget deficit will decrease gradually from 7.3% in 2004 to 5.8% in 2010. The budget deficit will be financed mainly through foreign concessionary loans and the mobilization of domestic investments to a certain extent. The state budget data are summarized in Table V.5.

Table III-5 State Budget during Sixth Plan Period (2006-2010)

Item	Amount (billion Kip)	Percent	Growth rate (% per annum)	As % of GDP (5-year average)
Total budget revenue	34,600	100.0%	19.9%	14.8%
Revenue sources				
Taxes	12,500	36.3%		
Customs duties	10,000	29%		
Land tax	350	1%		
Real estate	7,900	23%		
External assistance	3,700	10.8%		
Total budget expenditure	49,600	100.0%	17.8%	21.4%
Budget deficit	15,000			6.1%

In order to accomplish the goals of the Sixth Plan, the state budget needs to be balanced in a more positive manner by striving to increase the national revenue as mentioned

above. Concurrently, the expenditure lines need also to be reviewed to apply strict controls, especially the expenditure for investment, administrative expenditure needs to be economized, solving the problem of extravagant spending, reducing losses, elimination of compensation items, increasing the reserve, and more quickly reducing the budget deficit.

The main measures to increase the state budget revenue are as follows:

- (i) Improve and establish the mechanisms of the administration of the various financial sectors, such as: customs, tax, real estate and treasury to be more effective. In the short-term, efforts have to be made to improve the values of political aspects, ethics, honesty, and devotion to duty and the nation among government staff and to upgrade the technical know-how of the staff;
- (ii) Revise and amend the Budget Law, clearly identifying the obligations and responsibilities of different sectors and localities in financial administration activities, in order to enable the Government to administer the budget in nationally uniform ways and to be able to allocate the budgets for expenditure in the priority areas and balancing the budget deficits of the localities;
- (iii) Improve the strengths and discipline in financial management, and control the limit of unplanned expenditure and unnecessary spending;
- (iv) Introduce the measures to keep the rate of increase of expenditure to be smaller than the rate of increase of GDP. Expenditure items must be adjusted appropriately in case the revenue collection does not meet the planned target;
- (v) Solving the fundamental and urgent problems, such as government staff salary payment; and
- (vi) The collection of taxes on natural resources must be strong to increase the national revenue.

e) Export-Import Balance

The total value of exports in the five-year period (2006-2010) is expected to reach USD 3.48 billion, increasing on average by 18.1% per annum. In 2010, the total value of exports is expected to reach USD 1,046 million, a 2.2 fold increase over that in 2005 and a 3.22 fold increase over that in 2001. Exports per capita would reach about USD 187 by 2005.

The total imports in the five-year period (2006-2010) are estimated to reach USD 4.5 billion, increasing on average by 8.8% per annum. In 2010, the imports would reach USD 1.045 billion reaching a balance with exports (USD 1,046 million).

The trade deficit in the next five-year period (2006-2010) would be about USD 1.02 billion, equivalent to 29.3% of the export value, or 5% of GDP (as compared to 8.4% of GDP in 2005).

As indicated earlier under the Overall Goals, the other tasks for the Sixth Plan are to:

- (i) Restructure the economy and employment and accelerate in the direction of improving effectiveness and bring into play the comparative advantages of goods, sectors and regions. This is to be accomplished through improvements in quality, effectiveness and competitiveness of each commodity and enterprise, and the economy as a whole;
- (ii) Further develop the multi-faceted economy, with the public sector playing a decisive role in facilitating the development of all businesses, including household businesses and domestic private, foreign and collective enterprise, to improve the market economic mechanism with a socialist orientation. This will include the creation of a fair, transparent, stable, open and highly competitive environment for private investment and business;
- (iii) Encourage the development of the network of small and medium enterprises to increase domestic resource mobilisation, investment, economic output and employment;;
- (iv) Increase investment in socio-economic development and strengthen accountability mechanisms to ensure more efficient use of public investment resources. An optimal investment structure will be built to make the economic mechanism work effectively and be competitive. It is also visualised to improve the infrastructure, investing appropriately in the main economic areas, and providing more investment to distressed areas;
- (v) Expand and improve foreign trade, with a favourable environment created for the growth of exports, and attract investment and technology from abroad. The country intends to actively integrate into the international economy, on a cautious but effective schedule, implementing bilateral and multilateral commitments at national, local and business levels;
- (vi) Continue reforms to make the financial and monetary systems healthy, improving the national capacity, financial resources, and economic performance in all areas. The stability of all macro-economic indicators will be maintained, controlling inflation and the budget deficit, and gradually building and expanding the credit market to meet the socio-economic development needs;
- (vii) Continue reforms to make basic and comprehensive changes in education and training, science and technology, to improve the quality of human resources with optimal structure; to provide elementary education for all; and utilize modern technology in the more advanced areas such as economic centres and urban areas;
- (viii) Develop the economy in harmony with social development and environmental protection; creating jobs, decreasing the number of unemployed people,

solving effectively social issues, including reducing significantly the number of poor households, caring for credited people, ensuring equitable access to health services, fighting the social evils, and improving the quality of life and morals of the people;

- (ix) Speed up administrative reforms in the direction of reforming and improving effectiveness, and making relations with residents and businesses public and transparent. Bureaucracy and corruption will be reduced. A fundamental reform of the civil service salaries system will be implemented; and
- (x) Keep the socio-political situation stable to maintain an environment conducive to national defence, security and overall development.

