

**PART III:
IMPLEMENTATION MEASURES AND
MONITORING AND EVALUATION
ARRANGEMENTS**

I. Implementation Measures

A. Introduction

The measures for the implementation of the Sixth Five-Year Plan (2006-2010) are formulated within the framework of the ten-year Socio Economic Development Strategy (2001-2010) and the directions given by the 8th Party Congress and subsequently by the Party. The focus will be on the mechanisms supporting monetary stability, sound management of finances, and the production of commodities of improved quality, effectively strengthening the economic structures. It will include reform of state enterprises and the creation of business activities for the economic sectors (including the private sector) to reduce production costs; facilitate land concessions; and improve the management of each sector and each commodity. This will boost the roles of all actors in the socio-economic development of the country.

The measures, mechanisms and policies that will be implemented in the Sixth Plan period (2006- 2010) will build on existing mechanisms and economic policies implemented under the Fifth Plan (2001-2005). They will stress improving the environment for private businesses, investment attraction, quality upgrading and the further strengthening of the economic foundations. They will be created in an innovative way following the Lao concept of swift materialization, drawing upon the successful experiences of other countries, especially in the region, that are relevant and useful for promoting the sustained growth and development of the Lao PDR.

The Government will consistently manage the multi-sectoral market economy with a socialist orientation, establishing different types of markets, creating favourable conditions for enterprises and people to do business. All line ministries, sectors and localities are required to have a consensus on grasping the guidelines of the Party on implementation and achievement of targets and missions of the Sixth Plan (2006-2010). In that spirit, the Government will urgently establish an action programme to fully utilize expertise and knowledge of the Party, all the people, and domestic political and social entities to cooperate with the Government, ministries and localities to fully achieve the set targets and missions of the Sixth Plan.

The measures for the implementation of the Sixth Five-Year Plan are to continue the previous economic mechanism and policies and promote efficiency. Therefore, the goals in the Sixth Five-Year Plan period are to improve the facilitating environment for business operation to attract greater investment.

The formulation of the measures of mechanisms and policies should be based on the higher speed of productivity. All these measures are the external players affecting our country that requires learning and tapping on experiences from other more developed countries, especially the member countries in the same block and neighbouring counties in the region.

B. Key Measures

The key measures are as follows:

1. Implementation of the Market Economy:

Continue the implementation of the socialist multi-economic sectors, establish various types of markets, and create the enabling conditions for investment in the production sector by the enterprises and the people.

a) Implementation of the multi-sectoral economy development policies:

(i) State-Owned Enterprises (SOEs)

In order to improve the performance and effectiveness of SOEs, there is an urgent need for implementation of the resolutions of the Party and the Government on urgent restructuring, reform and development of the enterprises. In the five-year period, the focus will be on the following goals and key measures:

- Complete the restructuring and reform of the SOEs from the central to the local levels. Maintain some selective key SOEs that play leading roles in the basic national economy. At the first stage of the Sixth five-year Plan, there is a need for rapid assessment to take firm action on abolishment, announcement of bankruptcy or change to other forms of ownership of those SOEs that are operating at low efficiency or inefficient;
- Formulate a comprehensive legal framework for the business management of the SOEs based on the independent financial movement;
- Improve the application of modern technology in the management of SOEs. The newly established SOEs should have comprehensive conditions based on the standards set by the sector, region and the key geographical areas. The establishment of new SOEs should be in the form of integrated enterprises, share holding companies and limited companies;
- The mechanisms and regulations that enhance the competitiveness among the state-owned business units following the market mechanism and provide a level playing field for all economic players should be established. Attention will be paid to monitoring to avoid the monopoly by the state-owned businesses. Improve the role and responsibilities between the administrative management and business management in order to make the ownership of running the businesses under the control of the state and the laws. Improve the accounting, auditing and financial reporting systems. Implement the reform of business and financial enterprises to be more transparent and accountable. Improve the effectiveness and efficiency of the state management, particularly the government sectors that own the SOEs. The state ownership and the business management rights of the government sectors, and the

rights to run the businesses by the SOEs should be clearly defined. The direct intervention of the state administration in the business activities of the enterprises should be eliminated. Increase the efficiency of state monitoring on behalf of the owner of the SOEs. Increase the role of legal bodies and civil society in monitoring the state administration from the central to the local levels. Develop plan for expansion and building the business partners in SOEs. Prior to the appointment of the Director of any SOE, training should be provided to the candidate to upgrade the technical knowledge.

(ii) Domestic Private Sector

Actively promote the domestic private (economic) sector based on the equal and fair business environment (level playing field) for both private and state enterprises. Enhance the creativity in running businesses under the legal framework. Promote the model family in family businesses that lead to small and medium-scale enterprises.

Improve the mechanism and the process so that the obligations of the domestic private sector to the state, such as the payment of land tax, should be centralized, simplified, accountable and transparent. Formulate the regulation on free information sharing services by the Government and the establishment of professional associations.

Review and remove all barriers to the domestic private sector business movement to ensure the legal independence of the business movement. Improve the speed of issuing the certificate permission process through single entrance (“one-door or one-stop”). Improve the monitoring, accounting and auditing of the enterprises following the policy on creating enabling conditions for enterprises, while at the same time improving the effectiveness and efficiency of the monitoring system.

Improve the import-export conditions and the processes to create enabling conditions for small-scale businesses to have better opportunities to legally produce unlimited quantities for export. Promote the participation of some types of businesses in the exposition of goods in the country and abroad.

Create and enhance the facilitating conditions for local authorities at each level to regularly meet and exchange views with the business units for problem-solving and necessary information sharing such as the market for their products, prices and other issues.

Attention will be paid to the development of small and medium scale businesses; expand the enterprise forms in the traditional professional sectors, non-rural agricultural sector and the establishment of model villages with special provision for job creation. Study the possibility of providing credit to help investors and businesses of all economic players (sectors), especially the small and medium scale businesses. The Government should provide assistance for training and technology transfer, credit schemes and market information sharing. Establish the system of “budding entrepreneurs” and revolving funds for the start up of new

businesses focusing on the need for increased investment in the business development services. Special attention should be paid to the development of the services in the areas of accounting, auditing, research, design, market analysis, technical consultation and technology transfer.

Establish and improve policies and mechanisms to create facilitating conditions for enterprises to be self-reliant (master) in expanding their businesses through the accumulation and mobilization of capital in the market.

(iii) Economic Areas with Foreign Investments

Create a comprehensive facilitation to attract foreign direct investments, particularly from the main multi-national corporations in Asia. Formulate comprehensive administrative regulations and allow foreign workers to work within our country, which is an important factor contributing to boost commodity productions. Meanwhile, it is necessary to encourage and promote the Lao workforce that already has capabilities to work in other projects. In parallel, it is necessary to urgently train more domestic technical workers.

Attract many forms of investment in many types of businesses. Open the investment sector to foreign investors. Promote and encourage private foreign investors and the Lao people living abroad to invest in commodity production in order to replace imports and contribute to the development and expansion of the market. In parallel, it is necessary to provide services in science and technology, protect intellectual property rights, and provide consulting services to serve the businesses and others.

Study the regulations on admission of foreign investors that have licenses to undertake (perform) their businesses in our country to be able to use documents for land utilization as collateral (a secured property) to borrow money from financial institutions, with the investors showing other assets (properties) to provide adequate guarantee to the Government.

Study the incentives that impact on cost reductions in commodity production and lower the prices of goods enabling the country to compete with others, such as the exemption of taxes or adjustments in land leasing costs. It is necessary (required) to take into account the establishment of mechanisms and policies to manage foreign investments in a simple manner and via the “one corridor” policy from central to local levels. Continue to discuss with and find out from both domestic and foreign investors the difficulties in operating their businesses, in order to seek timely measures for problem solving.

b) Creating incentives for comprehensive market development

(i) Financial Markets Development

It is necessary to start work on the development of the financial markets at the initial stage of the Sixth five-year Plan, in compliance with the strategic content of the Plan. This includes the development of the stock market, money market, capital market and immovable property (including land or real estate) market in a comprehensive manner, guaranteeing their regular and safe operation to ensure the growth of the markets step-by-step.

Enhance the self-reliance of the business operations of the state-owned commercial banks. Minimize the intervention of bureaucratic hierarchy in the provision of loans by the commercial banks. Improve the mechanisms for the provision of loans and ensure that the pledging of collateral (procurement of secured properties) is in accordance with the direction of enhancing the self-reliance.

Establish strong regulations to control monetary-financial markets in order to facilitate foreign exchange operations and the transfer (trading) of money in the market to be simple and transparent, while monitoring the movement of the volume of currencies in the market to be consistent with sound monetary management.

Strongly study the development of the bond market, setting forth the interest rate to be consistent with the changing situation and the trading within the bond market. Terminate the sale of government bonds to commercial banks to solve the problems of triangle debts (of SOEs). The sale of government bonds should be through open bidding through the banks, with the bond buyers providing clear certificates on their financial status. The Government should have an active role in selling bonds and have detailed plans on expenses by period (year) and should publicly declare the plans to enable the commercial banks to balance their capital sources and buy the bonds.