IV. MACRO DIRECTIONS

A. Introduction

The macro directions and aggregates are based on the (a) development directions set out in the Ten-Year Socioeconomic Development Strategy (2001-2010) and the long-term guidelines and orientation set out by the 7th Party Congress; (b) economic targets for the five years 2006-2010 as indicated above; and (c) fuller utilization, among others, of the (i) plentiful resources, including especially attracting investments for development from abroad and from different businesses in the country; (ii) significant potential in the services sector, particularly in tourism and other high-quality services; (iii) substantial (hidden) potential in human resources; (iv) prospects for introducing innovations in science and technology in all sectors and regions, in conjunction with the economic integration process that has already started; (v) scope for rapidly enlarging the market for Lao goods and services; (vi) intensification and deepening of the pace of international integration; and (vii) facilitating the implementation of sound macroeconomic management in the direction of improving the socio-economic situation comprehensively, fostering the active and progressive participation of the country in labour deployment and international coordination.

B. Monetary Policy

The overall objective of monetary policy in the next five years is to control inflation and to ensure the safety of the banking and credit organizations, in order to stabilize the investment environment and strengthen economic development. The specific objective is to implement a flexible and cautious monetary policy to stabilize the Kip and keep inflation in single digits per annum during the Sixth Plan period (2006-2010). The monetary policy is operated through the regulation of money supply and open market operations to smoothen unduly large fluctuations in the Baht and Dollar flows. In addition, the Bank of the Lao PDR (BOL) is (to be) given the authority for trading bonds

issued by BOL to regulate the amount of money in circulation. 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 between BOL and commercial banks, through open-market operations. An Open-market Operations Management Board would be established to enable open-market operations to become the adjustment channel for the overall payment means in the economy.

The Government will issue relevant regulations to utilize capital replenishment tools in the early years of the Sixth Plan. The tools will include the provisions for capital replenishment, discount, overdraft and deposits. They will help supplement other tools such as the key interest rates of BOL, enabling the BOL to gain strength in moderating the fluctuations in market interest rates.

A controlled floating exchange rate regime is being implemented successfully keeping the Kip relatively stable vis-à-vis other currencies including the Baht and the Dollar. This will be continued. BOL would promptly assess and decide on the exchange rate for the Kip, to help facilitate payments and minimize expenses for printing and circulation. With relative stability in the exchange rate in recent years, the confidence in the Kip has been increasing. This would facilitate the further strengthening of the position of the Kip in the payment system during the next five years.

Simultaneously, it is planned to continue to limit the over-use of the US Dollar in the economy, and strengthen control over the foreign exchange to accumulate more foreign reserves in the BOL. Higher denomination Kip notes (50,000 and 100,000) would be issued to facilitate payments in larger transactions. The stipulations on foreign exchange management and implementation would be disseminated to enterprises and the people. 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. ²

It is essential to improve the capabilities of the BOL for developing and analyzing the payment balances, defining the national foreign exchange reserves, and managing the exchange rate. The target is to continue to accumulate and maintain the foreign exchange reserves to be equal to at least three months of imports.

C. Financial Sector

² The widespread use of the Baht and the Dollar in the Lao economy has significant costs both in terms of the one-time seignorage losses and the recurring interest foregone on these currencies held in the country. Thus, reducing their use over time is beneficial for the economy.

1. Banking Sector

One of the important objectives in the financial sector is to continue to refine the legal framework for the banking sector to better meet the needs of the fast developing economy including its increasing international integration. Laws on Banking and credit organizations would be modified and supplemented to serve as the basis for the development of the capital markets. The financial capability of commercial banks would continue to be strengthened, with a move towards the full implementation of internationally accepted rules and standards on banking activities.

The operations of the commercial banks will be guided toward the provision of improved credit services to the economy based on the principles of safety, efficiency and self-sustainability. Priority would be given to supporting the production, processing and marketing of key products/goods in the agriculture sector and in rural areas. The commercial banks will be encouraged to expand the provision of credit to profitable and effective projects.

The dynamism of the commercial banks will be improved by reducing the interventions by relevant authorities in their operations. Improvements will be achieved in the procedures and practices of commercial banks for the provision of loans. Monitoring and adjusting mechanisms in providing loans by commercial banks will be based on asset ownership (collateral). They will be encouraged to diversify monetary and banking services. The development of capital markets and foreign exchange trading among commercial banks will enhance the capacity of the state-owned commercial banks (SOCBs) including in lending. The staff skills will be improved to support the activities of commercial banks and ensure strict monitoring and evaluation of the commercial bank system.

The Government will monitor SOCBs and enforce adherence to government agreements. There will be an examination of the accounting system to bring it up to international standards. There will be some changes in the classification of debts of the SOCBs based on international standards. Regulations will be enforced widely and these include shark loans, exchanges, guarantees and other conditions in order to allow creditors to collect their debts, including through confiscation and sale of the debtors' properties. There will be improved assessment of the creditworthiness of borrowers and increased monitoring of the loans by the banks to reduce loan losses. Transparency will be taken seriously in evaluating debt amounts accurately.

The Government is committed to recapitalise the state-owned commercial banks (SOCBs) through the provision of about 700 billion Kip in 2006 and 2007. The restructuring and strengthening of the SOCBs will continue, especially the three major ones (Banque Pour Le Commerce Exterieur Lao, the Lao Development Bank and the

Agriculture Promotion Bank) building upon the results of the diagnostic financial audits of the institutions. The Government is also exploring the feasibility of partial privatization/joint ownership of the Lao Development Bank.

The Agriculture Promotion Bank (APB) will be transformed into a self-sustaining, market-oriented rural financial institution. A variety of micro-finance institutions will be encouraged. The Policy Statement, the Industry Assessment and Action Plan developed by the Rural Microfinance Committee were endorsed in early 2004 by the Prime Minister's Office. The Policy and action plan aim to promote a sustainable development of microfinance industry by encouraging microfinance institutions to have diverse forms and ownership and discourage subsidized credits.

The judicial foundations and regulations to support the implementation of lending by SOCBs will be strengthened based on common policies, in order to eliminate free loans and investments that do not comply with commercial practices.

The BOL will continue improving and creating regulations related to, among others, the monitoring of the operations of the commercial banks and their loans based on their capital, assets, management, earnings and liquidity (CAMELs) ratios.³ There will be a study on the feasibility of initially putting in place an advance warning system, based on the Basel Principles, especially on forecasting the interest and profit trends, prices of services and the growth of loans. Monitoring of the SOCBs will utilize modern technology.

It is planned to assess BOL's capacity to pay interest on the mandatory reserves of commercial banks (and other financial intermediaries) deposited with BOL. The assessment is to be based on the revenue resources of BOL, derived through the management of foreign currency funds, and the effectiveness of the tools in the open-market operations and repayment operations.

The Government plans to gradually eliminate preferences for State-owned banks. At the same time, State-owned banks would be required to stop their direct involvement in the business activities of commercial banks. The banking services such as savings and loans will be developed further and the operations will be modernized adopting the e-transaction systems. Investments in inter-bank settlement, credit payment mechanisms and the deployment of a number of new services will be increased. The financial services will be diversified and their quality and quantity improved, thereby increasing their contribution to the value added in the services sector. The communications modalities in

³ The CAMELs ratios comprise the prudential indicators of the adequacy of bank capital, the quality of bank assets, the efficiency of bank management, the robustness of bank earnings, the adequacy of bank liquidity, and the bank's coverage of market risk.

the financial and banking systems will be modernised to make the services courteous and expeditious.

The Government plans to develop and increase the quality of the people's credit system. Regulations on peoples' credit funds (including Village Development Funds) will be announced to suit the special needs of the social economy and the population. Loans will continue to be provided for people to help build independent associations on the basis of volunteerism, self-reliance and self-motivation.

2. Insurance

The registration capital (requirement) for insurance agencies will be increased, to enhance their financial capacity including reimbursement to businesses for insured losses. The insurance businesses will be encouraged to study new products and diversify their services; especially those catering to the agriculture, forestry and fisheries programmes. Professional financial management, including especially risk assessment and information technologies will be modernized to provide better services. The capacity of the Government authorities will be strengthened in order to closely monitor the implementation of the Law on Insurance, regulate the insurance companies and protect customer rights.

3. Information and Coordination

The monetary and banking information system will be improved to track the movement of money and provide solutions. Government officials will receive training to upgrade their skills in analyzing monetary developments, including impacts from interest rate changes, inflation, and economic growth, in order to build the foundations for investments, profits from interest, material prices and other financial policies.

There will be firm cooperation between ministries and sectors, especially on annual financial and monetary policies, and in implementing the macro policies. The information system will be upgraded in each ministry and sector based on integrating the databases in ministries, sectors and the Government overall, to ensure adequate sources of information for the macro-environment. The legal requirements will be completed for BOL to coordinate with relevant ministries and sectors in calculating pricing tables, instalments and other data based on international standards. The Government will provide guidelines to the Ministry of Finance and BOL in order to create firm cooperation between annual fiscal policies and monetary policies for further contribution to stabilize the macro economy.

4. Legal Framework

The drafting and finalizing of the legal framework that better fits the socialist-oriented economy of the Lao PDR and is in line with the commitments on integration and opening markets will be completed. This will help establish a base for business development in all economic sectors. It will ensure the systematic implementation of fair, consistent and stable financial sector policies across all economic sectors and groups.

5. Financial Market Development

There will be a comprehensive plan to expand the financial market in the initial years of the Sixth Plan (2006-2010) in accordance with the directions of safety, tight management monitoring and benefit protection for all target groups, who invest in the Lao financial market. There will be a focus on developing a financial capital market first by referring to the contribution of resources into business activities including monetary, foreign exchange, property and other unique ways of conversion of resources into capital.

The financial markets will be expanded with transparency in short-term capital swapping and trading of currencies. Relationships between monetary and financial markets, policies, accounting management mechanisms and progress monitoring will be strengthened. The development of a market for State bonds is still at an initial stage. Research will be undertaken for improving market strengths through assessing the real returns (benefits). This will help reflect any turbulent changes in the market value of the State bonds. Several tasks will be implemented at the beginning of the Sixth Plan, such as conducting tenders for selling State bonds through Lao banks and targeted purchasers, obtaining approval of the National Assembly for a clear domestic borrowing (state bond selling) plan with the annual budgets, showing ownership, dividing the bonds into sub-groups, and informing commercial banks to maintain funds to purchase State bonds at the beginning of the year.

Research will help in the experiment of establishing a stock market in Vientiane Capital City by the end of the final year of the Sixth Plan.

D. Fiscal Management

1. Fiscal Management

The overall objective is to implement a policy on sound State Budget striving for higher revenues and prudent expenditures. The fiscal policy will aim at increasing revenue mobilization to reach about 17-18 percent of GDP by 2010. Expenditure will be allocated more appropriately, carrying out measures to revitalize finance-budget activities, and to cut down the budget deficit to a safe ratio. Budget revenue collection performance will be increased with concerted efforts to improve customs and tax administration. Stronger monitoring mechanisms will be developed to monitor revenue collection and central-local coordination on revenue collection will be improved.