Consider developing the state-owned banks in order to enable the Government to supervise and monitor the performances of the monetary-financial system to be more transparent in solving doubtful debts through auditing of the accounts and the categorization of debts in accordance with international standards.

Study and experiment to establish the property market and stock market in Vientiane Capital towards the end of the Sixth five-year Plan period.

(ii) Labour Market Development

The Labour Law will be improved in order to ensure the balance of benefits between employees and employers, promoting and facilitating the workforce to have jobs in both domestic and international markets. Promote all economic players (sectors) to actively contribute to the creation of jobs in both quantity and quality. Consider the dissemination of laws and regulations as well as other agreements on labour. Meanwhile, it is necessary to compile information on jobs and the dispatch of labour to foreign countries. It is necessary to have a consistent policy to attract persons who have capabilities, technical knowledge and good skills in both neighbouring and other foreign countries in order to contribute to the socio-economic development of the country.

Improve the regulations on employment agencies (job seeking business) and dispatch of labour to work abroad in accordance with the direction of creating the conditions to enable multiple players to increasingly provide such services (more and more), while simultaneously improving the ability of the state to monitor the situation.

Establish an effective social insurance system, particularly the unemployment insurance, creating equality on providing social insurance for the employees of all economic sectors (e.g. public, private and voluntary). Consider protecting the rights and benefits of employees and employers.

Improve the management system of labour markets within central and local regions. First of all, it is necessary to clearly prescribe the roles of relevant players (sectors) – including the Ministry of Labour and Social Welfare - in managing the labour market in an efficient and fully effective manner. Ensure that a sufficient number of officials are working on labour market management at all levels, upgrading the knowledge and technical skills of the civil servants.

Promote the involvement of mass organizations and non-governmental organizations (NGOs) in developing the labour market and assign them some responsibilities, such as training, skill upgrading, performance on the job, job creation planning, and supporting plans for start-up of enterprises.

Enhance the role of the Trade Union as the representative organization of the employees in order to facilitate the involvement of the labour force in plan formulation, setting forth policies on the labour (workforce) market, and monitoring the compliance with (observance of) the Labour Law.

(iii) Real Estate Market Development.

Consider developing the real estate market, with the rights of land usage and ownership of dwellings. Create facilitation for the transfer rights of land usage and ownership to real estate. Provide opportunities for the citizens and enterprises that belong to other economic sectors to be able to own land, and have long-term leases for land usage in farming, for operating businesses and to serve their daily lives.

Facilitate land usage to establish and develop medium and large-scale farms in the areas where there are good conditions. Examine and reform the lands which certain enterprises, state organizations, social organizations and military forces are using the land very ineffectively or using it for wrong purposes. Completely solve the problems of idle land or the land being used for wrong purposes. Reform the land usage in cities and declare openly the policy on land reform in order to inform the enterprises and the public.

Continue to disseminate the regulations on land use by Lao people living abroad and foreigners who invest in Laos. Mobilize capital from many sources in order to construct the accommodations to meet the needs of the people, particularly in the urban areas.

Collect revenues on the use of land provided by the Government to organizations and individuals. Collect taxes on the transfer of the right of land usage from the sellers of such rights. Implement the policy on establishing a land fund in order to bid for the right of land usage, specifically in big cities, and utilize the high value of land to establish a fund for developing socio-economic infrastructure.

Urgently formulate some laws, especially the law on the real estate market, and the regulation on the registration of properties, along with the dissemination of those legal documents. It is necessary to establish a real estate management agency to be consistent with such management. In addition, it is necessary to create the conditions for establishing a central agency for such a real estate market, such as a place for exchanging real estate and so on.

Urgently disseminate the procedures for bidding, the agency which plays an active role in bidding and the land account of the state. It is necessary to have public bidding in order to enable the sellers and buyers to obtain completed data on the properties. In parallel, the establishment of bidding procedures must have many forms. Implement many processes to comply with each project. The determination of the winner of the bid and the bidding price should comply with domestic and international regulations.

Ensure the benefits of all parties in land compensation, making sure that the benefits of all relevant parties are consistent, open and transparent.

Disseminate the policies on land reform and the management of land utilization, along with (in which) the regulations on land reform, management, responsibility for the land reform

plane, and the regulation on establishment and implementation of the reform plan that are important for appropriate utilization of land.

(iv) Technology Market Development.

Review and revise the draft legal documents, which are relevant to the issues of intellectual property rights, transfer of technology, and cooperation on science and technology to be more completed and perfect; and utilize results of research and analysis in practical work and daily life. Create the facilities to import innovative techniques, and new and modern technology from other (developed) countries.

Establish an information and data system of science and technology (both local and foreign) to meet the needs of individuals, entities, organizations and enterprises to conveniently access this service. Promote the establishment and development of the technology market and widely communicate and disseminate information and basic knowledge on intellectual property rights, the patent laws and the promotion of individuals and organizations to have their products registered.

Create facilitation for the consultative agencies and technology services within all economic sectors to regularly organize Technology Fairs; and organize seminars in order to present new technological developments. Encourage the utilization of technology in production to be the basis for developing the science and technology market.

c) Increase the effectiveness of the legal framework for macroeconomic management; and continue to establish and improve the legal framework to be more effective

(i) Improvement of the Economic Legal Framework.

Promote the drafting of an improved legal framework in compliance with the socialist-oriented economy. Strive to have a completed legal economic system to be the basis for business operations, to comply with the market-oriented mechanism, and to support the effective integration with regional and international economies. Thus, it is necessary to draft and improve the necessary legal documents such as the following:

- Enterprise Law and Bankruptcy Law to protect the freedom of entry and exit of the stock markets. Create the competitive environment to be transparent and equal for all economic players (sectors);
- Financial Law to ensure the implementation of state budget in an open (public) and transparent manner. Set up the revenue sources and expense structure of the central and local budgets to be consistent. Utilize sources of budget and mobilized capital from communities and society to improve effectiveness. It is necessary to strictly, openly and transparently implement the Budget Law;

- Tax and Duty Law in order to ensure the simplification of the tax system. The tax rate has to be compatible with the real circumstances, stable and consistence with the AFTA conditions and other international instruments. Change the form of collecting. The customs tax collection should be changed from the current checking by the custom officers to the declaration of the tax payments by business operators;
- Contract Law on joint ventures with other countries in the region and the world;
- Commercial Law to be consistent with other international conventions in which our country has adopted or to be a party to them. Establish the basic legal documents to serve free trade, investment and services and protection of intellectual property rights, which have been signed within the framework agreements of bilateral and multilateral cooperation; and
- Natural Resource and Environment Laws, clearly stipulating the legal responsibility and other civil, criminal, economic and administrative penalties (obligations) for persons that violate these laws. Utilize the rule “polluter pays” by issuing the regulations on calculating the environmental impacts.

At the same time, make efforts to establish the: (i) legal framework on market management, which is a factor to support the domestic production and services such as: commodities and services markets, real estate market, labour market, monetary market and technology market; and (ii) laws serving the successful integration with international markets, Anti-dumping Law, non-tariff barriers, and Anti-money laundering law. Consider the dissemination of regulations and laws which have been improved and promulgated, including advice on how to strictly implement the laws.

(ii) New Changes in Planning Processes

Continue to improve the work on establishing planning and forecasting in each period. Enhance the quality of local authorities in establishing work plans, financial plans and labour plans by not only relying on the central authorities. The plan formulation should be linked with the market, and compatible with the capacities and conditions of the local sectors. Establish comprehensive monitoring, control and evaluation mechanisms. Increase the coordination between the central and local authorities to be consistent. The people should be involved in the establishment of the work plans and action plans.

Consider the work on planning to move toward the direction of regional development. Develop infrastructure to increase the participation and integration of all areas in the country. Disseminate the general strategy and the Socio Economic Development Plan to all sectors, local authorities and enterprises to enable them to establish detailed plans.

Review, establish and improve the information system within each sector and local authority to be consistent in order to enhance the capacity to report the progress on implementation at each level.

2. Mobilization of Investment and Improving Productivity:

Promote the attraction of capital to serve economic growth; enhance effectiveness of investment; minimize the leakages and wastefulness of investment.

Continue to promote and encourage the mobilization of capital throughout the society for rapid growth. Create all conditions and potentials for all economic players (sectors) to be actively involved in investment and commodity production. At the same time, the Government should concentrate on the management and prevent wastefulness and corruption in order to upgrade the effectiveness of state investment.

a) Domestic Investment.

(i) Continue to evaluate and improve the development strategies and plans

Continue to evaluate and improve the development strategies and plans and set up targets for the sectors and local authorities. Determine some main products, particularly the fast growing products that already have established markets. Widely disseminate the strategies and plans to enable (make) the enterprises to actively invest in commodity production.