The measures to achieve the targets are to first establish a legal framework governing the state budget and finance including the following: (i) the amendment of the State Budget Law to enhance the powers and responsibilities of central and local authorities in budget management, with the clear decentralization of financial administration to ensure the decisive role of the central budget, and at the same time promote self-control at the local level; (ii) implement the revised Tax law and tax policies to ensure State budget revenues; carry out studies to modify tax-exemption policies to fit the current national context; and establish the necessary legal framework to ensure the collection of state budget revenues and create a development environment for the financial and capital markets: and (iii) widely disseminate (popularize) the relevant laws/regulations and coordinate closely with all relevant authorities to implement them. The budget administration should be considered a responsibility of the entire Government and the people.

Second, to firmly implement measures in budget management including the following: (i) on the revenue side, enhance revenue regulation, implement immediately measures to avoid revenue losses (in terms of both the number of tax-payers and amount of revenue), and definitely abolish arbitrary tax exemptions that do not comply with the law; and definitely terminate the provision of loans from the State budget or the Government underwriting of loans to state-owned enterprises (SOEs); (ii) on the expenditure side, line ministries and authorities would have to follow the spending plans in the budget approved by the National Assembly, with no entity or individual exercising the right to decrease budget revenue or increase expenses without jurisdiction; and in case there are ad-hoc expenses, these would be covered by reallocation of spending to ensure budget balance; (iii) on investment capital, continue to implement the approved or to-be-approved foreign-assisted projects; with the selection and signing of only the priority FDI projects, and allocate sufficient counterpart funds for such projects; and repay (capital construction) debts; and (iv) on regular (recurrent) spending, review expenditure items and establish spending criteria that match the national context and the budget, which will serve as a basis for cutting down subsidized expenses. Improve the salaries of civil servants, and prioritise education, training and social activities. Adapt specific measures for savings in expenditures, especially in administrative expenses.

Third, it is agreed that the Ministry of Finance will take the lead role in managing foreign debts. Localities (Provinces, Municipalities and Districts) are not permitted to borrow from foreign countries. It is essential to promptly settle public debts to revitalize financial and budget activities. Adequate budget will be allocated to service foreign debts according to the commitments. Relevant authorities would be proactive in negotiating debt conversion (including write-off), extension of repayment period, reduction in interest rate, etc., especially on loans for re-lending. Also, domestic debts will be classified and proper measures will be taken to solve current debts and prevent a rise in debts.

Fourth, monitoring against the loss of State revenues, properties and expenditures will be strengthened. The enforcement of financial discipline will be further enhanced, strictly dealing with cases that break regulations on the management of budget receipts and payments, for example, tax-exemptions not according to jurisdiction, slow payments to the Treasury, and spending beyond the mandate of policies and regulations.

Fifth, the decentralization mechanism in terms of budget management between central and local authorities will be renovated and refined to improve the State management of finance. The limited State budget resources and a lack of tight financial discipline require the reorganization of the tax and fee collecting organizations and the State budget management organizations (State Treasury) aimed at receiving the right and full amounts of taxes and fees on time. Firstly, Customs and the State Treasury in the Ministry of Finance would be organised systematically from the centre to the localities, with the centre responsible for overall management, including the number of personnel and salaries. The tax collection organizations will be made accountable for the loss of revenues from taxes. As indicated earlier, the Budget Law will be modified, decentralizing the revenue resources between the centre and the localities. Basically, branches of the central tax organization would be in charge of collecting all the tax receipts of the entire centre and those decentralized between the centre and local budgets. Tax offices of the localities in the Department of Finance will be in charge of collecting the local tax receipts. The budget will be managed effectively with adequate controls on the receipt and payment activities of organizations and localities.

The fiscal sector including Customs and Treasury will be modernized in order to improve the effective management of state budget activities. The training of financial staff will be strengthened as indicated in fiscal budget management for the entire country in the next stage.

Domestic resource mobilisation has to be increased. Bottlenecks will be removed to increase domestic investment and to develop a competitive market. The institutions needed to better enforce contracts and other property rights have to be developed. These

are essential pre-requisites for developing an effective financial system. Remittances from overseas Lao Nationals and workers will be encouraged.

2. Some Important Initiatives in 2005/06

a) Measures to Implement Customs and Tax Laws

The revised Laws on Tax and Customs have been adopted by the National Assembly (NA) in May 2005. The revision of the Law on Value-Added Tax (VAT) has been completed and will be submitted to the National Assembly.

Tax Law: The revised Tax Law will be disseminated to businesses, civil servants and all citizens to ensure that every sector fully complies with the law. In addition, training and advice will be provided to facilitate compliance.

The Tax Department is responsible for accurately surveying all businesses throughout the country in order to achieve the revenue target effectively. The tax collection administration of all businesses will be improved by using the vouchers/receipts defined by the Law and the responsibility of tax collection (in transactions) will be transferred to businesses. All people will be encouraged to obtain accurate receipts of purchases, which will improve tax monitoring. Studies will be conducted to define taxable items and the amount of tax to be placed on imports and exports, in order to draw up a tax payment verification paper. All businesses that meet the requirements will be encouraged to keep the necessary accounts according to the Law; and these accounts must be processed as defined in Article 41 of the Tax Law. Coordination will be enhanced with provincial accounting offices to monitor and take action against any enterprise with accounts that do not comply with the regulations.

The Tax Department, in coordination with other concerned departments, will monitor all companies and projects that have been granted tax exemptions on imported goods, to ensure that these items are used as intended. All newly established duty-free shops will be monitored to ensure that they comply with regulations. An investigation committee will be set up to investigate smuggling cases, with the right to take action to solve the cases according to the Law. The Tax Department will study ways to improve the information system to ensure the effective implementation of the revised Tax Law. For example to (i) have a computerized tax declaration system; (ii) supply information on taxable goods; (iii) link all border and provincial offices and departments; and (iv) supply the necessary statistical data to the tax offices.

Customs Law: The revised Customs Law will be disseminated nationwide to civil servants, private sector and entrepreneurs, and training and advice will be provided on its implementation. Incentive/bonus will be given to sectors and localities that are able to generate incomes from the collection of custom duties and taxes (import and export) at 0.5 percent of the collected revenue (except special charge for timber, electricity, etc.). The Tax Department will study ways to improve and expand the information system to all border and provincial offices to ensure the effective implementation of the revised Law.

The Finance Control Department and local Finance Control offices in association with other related Departments and Offices will monitor the performance of each Department, Provincial Finance Office, Border Post and enterprise on a regular basis; seek productive lessons learned; look into performance results; prevent all forms of negative phenomena; and solve anticipated outstanding problems in the field of finance. All newly established duty-free shops will be monitored to ensure that their operations comply with regulations and if these regulations are breached the matter will be presented to higher authorities. No custom officers or authorities are exempt from customs duties. In cooperation with all concerned sectors, an investigation committee will be set up to investigate smuggling cases, such as illegally imported vehicles and goods. This committee will have the right to take action and measures according to the law to comprehensively resolve the cases.

b) Public Expenditure Review

A review of the public expenditure has been undertaken to examine the expenditure trends between 2002 and 2005 to support the Government's efforts to establish sound, accountable and transparent financial management practices. The public expenditure review (PER) provided inputs to the formulation of the 2006 state budget and the pilot Medium-Term Expenditure Framework (MTEF) for the period 2006-2010.

The main objectives of the PER are to: (i) review the macro fiscal performance as well as the intra- and inter sectoral allocation of public spending at the central and local levels for the period 2002-2005; (ii) assess the sustainability of the macro fiscal framework and budget financing by source for the period 2006-2010; (iii) review the institutional framework for public expenditure management (PEM) to support the Government's ongoing efforts to strengthen PEM (see the next sub-section for details); and (iv) conduct intra-sectoral analysis of public resources for NGPES/NSEDP priority sectors by assessing the quality of core public services, the efficiency in their delivery and the budget execution processes in place, especially at the local level. The report is being finalized.

The Government intends to implement a rolling programme of PERs, public expenditure tracking surveys (PETS) and analytical work geared to monitoring progress in the

implementation of the Public Expenditure Management Strengthening Programme or PEMSP (see next sub-section) and assessing the improvements in fiscal management and the impact of public spending in key sectors.

c) Public Expenditure Management Strengthening Programme

The overall objective of the Public Expenditure Management Strengthening Programme (PEMSP) is to achieve sound financial management in a transparent and accountable manner. The PEMSP has been formulated in consultation with and assistance from the partners in development. It is supported by the World Bank (IDA) through the Financial Management Capacity Building Credit. The Programme focuses on improvements in five main areas: (i) fiscal planning and budget preparation; (ii) budget execution, accounting and financial reporting; (iii) local government financial management; (iv) financial legislation and regulatory framework; and (v) capacity building. The Programme covers the four main Departments – Fiscal Policy, Budget, Treasury and Accounting – in the Ministry of Finance and their counterparts at the local level; and it will be implemented during the Sixth Plan period (2006-2010).

The Government has operationalised the Programme and presented the first Annual Work Plan for FY 2005/06 to partners in development on 22 November 2005. A Steering Committee based in the Ministry of Finance has been established, that is responsible for the management of the Programme. An Implementation Committee and three Thematic Task Forces have been formed to deal with technical aspects. And to assist in the coordination of the programme, a Secretariat under the leadership of a Programme Director has been set up in the Ministry of Finance. The PEMSP is based on a strategy where all national stakeholders in Public Financial Management will be involved in the formulation of activities through consultative workshops at provincial and central levels. The strategy aims at having a national understanding of PEMSP; a national consensus on priorities, strategy, outputs and approach; and to ensure that the programme addresses the public financial management (PFM) problems on the ground as they arise. All departments in MOF have been consulted during the first months of 2006. Three provincial workshops have been held to allow all provinces and a number of districts to familiarize them with the programme, learn about new developments, exchange experiences in PFM, and discuss their needs for assistance from the programme.

All the information on the programme will be shared with development partners through regular meetings in a Consultative Forum. Based on the provincial workshops and consultations with departments and stakeholders, a draft programme document has been prepared for discussion and endorsement at the upcoming national workshop. The program document contains short and long-term strategies and a five-year budget. A PEMSP pilot will be launched in Xiengkhouang Province in cooperation with Governance and Public Administration Reform (GPAR) Programme.

E. Real Estate (Property) Market Development

The legal framework to develop a real estate (property) market that includes land acquisition and home-owners' rights will be completed. The conditions for transferring the ownership of land and other property rights will be made more favourable. Opportunities will be opened for citizens and enterprises, who wish to be involved in the property sector and obtain long-term rights to utilize land in production and business for improving living conditions. There will be a focus on land for agriculture and on developing farms with large or medium-scale parcels in some areas with good conditions. A revision of the records related to land use will be undertaken in order to identify land acquisition without benefits or without objectives by state enterprises, state and social organizations. The utilization of land within urban areas will be reviewed and appropriate directives will be issued for enterprises and people to pursue.

The dissemination of regulations related to land acquisition for both Lao and foreign persons will be continued to attract funds from various sources, and to meet the demand for accommodation, especially houses for citizens who provide excellent achievement for the country, and for families with low incomes.