(ii) Promote the mobilization of capital from all economic sectors

Promote the mobilization of capital from all economic sectors. Promulgate and issue the new policies in a timely manner aiming at facilitating the private economy to grow strongly without limiting sizes and types. Improve the procedures for filing documents and eliminate unnecessary regulations aiming at facilitating timely impact on preparing the application documents for investment, such as registration of enterprises, sculpturing and registration of the seal, duty registration, land leasing, credit, transport services fees, and communications, with particular attention to the collaboration between enterprise registration and duty registration sectors and seal management. Establish the information system on enterprises for the banks to be the reference in releasing loans. Establish an experimental location/point (spot) for the provision of services on forecasting the business trend of each category to assist banks in making decisions on the provision of loans to enterprises. Continue to mobilize capital for investment in development through the sale of Government money orders, enterprise shares and state bank loans.

(iii) Enhance investment effectiveness and prevent wastefulness, and state budgetary leakages

Review and re-evaluate the investment plans and the effectiveness of large projects to formulate timely solutions without allowing any person to invest outside the plan and

ineffectively. Study how to establish project accounts, target activities, and target commodity product accounts in order to reform the centralization of investment, reducing decentralized investment. Promote the monitoring of state projects by the public. The Government should separate the management of the projects and the project evaluators, particularly in some sectors that use huge amounts of capital such as the communications sector, irrigation and accommodation construction, in order to lead to an independent audit agency. Continue to implement Decrees Nos. 35/PM and 58/PM on management and enhance effectiveness of state investment. Ministries, sectors and local authorities must actively establish their plans in compliance with the said Decrees and submit them to the State Committee for Planning and Investment to summarize and report to the Government.

b) Foreign Direct Investment

It is necessary to have (high) consensus at the highest level on the (subjective) necessity for and the significant role of foreign investments that contribute to industrialization and modernization, aiming at making the performance of all sectors and every level, from central to local levels, to unanimously attract and effectively utilize foreign direct investment (FDI) because the FDI is an important component of the economic base and will grow as the process of integration with regional and international arenas continues.

The attraction of FDI plays an important role for the economic development of our country and it is one of the main factors to create a major step for rapid development in the coming years, because there are plenty of natural resources but not enough (lacking of) capital, skilled workforces and modern management. Thus, it is not possible to explore all the natural resources and the existing potentials of our country, while extending the size of the economy and accelerating the speed of commodity production with high capacity.

In reality, the attraction of FDI is still limited because of the insufficient local workforce with high technical knowledge and skills. Therefore, it is necessary to use imported labour that is connected with the FDI projects by stipulating that the foreign worker have to contribute to economic development in parallel with human resources development. In the Sixth five-year Plan period (2006-2010), it is necessary to focus on implementing measures and methods to develop the economic sectors where there are foreign investments.

Urgently disseminate and implement the laws on foreign investment that have been amended and adopted by the Fifth National Assembly. At the same time, the Government should (it has to) re-examine the policies, mechanisms and processes of foreign investment admission to have a favourable atmosphere, convenience and timeliness, and create a more favourable impression than that of other countries in the region.

Consider the formulation of a master plan for sectoral and regional development to propose to foreign investors, such as hydro electric power, mining, processing industries, livestock breeding and other strategic industries aiming to further increase exports.

Nominate groups to encourage and mobilize capital with capable countries that have the potential for investment capital. Organize seminars and disseminate priority projects to attract foreign investors.

It is necessary to issue regulations to manage foreigners working in the Lao PDR. Permits should be issued on a case-by-case basis in each period in accordance with the terms of the projects and in compliance with the needs of practical workforce, with the stipulation that the investor/project should have a plan to substitute the foreign workers by Lao workers.

The Prime Minister, the President of the Committee for Planning and Investment, the Finance Minister, the Governors and the Mayor should organize conferences to meet with both domestic and foreign investors to listen to their comments and ideas on the investment environment. Thus, the Government is to support and facilitate the business operations and production of domestic and foreign investors to be more convenient and effective.

The Government should monitor, examine and evaluate the systems of business operations of enterprises of all economic players (sectors) and must have a policy consistent with the mobilization of capital and appropriate methods for rewarding (praising) the good deeds and punishing the violators.

c) Loans and Grants from Foreign Countries

Under the constraining high debt situation, the loans from foreign countries aimed at investing in commodity production projects will be one factor to be taken into account. The loans should be considered carefully based on the effectiveness of the investments, especially the loans at commercial interest rates. Otherwise, it will be difficult to recoup (regain) such capital, leading to a long-term deficit that will result in creating a heavy burden on the state budget.

In order to increase the mobilization and utilization of loans and grant aid from foreign countries, it is necessary to establish a master plan for each sector and clearly stipulate measures for utilization. Also, it is necessary to mobilize sufficient additional counterpart funds (capital) to the grant aid projects within the Central region as well as the local regions aiming at ensuring the implementation of the projects in accordance with the agreements, particularly those projects that could be completed in time and contribute to the production.

In order to ensure the effective utilization of grant aid and loans, ministries, sectors and local authorities should guide the persons responsible for the projects. Consider implementing relevant measures to promote timely project implementation such as bidding, establish plan for mobilizing counterpart funds, and with all relevant sectors. Fight against delays, poor preparation, low project assignment, decentralized bidding or bidding in a nutshell manner.

3. Fiscal Management:

Implement state policies in a transparent manner, strive for increasing income and effectively utilize budget by lowering expenditure.

The financial policy has to concentrate on increasing revenue to about 17 percent of GDP by 2010, to ensure adequate resources for reasonable expenditure plans in the administrative budget and state investment. At the same time, the expenditure components need to be reformed appropriately. Strictly observe the financial-budgetary regulations; and minimize the budgetary deficit to a safe level of finance.

To implement the targets above, it is necessary to proceed with the measures below:

a) Formulate and Improve the State Budget Law by:

- Modifying and improving the current Budget Law, along with disseminating and introducing some other laws such as the Tax Law and the Customs Law, which need to be enforced and observed in society. The management of finance and budget should be considered as a responsibility of the whole Party and the people; and
- Improving the organization system and reforming the financial officers, who are the main actors in enhancing effective performance and solving the sectors' difficulties, including those concerning the budget. Increase the training and mobilize the party's ideology and policy concerning financial work to officials within the financial sector aiming at making them clearly understand the important significance of finance towards national construction and protection. Create facilities to support business production and construct socio-economic infrastructure. Try to educate and mobilize financial officials to have the characteristics of patriotism and firmly fight against the abuse of power for personal benefit.

b) Firmly Implement measures in budget management and administration

Budget revenue: Improve mechanisms of collecting revenue and at the same time make efforts to fight against revenue leakages. Firmly abolish arbitrary activities in tax exemption or minimization of revenues or illegal balancing of accounts.

Reform the tax collection system and national treasury system to be compliant with the needs of decentralization of financial administration to ensure the implementation of centralized guidance and have the consensus at the central level. This is the basic condition to ensure the completion of revenue collection in a timely manner. Apart from this, the Government has to effectively manage revenues-expenditures of departments and local authorities, which is the main duty and should be immediately implemented during the initial stage of the Sixth five-year Plan.

Improve the management mechanism of state-enterprises aiming at promoting high (financial) productivity in operating their businesses. Continue to improve and reform the state-enterprises; promote the conversion of state-enterprises to partnership, or sell or lease them. Implement financial management regulations in an equal manner with all economic sectors. Terminate the practice of borrowing from the budget or Government guarantee for state-enterprises to borrow money from foreign countries.

For the budget expenditures: Ministries and local authorities have to ensure the management of their expenditures to be in line with the plan adopted by the National Assembly. No entity or department should be allowed to arbitrarily issue agreement on decreasing budget revenue or increasing budget expenditures. In case there are new expenditures, it is necessary to promote the increasing of revenue collection to meet such expenses. If it is not possible to do so, it is necessary to reallocate (rearrange) the expenditures to ensure balance between revenue and expenditure.

As for investment, efforts should be made to ensure the counterpart funds for the projects agreed with foreign partner. For new loan projects, the selection should be done focusing on the most essential projects before making agreements with foreign partners. Domestic investment should concentrate on the projects that can yield quick economic results.

Besides this, there should be an effective debt clearance method for the investment projects that have not been completed on time.

The regular expenditure has to be re-audited. Create suitable expenditure regulations in line with the real situation and the availability of the budget as the basic fundamental for the gradual reduction of such a kind of supplementary expenditure. Improve the salary system in order to sustain basic living standards. Priority is to be given to human resources development expenditure and other social activities. Detailed procedures on the implementation of economic policy have to be indicated, such as the expenditure on administration.

The Ministry of Finance has the following duties during the five-year period (2006-2010):

- (i) Act as the central controller of the unanimous foreign debts, and do not allow local authorities to borrow funds from foreign countries. Clear the budget debt as soon as possible in order to guarantee financial security and budget flow.