F. Trade Strategies and Regional and Global Integration

The objectives are to (i) accelerate the export of commodities and participation in regional and international economic activities, through the development of the export of goods with a high and stable growth, to serve as a driving force for the whole economy; (ii) secure an adequate source of foreign currency to actively import sufficient materials and equipment for production; (iii) create stable markets for some competitive agricultural and industrial products; (iv) increase the market share in existing markets; and (v) improve the accessibility of new markets.

1. Exports

a) Export Guidelines

The export development guidelines in the Plan period are to support the production and export of important products; and to actively develop other potential products into new key exports. The exports of high value-added products, processed products, high-end technology products, and key products which are known in the world markets will be increased; whilst reducing the share of raw materials/products in total exports. The value of exports in 2010 is projected to be USD 1,046 million (about USD 116 per person) or 2.2 times that in 2005.

b) Composition of Exports

Agriculture, forestry and aquatic products: The growth of exports in this sector is estimated to be 13 percent per annum during 2006-2010. Most agricultural products are prone to wide price fluctuations in the international markets. Therefore, the likely share of the exports from the sector in the total exports will be around 27-28 percent. In the next five years, the products of this sector will be improved in terms of productivity, quality and value. To achieve this objective, there is a need to invest appropriately in high quality and high yielding seeds and post-harvest technologies to bring about breakthroughs in productivity and quality. Attention would be paid to the genetic, processing, storage/preservation, sanitation, packaging, transport and distribution levels; and then to the value added aspects. The prospects for some key export products are discussed briefly in the following:

Coffee generates significant export revenue. Its share in total exports would stay at 3-4 percent. Most coffee exported to Western Europe and Japan is in the raw form. Lao coffee is famous for its flavour and taste. Unfortunately, the competitive advantage of Lao coffee is still limited due to the lack of investment in post-harvest processing that leads to low quality and a 10 percent price discount in the world markets. Even under the General System of Preference (GSP), Lao coffee is still underdeveloped. It is estimated that the value of coffee exports will grow at a rate of 8 percent per annum.

Wood and wood products: At present, many Lao companies are facing a shortage of raw materials due to the new policy that restricts logging via the application of a quota system. It is estimated that, in the coming years, the export of these products will grow at 7-9 percent per annum.

Light industry and handicrafts: The most dominant products in this group are textiles and handicrafts. In 2005, the group generated export revenues accounting for more than 26 percent of total exports. It is expected to reach USD 195 million in 2010, with the share declining to 24.4 percent of the total.

Textiles: Textiles exports are labour intensive. But they face stiff competition in terms of quality, and prices, and especially quotas. The textile export markets are mainly in the EU (France, Germany and Great Britain) thanks to GSP. For example, in 2003, exports under GSP comprised more than 90 percent of total export turn-over of Lao textiles. However, there is strong competition from other countries, especially China. The export turn-over of textiles is projected to increase by 5 percent on average during the next five years.

Handicrafts and artefacts: These are mostly costumes made of silk and cotton; and bamboo furniture. The export markets for these products, under GSP, are rather stable, but export turn-over and competitiveness are still limited. Most of the products will be exported to the EU, Japan and the USA.

Raw Materials, Energy and Minerals: By 2010, this sector will account for 44.6 percent of the total export turn-over, Dominant commodities are electricity and minerals (gypsum, gold, etc.), which have rather stable export capacities and play an important role in Lao exports. The export of electricity plays an important role in the total export turn-over. In 2001, it was 28 percent and declined to 26 percent of the total in 2005. The major export market is Thailand, followed by Vietnam and Cambodia. Electricity export turn-over is planned to grow at a rate of 18-25 percent per annum, especially in the latter years of the Sixth Plan (2006-2010).The mineral sector exports are projected to grow by between 18 and 20 percent per annum during 2006-2010.

c) Export Markets

One of the main objectives in the development of the export market during 2006-2010 is the expansion and diversification of markets, while strengthening the present position in existing markets. This is also part of the long-term strategy to utilize all opportunities in the region and the rest of the world to maintain the sustainable development of exports in order to effectively contribute to the socio-economic development of the country. The quality of products for export has to be upgraded, in order to increase competitive ability.

In the five year period 2006-2010, Asia will continue to be a focal market for Lao exports, accounting for between 55 percent and 60 percent of the total export turn-over. The share of exports to the EU market would be strengthened to 28-30 percent; Australia to 10-12 percent; and the USA and Africa to 3-4 percent. The emphasis will be on focal markets, such as the ASEAN; China, Japan, Taiwan and Korea; the EU, Switzerland and Russia in Europe; Australia; the U.S.; and South Africa.

2. Imports

a) Guiding Principles

The guiding principles are to prioritize imports of materials, equipment and advanced technology for industrialization, to enhance the competitiveness of locally produced commodities and increase exports. It is necessary to make full use of locally made

materials and equipment to save foreign currency, to improve production levels; and to limit imports of consumption products. The composition of imports will be shifted towards increasing the share of machinery and industrial equipment; with the share of imports for investment projects increasing from 40.3 percent in 2005 to 44.7 percent in 2010; and that of raw materials and fuel decreasing from 48.4 percent in 2005 to 44.6 percent in 2010. Import turn-over in the five years is estimated to be USD 4.5 billion, increasing on average at 8.8 percent per annum. The imports would increase from USD 686 million in 2005 to USD 1,045 million in 2010.

b) Market Sources

A secure supply of machinery, equipment, spare parts, raw materials and fuel is required to best respond to the needs of the basic economic infrastructure, local production including for export, and consumer demand. Accordingly, the selection of the import sources (markets) must ensure quality, applicability and diversification to reduce risk.