For the Foreign Debt: It is necessary to strictly allocate budget for debt clearance in accordance with the agreements. Negotiate with the creditors to reverse the debt, clear the debt, reduce interest, and especially to prolong the loan repayment period.

- (ii) Improve the auditing process in order to avoid the loss of income and assets, and avoid luxury expenditure. Increase the awareness of financial regulations. Strictly

resolve the inappropriate actions that do not comply with the budget revenue and expenditure management such as free customs duty reduction or exception, delays in the handover of revenues (budgets) with reference to time and central to local management system, etc.

- (iii) Indicate the clear boundary and responsibility of each level in the revenue-expenditure management of the budget. Publicize and utilize the economic policy of the Government and put the into practice. Restructure customs and national treasury as soon as possible. The local authorities have to facilitate these organizations in the implementation process in order to guarantee the efficient outcomes.

The tax organization structure has to be maintained. However, the tax collection strategy has to be improved by allocating the levels of responsibility between central and local areas based on the taxation rate and not based on the size of enterprises. The taxation bodies from central to local areas must collect 100% of the revenue quota (ration) for the central level and also the revenue that has to be divided between the central and local budgets. At the local level, there will be an organization within the finance section that is in charge of collecting 100% of the local revenue.

The finance agency has to be further modernized. Initially the customs and treasury divisions have to be effective in state budget management. More emphasis has to be placed on the financial human resource development in response to the needs of budget management throughout the country.

4. Monetary Management:

Implement the currency policy with flexibility and carefulness to support commercial based production while maintaining inflation at a manageable level

The overall goals for the future monetary policy are to control inflation and guarantee the security of the banking system; set up the credit system and financial regulations in order to protect the investment environment; and take part in promoting the development of the economy. Make a firm connection between the monetary policy and the annual fiscal policy in order to stabilize the value of the Kip and direct the macro economy, promote the state enterprises and people's savings habit, and invest in increasing the production and businesses. Therefore, special care is to be taken in the implementation of the monetary policy along with applying appropriate tactics aiming at providing stability for the Kip, with particular focus on the following points:

- Continuously improve the legislation for the operation of the banking system in accordance with the needs of the situation in the new era. Consider, improve, and adapt the Banking law and the law related to the creation of the credit system.

Furthermore, the other necessary laws have to be drafted (written) as the basis for the creation and development of the financial-monetary market.

- Upgrade the monetary policy handling and strongly improve the tools of monetary policy.
- Create and implement the monetary policy by following the market mechanism leading to the international standard management of the banking system. Operate the monetary policy on the basis of modifying the amount of money in circulation; and at the same time gradually provide essential conditions to operate the monetary policy in accordance with the interest modifying method. Indeed, set up the base (basic) interest margins and main interest rate for the banks in order to guide and manage the setting up of the market interest rate.
- Consider and create the maximum level of interest rate for the Bank of Lao PDR in order to direct and modify the basic interest rate of the economy and use the open market operations (policy) in monetary management. This is the basic principle for the Bank of Lao PDR as the main organizer in modifying the monetary situation with free interest rate movement.
- Upgrade the capability of the Bank of Lao PDR in terms of interest payment for the compulsory reserve deposits in order to strengthen the financial status of the commercial banks; and apply the effective open market operations (tools) as well as the re-supply of new capital for the commercial banks, drawing (based) on the revenue sources of the Bank of Lao PDR through the effective foreign currency management and the use of open market operations (tools).
- Form the responsible body to manage the usable funds in order to meet (indicate) the market demands. Under the supervision of such a body, the Government should allow the buying and selling of fixed Government bonds, and the bonds between the Bank of Lao PDR and commercial banks, in order to create the foundation for the development of an open market.
- The regulations have to be quickly put in practice in order to bring tools to supply new capital in the financial sector in the early stage of the Sixth five-year Plan. The tools for supplying new capital should include the re-supply of capital, credit, payment assistance and deposits. The implementation of such techniques will allow us to include the additional tools in the guided interest system of the Bank of Lao PDR and to assist it to be in a better position for controlling the movement of interest rates in the market.
- The Bank of Lao PDR has the role of purchasing and selling of Government bonds aiming at modifying the volume of money in circulation. The Bank of Lao PDR is in urgent need of re-building the value of the Lao Kip notes, with their value reflecting the overall picture of the new price in the past five years, in order to facilitate the debt clearance. At the same time, the printing and delivery costs of new Kip currency (notes) have to be reduced. Initially the 50.000 kip and the 100.000 Kip bank notes have to be printed.
- Continue to upgrade the exchange management mechanism by following the wide range of variation in accordance with the monetary open market level under the process of international link age and the control of the Bank of Lao PDR. This action aims at implementing the exchange mechanism called “controlled floatation.” Maintain the stable exchange rate, guaranteeing that the official exchange rate stays close to the actual exchange rate.

- Keep on maintaining the limit of the economic situation that is heavily based on the Dollar currency. Seriously control the foreign currency exchange rates aiming at centralizing the maximum amount of foreign currency into the Bank of Lao PDR. Propagate widely the law in managing the foreign currency exchange rate to enterprises and the general population and closely observe the real situation. Try to reduce the foreign currency share in the broad money supply (M2) from 52% in 2005 to 30% in 2010.
- Upgrade the quality of planning and the balance clearance research, which are important for indicating and setting up the national foreign currency balance and the exchange rate.
- Keep on increasing the official foreign currency in the Government reserve to be equal to at least 3 months of imports.

Operation of the Commercial Banking System: Upgrade the business potential of the commercial banking system in order to be able to supply sufficient credit facilities for the basic economy of the country.

Supply a variety of various credit facilities for the basic economy based on its own responsibility, security approval and business efficiency. Priority is to be given to the main and potential goods production, agriculture and the rural areas. Promote the commercial banks in increasing the loan facilities to profitable and high performance projects. Try to reach the peak of annual growth in lending of about 20-22% in order to guarantee the capital for the growth of the economy.

Provide autonomy for the state-owned commercial banks in business operations by lessening the control of public commercial banking authorities at all levels in the loan decision making process. Reconsider and adapt the loan mechanism or new mortgage mechanism by following the self-reliance and self-responsibility in loan approvals by commercial banks.

Promote the commercial banking system by proving a wide range of monetary and service activities; and promote the new and up-to-date monetary business activities

Create additional alternatives concerning the registered capital of the state-owned commercial banks to be able to resolve the viability (floatation) problem whenever the business banks have reached the specified criteria. It is estimated that in two years' time 2006-2007, the supply of additional registered capital for the state-owned commercial (public business) banks will be about 700 billion kip

Firmly continue to upgrade the commercial banks in accordance with the specified restructuring guidelines, particularly in upgrading the three state-owned commercial banks. Continue to restructure the corporate banks on the basis of financial evaluation.

Continue to resolve the constraints (obstructions) in the banking system by upgrading the quality of the credit system and making a transparent financial system. Clear the over due

debt gradually, except in special circumstances, which are approved openly by the Government. In 2006, there is an urgent need to set up a public agency for the implementation of the economic development policy and provide assistance to the poor people in the remote areas

Improve again the criteria for debt classification and provisions (reservation) in the security bank in accordance to the international standards. Increase the effectiveness of regulation concerning the pawning, mortgage and guarantee, and provide the facilities for the creditors to collect and clear the debts. Set up the debt and asset buying-selling company for enterprises. Increase the on-the-spot auditing, and apply the bank evaluation techniques based on its risk possibility in the credit business.

Further develop the monitoring of business operations and auditing regulations for the banking and crediting business by following the CAMELS asset and debt management system. At the same time, the central bank has to consider and finally apply the BASEL I auditing principles in the management of commercial banks. Improve the risk forecasting and distance auditing system, particularly in the fast forecasting of interest and exchange rate movements as well as the growth of the credit system by relying on the use of modern mass media equipment and technology.

Expand and upgrade the quality of the population credit system: Publicize and apply the suitable population credit regulations in the management of such programs based on the socio-economic specialty and population distribution pattern in the country. Continuously improve the population credit pattern in order for them to be self-reliant and independent credit organizations based on the voluntary and self-responsible principles in their operations.

Provide suitable opportunities for the general population and enterprises in approaching the banking services and facilities; and on that basis, widen the non-cash clearance methods and the quick clearance system through the banks.

Improve the capability of the staff so as to strengthen the monitoring and auditing of the business operations of the commercial banks

Completely clear the matured loans of the Bank of Lao PDR and the banking system.

The treasury has to stop the practice of debt clearance on the public loan investment projects by issuing the bank bonds to the commercial banks. In order to clear such loans, the Government should issue the bonds for purchase by the citizens, or provide Government bond auctions through the Bank of Lao DDR (selling them to the commercial banks and other large enterprises). In doing so, the treasury as well as the commercial banks will be in a better position to manage their own resources; and as a result the Bank of Lao PDR is able to control the monetary policy better. The bonds with non-financial security have to be solved in a similar way.