In the five-year period 2006-2010, the share of imports from the Asian market would reduce from 80 percent to 75 percent, while that of the EU markets should increase to 18-20 percent; with the USA market share at 2-3 percent; and Oceania and African market share at around 2-3 percent. In Asia, the focal markets are the ASEAN countries (particularly Thailand and Vietnam), China, Japan and Korea. Trade relations with the EU as well as non-EU countries in Europe (Norway, Switzerland and Russia) should be further developed. Other major import markets are Australia, USA, Canada and South Africa.

3. Trade Balance

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.

4. Trade Development Strategies

The Government will formulate and implement programmes and projects on the development of key exports. The export volume of commodities, especially locally produced ones, which already have established export markets, will be increased. Measures will be applied to improve the quality of exports to meet market demand. Mechanisms to promote exports such as export credit, export awards, trade promotion, and border market development will be formulated and implemented.

The Government has been formulating an export development strategy, covering among others, tourism, garments, medicinal herbs, organic (agricultural) products, silk, handicrafts and wood products. This is being undertaken in parallel with a Diagnostic Trade Integrated Study under the Integrated (Trade) Framework (IF-DTIS). A draft matrix of follow-up actions has been formulated to implement several trade facilitation activities with support from the partners in development including under the Integrated Trade Framework.

Increased efforts will be made in acquiring information on developments in the world markets as well as the timely dissemination of information to exporters. Advice would be provided to factories so that they can deploy market promotion, market expansion, and the development of brand names. Efforts will be made to convince all businessmen to be involved in promoting the exports of highly processed and high technology products. The export management mechanism will continue to be refined in line with regional and international economic activities, to facilitate the successful management of trade. The competitiveness of commodities, services, enterprises and the overall economy will be raised.

The avenues will be explored to continue to reduce the production costs of products, and increase the quality and competitiveness of exports. It will promote investment in new technology; increase the value and quality of processed products; and reduce the volume of products sold through middle agents. Enhanced efforts will be made to control smuggling, illegal trading, and the production and sale of counterfeits.

The tax and fee collection systems will be reviewed in order to solve any issues in a timely manner. It will create a favourable environment through implementing the rules and laws for import-export enterprises. The policy on import duties will be implemented to comply with the processes of participation in regional and international economic activities.

The international trade activities will continue to be promoted, firstly with countries in the region. An overall plan and a road map will be formulated with proper time lines, which are suitable to the development stage of the Lao PDR and compatible with the requirements of international organizations in which the country participates. It will promote the implementation of CEPT/AFTA and actively negotiate to gain accession to WTO during the Plan period.

5. Regional and Global Integration

The Government will continue to implement transitional policies by cooperating with partner countries. It will extend bilateral and multi-lateral agreements; formulate and

improve the draft laws with respect to mutual development; maintain friendship and long term relationships with the parties to the contracts in order to effectively contribute to the socio-economic development.

With regards to international integration, the Sixth Plan (2006-2010) objective is to fully implement the integration roadmap and commitments for the country to become a prestigious member of international organizations (including WTO) and in multilateral relationships such as AFTA and GMS. The trade and cooperation arrangements that generate more benefits will be explored, minimizing the constraints that impede socio-economic development. AFTA tariff reductions will be implemented on time.

The institutions and capacities of staff will be adjusted and strengthened to meet the modernization requirements and to comply with the WTO regulations. Enterprises will be advised to find ways to reduce the cost of their products; increase the quality and competitiveness of each product; and create brand names to compete effectively as the protection barriers are removed.

G. Labour and Employment

1. Labour Force and Employment

Various measures will be implemented to upgrade the quality and productivity of the labour force; and mobilize all potential workers for national development during the Sixth Plan period (2006-2010). The target is to provide additional employment for 652,000 people during the next five years, with an annual average of more than 130,000.

Efforts will be made to continue to reduce the proportion of labour in agriculture, forestry and fisheries to below 73.9 percent, increase the labour in industry and construction to at least 9.3 percent, and that in the services to 16.9 percent by 2010.

The focus will be on providing additional employment and developing human resources, through the formulation of additional policies to promote the economic sectors to increase investment to develop professional skills, in particular for the light industry and industrial processing, which are labour-intensive. The mechanisms for the promotion of vocational training for workers to increase employability will be announced, and the domestic and foreign private sector will be encouraged to take part in vocational training. Funds will be mobilized from different sources including the Government, other domestic sources, foreign aid and FDI, to solve the unemployment problems. The funds will be utilised to promote employment in industry and rural areas.

A policy on the employment of youth in rural areas and minority groups will be formulated. The employment network and technical skills will be improved. The development of the skills of the rural youth and the employment of young people will be supported. The training centres in the Northern, Central and Southern regions will be developed to help the provinces to increase the employability of people. Market testing work will be carried out for some occupations in the local areas particularly in Vientiane and Champasak, the labour markets will be developed linking them to general planning. The mobility of rural populations is increasing through commuting, and temporary and permanent migration to urban areas. This will help reduce income variability by providing employment during the off-season in agriculture. Immigrants also gain disposable incomes, skills and knowledge which can be used to develop new businesses.

The labour force will be developed to support socio-economic development and upgrade the standard of living. The ground work will be prepared to address the employment issues and formulate policies for opening up the labour markets.

2. Exports of Labour

The exports of labour will be supported, with a target of about five thousand workers working abroad each year during the next five years. The project for labour export will be prepared to widen participation in the economic sectors and upgrade the skills of the workers to take part in labour markets with high wages. The procedures for labour exports will be adjusted to be compatible with the laws, culture, attitudes and traditions of the receiving countries. The learning of foreign languages by the workers will be encouraged. The cooperation with receiving countries will be strengthened and the information base for Lao labour exports will be improved.

3. Labour Imports

A policy on the use of foreign labour will be formulated to motivate the foreign markets to work with line agencies and provide professional skills that are not available in the Lao PDR. At the same time, the Government will continue to address the problem of foreign labourers who work in the country without permission.

4. Labour Market Development

The smooth matching of workers with jobs in economic sectors will be ensured.

The economic sectors will be encouraged to create jobs, disseminate information about occupations, dispatch the workforce to overseas, and adopt policies that attract highly skilled labour from local and international markets. Workers will be supported to create jobs on their own (self-employment) and be able to reach international markets. There will be an effort to promote the local workforce in international markets.

Regulations on business services provided for employment and labour exports will be improved in order to offer preferable conditions for local service providers and increase the state's capacity in monitoring.

Social security, especially unemployment insurance, will be implemented. This will provide equal opportunities to workers in all economic sectors. There will be reasonable benefits for both employees and employers.

H. 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, such as the establishment of the market economic mechanism that clearly shows the Government's role in monitoring the market and the society and in the provision of services to the people. 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, following the direction of 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 management.

The economic laws should ensure transparency and firm enforcement. The principle that the people can run all kinds of businesses, which are not prohibited by law, is to be followed. In addition, all the regulations, which are inappropriate and not promoting the businesses, such as the slow process of consideration and grant of investment permission, should be gradually improved. The Government will intervene only when the market economy creates adverse impacts on the society. All the Government interventions will be clearly stated in the legal documents and should be ensured through the enforcement of those legal documents. In addition, the legal documents on business audit should be improved to avoid duplication in auditing, thus avoiding complications to the enterprises.

In order to implement the above-mentioned tasks, in the Sixth Five-Year Plan period, the Government will pay attention to the following tasks:

- 1) Focus on the stabilization of macro economy; formulate effective management and legal systems; and provide adequate strength to support a competitive multi-sectoral economic development, including the private sector. The management system should include necessary regulations in order to encourage the efficiency of the market economy along with the expansion of the existing comparative advantages. The Government should ensure the implementation of the comprehensive laws.
- 2) Continue the improvement of the state regulation of the economic mechanism. This is a key direction focusing on the development of comprehensive macro economic management by the Government. It will include the following:
 - a) **Reform operational mechanism:** The roles, tasks and responsibilities of the Government (the ministries, agencies, non-governmental organizations and local authorities at all levels) should be improved to meet the needs of the state regulation of the market economy. First, the Government should focus on the formulation, supervision, monitoring and implementation of the programme and the policy on macro management; and the division of authorities and responsibilities among the ministries, sectors (public, private, community and voluntary) and local authorities. Enhance the participation of civil society, NGOs and other enterprises in the delivery of social services that do not require direct control by the Government. A clear regulation on the division of the areas for control between the central and local government levels should be formulated. This regulation should also be appropriate to the needs of the current and emerging conditions and be relevant to the economic reform. Improve the forms of regulation and working pattern of administrative agencies at all levels;
 - b) Firmly reform document administration to ensure the law enforcement efficiency, transparency and equity. Eliminate the documents that duplicate and lead to corruption and complications to the people. Abolish unnecessary processes in granting investment permissions. Implement the sound “one door” mechanism. Train the officials to be self-disciplined, and increase public servants’ morals and ethics in serving the people; and
 - c) Increase the quality, knowledge and capacity of civil servants in management following the “market-orientation” direction. Conduct regular study on the public servants and improve the division of the level of staff management by local authorities. Review and evaluate the issues of staff training and upgrading along with the development of a staff training plan on market economic management. Increase the transparency in official movement, particularly the issues related to the people in the financial and budget areas. Enhance the anti-corruption campaign within the government organizations;

- 3) Consider planning to be an important tool for the Government in the effective implementation of economic management. Redirect the planning to be integrated to the market economy. Increase the scientific knowledge and practice to the actual situation of planning. Reform the characteristics, contents and methodologies in basic planning in order to utilize the plan as a tool against the “irregularity” of funds that often occur in the market economic system. This will ensure the sustainability of national development;

- 4) The Government should play the role and responsibility of economic management along with the role of investor, as necessary, in the “transition” process. The presence of the state economy is still necessary for the effective exploration and utilization of natural resources, funds, and national assets. There is also a need for the use of the comparative advantage that the Government has in organizational strength, unity and experience in economic management for about 20 years of transition. In order to implement the participation in investment and effective economic action, the Government should implement the following tasks:
 - a) Explore the appropriate methods for solving the problem of the ineffective state-owned enterprises that still play important roles in many sectors of the basic economy; and
 - b) The legal bodies should implement their role in the formulation of the national economic policy and the socio-economic development plan, focusing on the changes in the economic structure into an industrial and modern one;

- 5) Along with the economic goals, integrate the social role such as education, health, job creation, poverty reduction, and social, cultural and environmental protection, which will strengthen the social and political stability and the complementarity, and will provide a solid base for economic development.

Thus, based on the socialist market economy in our country, the Government should play various roles. Together with the development and management of the market economy, the Government should improve the macro-economic environment and business environment; and intervene in basic economy aiming at alleviating the constraints in the market system. The Government should also play an important role in business development and ensure the people’s living standards. These are very challenging tasks because of the absence of the all-inclusive regulation on management to meet the needs of rapid development in all economic sectors including the state, private and other sectors in the society.