Apply the amount of loan clearance for the enterprises in the Bank of Lao PDR by using the bank notes issued in past years, in order to keep a balanced and transparent monetary situation. This action may not affect inflation as such clearance methods do not increase the supply of money in circulation.

The remaining un-cleared debts without security of the state-owned commercial banks, the non-existing debtors, or the un-recoverable loans (whether they are not possible to recover) have to be cancelled by using the bank notes issued in past years.

The Government should test the successful resolution of the unclear debts among the Government, enterprises and the banks at the beginning of the Sixth five-year Plan (2006-2010).

News and staff affairs: Keep on improving the monetary news within the banking system so as to collect the up-to-date monetary movement and take suitable actions promptly. Improve the news network in every sector within each ministry, in order to be secure in providing prompt and sufficient information for the management at the macro level. Build up the legislation foundation for providing such news and assign the Bank of Lao PDR as the main body to link with the ministries and other related sectors in developing the balance sheet of periodic and annual payments with international organizations.

The Government acts as the supervisor for the steady cooperation in combining a better and firm cooperation of the financial budget and the monetary policies between the Ministry of Finance and the Bank of Lao PDR, so as to provide the same (similar) direction to the two interrelated policies and take part in providing stability in the macro the economy.

5. Improve Effectiveness of State Organizations:

Promote the firm improvement of State Management, strengthen the State Organizational Structure and bring its operation into effect.

a) Improvement in public administration:

The core function in state management improvement in the five-year period (2006-2010) is in gearing at upgrading the cooperation mechanism between ministries, central organizations and local authorities by re-examining their roles, duties, and responsibilities, as these were identified to be the main weaknesses in the past management process that led to the overlapping in performance, low quality of work and outcomes.

The following are certain critical tools for better operation:

- Re-allocate the roles, duties and organizational structures at all levels [Government, ministries, (ministry equivalent) organizations, Government organizations and different levels of local authorities], to respond to the needs of the new era of social management by observing strictly the roles of the Legislature, the Government and the Judiciary, as indicated in the Constitution. Upgrade the roles and responsibilities of mass organizations in educating and preserving the citizens' rights.
- At the Government level, more emphasis has to be placed on legislation, policy guidelines and macro planning in the area of public administration and socio-economic development. Provide assistance and supervision on the implementation of orders, notes and suggestions.
- The authorities at the local levels have to operate the Government plan, resolutions and orders. Put these into practice responsibly by converting them into detailed plans and action plans, and specifying implementation tools. It is also possible at the same time for the local authorities either to ask for permission in providing a coincident specific regulation in compliance with the order and resolution of related ministries and professional organizations, or to ask them for specific regulation assistance. Specify clearly the tasks in which local authorities can freely decide; the tasks where they have to ask for recommendations; and the tasks that have to comply with the central decision making authority. The administration level is classified in relation to finance, organization and staff.
- Specify in detail the regulations on managing, work routine, roles, duties and responsibilities of each managerial level. Indeed, specify in detail the roles, duties and responsibilities of the heads in each organization.
- Improve the effectiveness of the management structure to the higher level by relying on the responsibility and transparency of the organization, the Government and the Legislature. Provide a regular and assured (guarantee) information concerning the management, policy and the development plan for the citizens, making sure that all the citizens have easy and convenient access to the information resources.
- Eliminate the complicated and overlapping paperwork processing system, which provides opportunities for corruption and the creation of difficulties for the people at large.
- Apply severe punishment for corruption, luxury and non-transparent activities in the public budget management. Pay emphasis to educating, monitoring and punishing the staff and officials who break the rules and regulations. The focus has to be placed on the law enforcement organization in order to keep the staff transparent while on duty. Encourage the law enforcement, monitoring, evaluation and auditing of the organization within the Government organizations aiming at increasing the high level of responsibility and effectiveness in budget expenditure.
- Reform the salary and bonus systems in order to encourage the staff and officials in performing promising, quality, efficient and effective work; and make every effort to make their salary their main income. Apply the other incentive programs for the hard working and outstanding staff and officials.
- Ensure the strict regulation enforcement in the public works administration in order to create the open official duty activities, especially in the area of work with direct relation to the citizens, such as in income, property and land taxation.

- Further develop the professional ability of staff at different levels by attending short- and long-term training courses either in the country or abroad. Select the most suitable staff that are well qualified, possess the right political and social class attitude, and have a common point view on the new changes of the Party's guideline to be recruited in the key positions of the state and party organizations.
- Strengthen the Party's leadership responsibility at all levels in maintaining guidelines, and monitoring and evaluating the implementation of the Party's direction on socio-economic development.
- Strongly specify the roles and duties of the ministries and the other macro management bodies. Stabilize the organizational structure; and provide security for the staff in managerial tasks for a high work performance. Modernize the organizational structure, and change the managerial working methods and the state administration by applying the up-to-date technology.

Critical Tools Against Corruption: It is necessary to urgently enforce the law against corruption, the economic decrees and the decree against luxury. At the same time, a monitoring body in the National Assembly needs to be set up to monitor the implementation of such enforcement. A report on the implementation of the above mentioned enforcement should be prepared every six months. The National Assembly is responsible for evaluating the implementation of such an enforcement process by the Government.

Upgrade the working capacity of the auditing agency by transferring it to the National Assembly. The head of the national auditing agency is to be appointed directly by the National Assembly. Compile the law concerning the auditing. Conduct an auditing trial in certain ministries, local areas and enterprises, by inviting the international auditors to work with the national ones at the final stage of the Sixth five-year Plan.

The Responsibilities of the Government: It is necessary to upgrade the status of the state auditing agency to be equivalent to a ministry, and provide the supplementary roles, rights and staff for the agency. Assign the Deputy Prime Minister to act as the head of the state auditing agency in order to be the main assistant for the Government in the struggle against corruption and luxury, and in applying the national economical policy.

Apply the educating tools and severe punishment for those who break the rules. Make a "four should nots" slogan campaign: should not do, should not want, should not be able to do and should not dare to corrupt; and communicate them to the staff and the officials and then put them into practice.

b) Enhance public administration in the execution of the socio-economic plans of the various sectors at different levels

In order to reach the goals of the Sixth five-year National Socio Economic Development Plan (2006-2010) and gain satisfactory success, all the ministers, the heads of the Government organizations, the provincial governors and the Vientiane Capital City mayor have to be more

responsible in providing guidelines for their subordinate sectors to be successful in their allocated duties. They have to provide direct guidance on problem solving, confronting the obstacles as well as providing recommendations or solutions for the suggested situations and difficulties from the grass-roots level. The management regulations have to be simplified. The success and the effectiveness of the production and business activities and the existence of socio-economic security and safety can be used as the means to evaluate the success in every district and province.

The Committee for Planning and Investment has to play a key role in coordinating the cooperation between the Ministry of Finance and the BOL in directing the operational management and expansion of the goods production, the direct investment in accordance to the harmonious and balanced fiscal and monetary policies and guarantee the continuous macroeconomic stability. The national statistics system has to be effective, consisting of skilled staff in data collection and supplying the essential data for analysis as needed for the allocation of socio-economic development policy. There should also be statistic units in every ministry and locality. The central national socio-economic information has to be maintained by within the National Statistics Centre.

The Committee for Planning and Investment is assigned to be the assisting body for the Government in coordinating with the ministries, other sectors and local authorities, in monitoring the socio-economic development of the country, and from time to time write a report for the Government meeting. The Government meeting decides on the production, import and investment plans and resolves the existing obstacles. The Government then assigns the concerned minister to put into operation and report back to the Government meeting from time to time.

C. Other Implementation Actions

All the sectors and localities have to be united and comply with the Party's guidance in the implementation of the indicated duties and achieve the objectives in the Sixth five-year National Socio Economic Development Plan (2006-2010). Based on such a policy, the Government has to draft the action plan immediately, aiming at achieving the objectives by stimulating the ideas and insights of all Party members, army officers and citizens.

In order to achieve the objectives and the duties as indicated in the Sixth Five-Year National Socio Economic Development Plan (2006-2010), commencing from October 2005, the Government has to draft the following three documents and seek their approval by the National Assembly:

1. A report on the focus priority goods production in the period 2006-2010 and the vision from now on to the year 2010, consisting of the list and the amount of focus priority goods together with the assigned production task for the concerned sectors and the locations of production. Besides, it is also necessary to allocate the general and specific operational mechanisms as well as the necessary capital;

2. A report on the overall investment plan comprising of the list of projects in different sectors and localities, expected locations and time allocation together with the capital resources; and
3. A report on the mechanisms, policies and detailed action plans, with the plan to be communicated periodically during 2006-2010, including the following:
 - a. **Mechanisms and policies:** Operational law of the plan should be written and approved by the National Assembly. The Government should indicate the policies and mechanisms. At the same time, ministries and concerned sectors should indicate their actual operational programs;
 - b. **Improve the organizational structure and allocate the level of responsibility:** Draft (write) the quality improvement project, work effectiveness, and the strictness of the government organization, different sectors and localities. There should also be a detailed allocation of responsibilities between central and local areas, and between different sectors. In addition, clear operational time limits should be indicated as well; and
 - c. **Staff development:** Indicate the staff quality improvement and efficiency programs. Indeed, the clear allocation of responsibilities should be indicated in order to achieve the given objectives.

II. Monitoring and Evaluation Arrangements

A. Introduction

Monitoring and evaluation are integral elements of the National Socio Economic Development Plans as they are essential to assess progress, learn lessons and improve implementation on the one hand and planning on the other. All levels of the Government from the centre to the localities (provinces, districts and villages) have been and are involved in the monitoring and evaluation process. Progress in achieving the goals and targets of the Plans including those in the MDGs and the Brussels Programme of Action for Least Developed Countries is gauged through the monitoring and evaluation processes.

Monitoring can be seen at two broad levels: (i) the monitoring of inputs and outputs or implementation monitoring, and (ii) the monitoring of outcomes and impacts or impact monitoring. The State has more control over the allocation of inputs (e.g. public expenditures including foreign aid and personnel) and the generation of outputs (e.g. number of ha irrigated, amount of improved seeds distributed, number of improved livestock distributed, number of improved tree saplings distributed, and number of schools, health clinics and standpipes/wells for safe water, and kilometres of roads built); whereas the outcomes [e.g. production of food, livestock and other agricultural products, forest replanting/restocking, usage of schools (including gross and net enrolment, dropout, repetition and /progression/graduation rates), health facilities, water supply and roads] and their impacts (e.g. educational attainment including literacy, health status and economic advancement) depend not only (albeit importantly) on the outputs but also on a host of other factors that determine the utilisation of the outputs by the people. The Government has been undertaking the monitoring and evaluation of both the implementation of the Plans and their impacts.

An important purpose of monitoring implementation is to utilise the information to improve future implementation. Therefore, the main implementing entities – central Ministries/Agencies and localities (provinces, districts and villages) – compile information on implementation progress (monitor) identifying the flow of funds (by current and capital expenditures and from central and provincial and domestic and external partner sources), allocation of personnel, achievements and remaining challenges. They should utilise the information to overcome the constraints through appropriate assistance from the stakeholders. For example, the issue of a delay in release of funds from the Province, the central Government or a partner in development could be addressed to the respective stakeholder.

B. Existing Arrangements

The Committee for Planning and Investment (CPI), in cooperation with the central ministries and agencies and the localities, is responsible for the coordination and formulation of the National Socio-Economic Development Plans (NSEDPs) and the Public Investment

Programmes (PIPs). The Government will increase cooperation among ministries, sectors, localities and the political authorities, in socio-economic management. It is necessary to have balance and stability in each major part of the fundamental economy. The CPI is assigned as the focal point to coordinate the activities among the ministries and sectors to prepare the monthly, periodic and annual progress reports on the implementation of the Plan, which will continue to be presented to the monthly meetings of the Government.

The Prime Minister regulates the production framework, importation and investment, etc., in order to assign to the ministers accordingly. In each Governmental meeting, ministers and governors of each province appraise and report on the implementation in each ministry, sector and locality; together with the enhancement of the existing capacity, solving mechanisms, the policy of the socio-economic management as a whole, and the sectoral management in particular. The CPI will be mandated to be responsible as the chairman to allocate the tasks to each ministry, sector, and locality and then generalize, conclude and report to the Prime Minister.

Even though there are capacity limitations and the areas to be managed are vast, the meetings of the Government officials in accordance with the assignments will assist the Prime Minister to have a better understanding of the situation. This will enable the quality of leadership and upgrade development management. This forum will also assist the ministries, sectors and localities to prioritise and appraise the implementation of the Plan regularly and more rigorously.

Based on the circumstances in each period and year, the assignment and allocation of tasks through the annual meeting of the Government can be organized in the Vientiane Capital. More frequent working level meetings may be organized in each province in order to reduce the amount of travel, with the CPI assigning the delegation to participate in the meetings.

C. Implementation Monitoring and Evaluation

The CPI through its Department of General Planning (DGP) has been undertaking the monitoring and evaluation of the progress on the implementation of the plans. The Department relies on periodic reports (monthly, quarterly, semi-annual and annual) from the line ministries, agencies and localities (provinces, districts and villages) to gather information on progress on plan implementation. Drawing upon these, the CPI compiles summary reports for submission to the Government and the National Assembly.

The present system of implementation monitoring is faced with a number of challenges. The provision of information (reports) by the line ministries, agencies and localities is patchy. The coverage of the reports and the quality of the information vary widely. The bulk of the information, which is often incomplete, is descriptive. Capacity limitations are significant at all levels. The communications systems too need improvement.

The Government is taking steps to build upon the existing system, strengthening the links and capacities (both skills and equipment including communications and computer facilities) at the CPI, in the line ministries, ministries, agencies and the localities. The UNDP has been assisting and will continue to assist the DGP of CPI on this exercise covering most of the ministries and selected provinces. It is necessary to mobilize support from other partners to cover the rest of the provinces and central agencies. The results of the exercise will feed into the Monitoring and Evaluation System for the Sixth Plan (2006-2010).

D. Impact Monitoring and Evaluation

The National Statistics Centre (NSC) in the CPI undertakes the monitoring and evaluation of the outcomes and impacts of the plans. The NSC has begun to take steps to establish a uniform and consistent national database on economic, social and governance indicators. In consultation with relevant Government agencies, it has facilitated the preparation of a list of about 100 core indicators that could be utilised to monitor the impacts of the NSEDPs, MDGs and the Brussels Programme of Action for Least Developed Countries (2001-2010). Many of these indicators are incorporated in the LaoInfo 4.1,¹ which has been launched in December 2005. The system allows for the decentralization of the inputting of information to the ministry, agency and province levels; and provides database access to all users.

The NSC compiles information on the indicators drawing upon the administrative data provided by ministries, agencies and localities as well as that collected through periodic surveys (such as the Demographic and Health Survey, the Lao Expenditure and Consumption Survey or LECS, and other surveys) and the decennial Census. The NSC has been receiving technical assistance from SIDA, UNDP and other development partners to improve its operations and establish a uniform and consistent national database on development indicators. A list of the localized MDG indicators and targets to assess progress is provided in Annex 2.

Simultaneously, work on the compilation of the National Accounts using the 1993 Standard National Accounts (1993 SNA) System is continuing, with the benchmark national accounts

¹ The LaoInfo v.4.1 is a user-friendly common indicator database system providing access to national data across sectors. It is a key statistical tool for monitoring the progress on the indicators and targets of the MDGs, the NGPES, and the NSEDPs. The common indicator database system is integrated within the Microsoft® Office Professional for presentations of development data in tables, graphs and maps. It includes data from national census, surveys, and the Government reporting systems by Ministries and Agencies. The tool provides easy access to key development indicators organized by sectors, goals, themes, sources, institutions and international covenants/conventions. The LaoInfo v.4.1 has been adapted from DevInfo (see <http://www.devinfo.org> for more information) technology to the specific requirements of the Lao PDR by the NSC, with the assistance of UNDP, UNICEF and UNFPA. The database system provides easier access to quantitative data across sectors to inform and promote dialogue and discussion among stakeholders on the development of the country. The data can be used for planning, implementation, monitoring and evaluation at national and sub-national levels. The current version 4.1 of the LaoInfo provides data on national MDG indicators for Lao PDR as of September 2005. Further enlarged databases providing more information on other monitoring frameworks will be released, as soon as they become available. Please visit <http://www.nsc.gov.la> for updates and downloads. An upgrade to LaoInfo v.5.1 is expected to be released in 2006 in both Lao and English languages.

for FY2002/03 completed. Extension of the system to more recent years and ultimately as the regular system to provide timely information on the national accounts would require substantial further technical assistance/support.

E. Strengthening the Statistical System

Building upon the existing institutions and mechanisms, the Government will create a strong statistical system to collect and provide the necessary information for the formulation of policies, strategies and plans, monitor and assess progress, and outcomes and impacts. At each step, appropriate equipment, accessories and training will be provided to analyze the information and feed the results into the management of socio-economic development by the Government under the guidance of the Party.

The Government will increase the number of statistical researchers to a sufficient level to facilitate the collection, compilation and analysis of the information to meet the current and emerging needs. It is planned to establish a statistics centre in each ministry, sector and region as well as organizing the information system in relation to the national socio-economic information in accordance with the NSC.

III. Plan Formulation Process

The NGPES has been prepared in a highly participatory manner with the involvement of the localities (provinces, districts and villages), central ministries and agencies, the partners in development and other stakeholders. Building upon the momentum, the formulation of the Sixth Five-Year Plan (2006-2010) commenced in February 2004, beginning with consultations with the localities on progress on implementation of the Fifth Plan (2001-2005), lessons learned and priorities for the Sixth Plan. A consultation workshop with line Ministries, Lao researchers and mass organizations was held in September 2004 to discuss the framework for the Sixth Plan. Simultaneously, work on priority programmes for poverty reduction in focal development areas in ten pilot districts among the 47 poorest districts has been undertaken jointly with the communities through a participatory planning process. In addition, the Government explored and facilitated the formulation of other poverty reduction initiatives including through the new village development funds, the Kum Ban approach and the Poverty Reduction Fund. At the same time, the central Ministries in the four priority sectors undertook to cost the priority programmes in the NGPES (and the NSEDP) for the five-year period 2006-2010. Missions from the CPI to the line ministries and agencies and the provinces were undertaken in January 2005 to assist in the formulation of the Sixth Plan. In March 2005, a consultative workshop on the research topics was organized that fed into the Plan formulation. The emerging priorities and suggestions formed the basis for preparation of the preliminary draft of the Sixth Plan.

In mid-June 2005, the Government shared (for the first time) the main ideas in the preliminary draft with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations in a one-day workshop for each group. The feedback from the workshops has been valuable. During August 2005, the Government undertook a second round of consultations with the localities on the main elements of the Plan and the Annual Plan for 2005/06. The four priority sector Ministries continued the work on the refinement of the costs for the priority programmes taking into account the focal area development programmes identified for the ten pilot districts. The results have been shared with the Central Committee of the Party in September 2005 and their guidance has been duly incorporated. The draft Plan has been submitted to the National Assembly in October 2005, who commended the approach and provided a number of valuable suggestions.

In January 2006, the draft Sixth Plan (work in progress) incorporating the guidance from the Party and National Assembly and the feedback from the localities, has been shared with the partners in development, domestic and foreign private investors and Lao researchers and mass organizations; and discussed at the Annual Round Table Process Information Meeting on 29 January 2006. Their feedback has been incorporated as appropriate. The revised draft has been considered and endorsed by the Party at the Eighth Congress in March 2006. The Party emphasized, among others, the need for improved implementation and a clarification on the roles of the State (Government) and the Private sector in the market economy. The final draft incorporating the directions of the Party has been considered and approved by the Sixth National Assembly at its inaugural session in June - July 2006. A listing of some of the steps in the consultation process is provided in Annex 3.

It is recognised that the planning work will continue to be refined improving the quality and capacities for participatory planning in the ministries, agencies and localities, linking planning to budgets and developments in the markets. There is need for substantial technical support for improving the required skills in the ministries, agencies and especially localities. The Government will promote increasingly the decentralization of the planning functions to local authorities, as their capacities improve. It will establish a monitoring and evaluation mechanism for planning works and strengthen the cooperation and coordination of all the relevant authorities in planning.

The enterprise programmes will include steps that support people's participation and other organizations in accordance with the needs of infrastructure construction programmes at the grassroots, for basic democracy expansion, and to meet the people's needs. The Sixth Plan will be disseminated nationwide to build the foundations for sector programmes, for each level of authority and the production of business plans for enterprises. An information system will be created successfully to improve the capacity in forecasting, the conversion of tasks into programmes, implementation schedules, etc.

IV. The Situation in 2010

By 2010, the successful implementation of the Sixth five-year Socio Economic Development Plan (2006-2010) will bring about changes in the quality and quantity of our basic socio-economic situation, which will create the strong foundation for Laos to move towards the industrial and modern state thereafter. The following are some of the special situations of Laos after the implementation of the Sixth five-year Plan (2006-2010):

A. The Economy

Basically, the economy will be free from the unstable and slow paced development situation that prevailed during the past decades. It will be on the one hand moving towards the fast growing pace and stable situation; and on the other hand, it is able to maintain its growth of about 7.5-8% annually or may be higher if it continues to grow sharply in the long-run up to 2020. Even though in some years, the socio-economic development faced certain obstacles, the economic growth may be more than 7% annually. The same situation has happened in many countries at the beginning of their development such as Vietnam, Japan, Korea, Taiwan, Singapore, Hong Kong, Malaysia and Thailand.

The production structure and the quality of products will have changed on the basis of market production principles, and industrial and modern oriented production. There are key products in agriculture, industry and services, which are considered as the basic foundation for the expansion of the economy and the collection of national revenue. The production is closely linked to the needs of the society with certain efficiency. Changes will have been made in the production structure and there are many outstanding outcomes in the local economic situation, especially in those areas which have potential capability. The economic structure has been changed according to the local strength, which provides the basic foundation for the potential localities in accelerating their socio-economic conditions. However, in the areas where there are a lot of obstacles, more and more links to the basic economy have been made and finally it is possible for them to develop by themselves intensively after 2010. The basic foundation of the economy has been continually expanded due to the participation and cooperation of all economic and ownership sectors. Even though there are an increasing number of foreign investments, the state will have maintained the key economy of the country and continues to play a key role in the basic foundation of the national economy.

Basically, the macro economy is in a stable condition, with the macro economic balance able to respond to the needs of economic expansion. However, certain balances may not be stable. There is security in the relationship between saving and the consumption, which is able to back up the investment, as well as provide better living conditions for the people. The per capita consumption increases at about 5-6% annually. It is then a good basic foundation for selling domestic goods within the internal market. The monetary and currency situation and the national budget have been basically improved. The monetary policy has also been improved in order to fit the market mechanism. It is in a stable condition and able to keep the

budget deficit at a certain level. The investment rate in comparison with the GDP is at the normal level and continues to grow to a higher level. The investment structure has been changed according to the quality improvement and product competitive direction, which create a strong basic foundation for socio-economic development. The construction of infrastructure and the mega-production projects have been completed and commissioned (used). As a result, they are able to increase the capability of production businesses and the socio-economic growth as well as laying the basic foundation for the economic expansion in the post-2010 period.

The international economic link has been expanded and changed in a better way, leading to the improvement of Lao PDR's role in the international setting. The international cooperation has been widely developed, with Laos taking part in both the multi-political and the multi-socio economic cooperation regionally and internationally. The country is now moving to the implementation of the international contracts and multi-party and bilateral treaties. Such cooperation provides good effects on the fast growing economic development. After 2010, there will be increased gross national exports, investments, and international grants and loans.

B. The Society

The education system has been changed, and created a good development pace for the period after 2010. The quality of human resources development has been improved to a higher level. It can reduce the gaps (differences) in the current situation of the quality of human resources and the demand for human resources in the process of moving towards industrialization and modernization. It is therefore able to provide security in human resources in order to achieve a better pace in socio-economic improvement during the period after 2010. The people's knowledge and understanding concerning education has been changed, with education becoming a matter of public interest, which provides the foundation for the continuous development of education. It starts from the objective, action plan, project, methodology and operational mechanism and the type of school. The education management after 2010 aims at upgrading the education in the Lao PDR along with the changes towards industrialization and modernization by 2020.

There will be basic changes in the social sciences and humanities, and natural sciences and technology. The social sciences and humanities will focus on issues applying in political guidelines, policy, and socio economic development plan and promoting the ethnic groups' cultures. The natural sciences will lead to the research survey, evaluate the hidden potentials in the natural resources, to create and preserve the bio-diversity and to prevent the natural disasters. Initially, the focus will be on research development in certain areas. The science and technology will focus on research in certain areas in order to use them (put into practice) in socio-economic development. Gradually provide more and more budget allocation for research on science and technology. The effectiveness of science and technology will be a strong foundation and they will continue to be promoted.

Public health, culture and society will be strongly expanded, creating more social activities in the society aiming at creating more jobs. Upgrade the quality of the citizens and human resources; reduce poverty in all aspects; develop the culture, public health, social assistance, propaganda and sports; and prevent social misbehaviour. All of the mentioned areas have been changed and upgraded, which provide steady facilities for socio-economic development in the post-2010 period. There is a close connection between socio-economic development and the resolution of social constraints clearly in all activities. The financial capability is suitable for the cultural-social activities and able to respond widely to the needs of different groups of people.

There is political and social stability. The national defence and public security have been improved, which provide steady facilities for socio-economic development. Compared to the first stage of the Sixth five-year Plan, there is evident progress in the improvement and effectiveness of the public administration, and the quality of work has also been improved. We can basically resolve the difficulties and backward activities as well as corruption. The political security and social order have been secured. The anti-terrorism action has been put in the national law.

C. The Roles of Lao PDR in the international setting

The level of economic development: There are currently no evident criteria for evaluation of the economic development of any country. The United Nations Economic and Social Commission has used certain criteria in the socio-economic development evaluation, with three criteria used for the least developed countries: (i) national income per head of less than 900 USD; (ii) the level of human resource development (lack of nutrition, reproductive health, education level); and (iii) the economic risks (the level of agricultural development, the irregular export of goods and services, the roles of non-traditional economic sectors, the level of centralized export, other disadvantaged players).

According to the three criteria, it seems that the Lao PDR will be in a fast growing process in the next five years in relation to other countries in the world. Based on the UN development index, the development of Lao PDR will be at a better grade. In any case, the Lao PDR is not yet out of the list of the least developed countries due to the fact that national income per head is less than 900USD. In comparison with the other countries in the region, the income per head of the Lao people in 2010 is equal to the income per head in Vietnam in 2008, Indonesia in 2003, China and Philippines between the years 1997-1998, Malaysia and Thailand in the 1980s, and South Korea, Taiwan, Singapore and Hong Kong at the end of the 1960s and the beginning of the 1970s.

The economic structure: In 2010, the labour force structure and the GDP structure of Laos is equal to that in Vietnam at the beginning of the 1990s, China at the beginning of the 1980s and the other developed countries in Asia in the 1970s.

The remaining economic problems: After 2010, in general the development of the Lao PDR is still at the development level of Vietnam in the year 1990s and below the development level of other countries in the region by 2-3 decades. The main problems are that the economic foundation is not high, low competitive capacity, low level of the financial system, high level of internal and external debts, dependence on foreign capital, and the role of internal private business is not high.

The level of social development: In general, the social development target figures in 2010 are still low as compared to those internationally and regionally in such areas as the life expectancy at birth, other targets in public health, education and the quality of work force, the proportion of poor households, and the proportion of people that have access to the radio and TV services.

D. Conclusion

After the accomplishment of the implementation of the Sixth five-year Socio Economic Development Plan (2006-2010), according to the UN human development index, the Lao PDR will be ranked at a higher level by the end of 2010. In spite of progress on different aspects, the development level is still low, and there exist various backward situations. There is a demand for a faster growth in socio-economic development, with a better efficiency, quality and effectiveness in the post-2010 period.

Annex I. Lao PDR: Some Macroeconomic Projections (2004/05 – 2009/10)

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
1	<u>Total Population</u>	1,000	5,610	5,722	5,833	5,944	6,056	6,168
	Growth rate of population	%	2.0	2.0	1.9	1.9	1.9	1.9
2	GDP at current prices	Billion kip	28,682	33,109	37,916	45,410	53,746	59,936
	GDP at current prices in USD	Million USD	2,753	3,184	3,612	4,054	4,556	5,097
	GDP deflator	%	7.0	7.0	6.35	6.36	6.36	6.37
3	GDP at constant prices 1990	Billion kip	1,509	1,622	1,753	1,884	2,030	2,196
	Total GDP Growth Rates	%	7.2	7.5	7.2	7.5	7.8	8.2
	- Agriculture	%	3.5	3.0	3.3	3.3	3.3	3.3
	- Industry	%	13.0	15.7	12.7	13.0	13.3	14.0
	- Services	%	8.0	6.2	7.5	7.6	7.6	7.6
4	<u>Sectoral shares of GDP</u>	%	100	100	100	100	100	100
	- Agriculture	%	45.4	43.5	41.3	39.6	37.8	36.0
	- Industry	%	28.2	30.5	31.4	33.0	34.6	36.4
	- Services	%	26.4	26.0	27.3	27.4	27.6	27.6
5	GDP per capita	Million kip	5.11	5.79	6.50	7.64	8.88	9.72
		USD	491	556	619	682	752	823

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

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
6	<u>Total Revenue</u>	Billion kip	4,085	4,636	5,602	6,698	8,030	9,633
	- Revenue (excluding Grants)	Billion kip	3,586	4,100.0	4,932.0	5,934.0	7,157.0	8,632.0
	- Grants	Billion kip	499	536	670	764	873	1,001
7	<u>Expenditure</u>	Billion kip	5,764	7,390	8,333	9,635	11,193	13,085
8	<u>Budget Deficit</u>							
	.- Fiscal Budget Deficit (including Grants)	Billion kip	(1,679)	(2,754.0)	(2,731.0)	(2,937.0)	(3,163.0)	(3,452.0)
	.- Fiscal Budget Deficit (excluding Grants)	Billion kip	(2,178)	(3,290.0)	(3,401.0)	(3,701.0)	(4,036.0)	(4,453.0)
9	Broad Money (M2)	Billion kip	5,632	8,055	9,505	11,215	13,234	15,616
	- Inflation rate (End of period)	%	6.2	7	7	7	7	7
	- Inflation rate (Average)	%	6.9	7	7	7	7	7
10	<u>Exchange rate</u>							
	Kip / USD	Billion kip	10,420	10,532	11,007	11,227	11,452	11,681
	Depreciate or (appreciate)	%	(1.39)	1.07	4.51	2.00	2.00	2.00
11	<u>Trade Deficit</u>	Million USD	(230)	(310)	(253)	(262)	(271)	0.77
	- Exports	Million USD	455.6	621.7	576.4	634.0	697.4	1,046.1
	- Imports	Million USD	686.0	931.4	829.8	896.2	967.9	1,045.3
12	<u>Current Account Balance (CAB)</u>	Million USD	(72.2)					
13	<u>Total Investment (PIP+PI)</u>	Billion kip	8,457.0	10,284.0	12,000.0	14,387.0	16,847.0	20,422.0

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

No.	Indicator	Unit	2004/05 (Actual)	2005/06 (Plan)	2006/07 (Plan)	2007/08 (Plan)	2008/09 (Plan)	2009/10 (Plan)
	Public Investment Programme (PIP)	Billion kip	2,750	3,649	3,353	4,121	5,251	7,216
	Private Investment (PI)	Billion kip	5,707	6,635	8,647	10,266	11,596	13,206
14	Domestic Saving	Billion kip	5,755	6,311	7,395	9,130	10,673	13,701
15	Ratios to GDP							
	Broad Money (M2)/GDP	%	19.6	24.3	25.1	24.7	24.6	26.1
	Revenue /GDP	%	13.8	14	14.8	14.8	14.9	16.1
	Expenditure/GDP	%	20.3	22.3	22	21.2	20.8	21.8
	Revenue (Excluding Grants)/GDP	%	(8.4)	(9.9)	(9)	(8.2)	(7.5)	(7.4)
	Budget Deficit /GDP	%	-6.5	-8.3	-7.2	-6.5	-5.9	-5.8
	Current Account Balance (CAB) /GDP	%	(0.3)	-	-	-	-	-
	Trade Deficit / GDP	%	-8.4	-9.7	-7.	-6.5	-5.9	0.0
	Exports/GDP	%	16.6	19.5	16.0	15.6	15.3	20.6
	Imports/GDP	%	24.9	29.3	23.0	22.1	21.2	20.6
	Total Investment / GDP	%	20.4	31.1	31.6	31.7	31.3	34.1
	Total Public Investment / GDP	%	9.6	10.5	10.0	10.9	11.5	13.8
	Total Private Investment / GDP	%	19.9	20.5	20.3	20.6	21.1	20.5
	Saving/ GDP	%	20.1	19.1	18.7	20.2	20.6	23.0

Annex II. LAO PDR: LOCALIZED MILLENNIUM DEVELOPMENT GOALS (MDG), INDICATORS AND TARGETS

No.	INDICATOR	1990	1996	2002	2005	2010 Target	MDG Target 2015
	POVERTY, INEQUALITY AND HUNGER						
1	Proportion of population below national poverty line (%)	48	39 (1997)	33.5		25	24
2	Proportion of population below minimum level of dietary energy consumption (%)	31		29 (2000)			20
	EDUCATION						
3	Net enrolment ratio in primary education, both sexes, (%)	58 (1991)			83	90.6	98
4	Net enrolment ratio in primary education, girls, (%)					89.7	
5	Net enrolment ratio in primary education, boys, (%)					91.4	
6	Proportion of pupils starting grade 1 who reach grade 5, (%)	48 (1991)			62 (2001)		95
7	Primary completion rate, both sexes, ((%))					77.4	
8	Primary completion rate, girls, (%)					75.4	
9	Primary completion rate, boys, (%)					79.5	
	GENDER EQUALITY IN EDUCATION, ETC.						
10	Ratio of girls to boys in primary education, (%)	77 (1991)		84		89	100
11	Ratio of literate women to men of 15-24 year olds, (%)		81 (1995)	90 (2001)			100
12	Proportion of seats held by women in National Assembly, (%)	6.3		23 (2003)		30	
	MATERNAL AND CHILD HEALTH						
13	Maternal mortality ratio, per 100,000 live births	750		530	350	300	185
14	Infant mortality rate, per 1,000 live births	134			60	55	45
15	Under-five mortality rate, per 1,000				98	75	55

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

No.	INDICATOR	1990	1996	2002	2005	2010 Target	MDG Target 2015
16	Prevalence of underweight children, under five years of age, (%)					Less than 30	20
	SAFE WATER AND SANITATION						
17	Proportion of population with sustainable access to an improved water source, Total, (%)	28		58 (2000)		75	80
18	Rural, (%)					65	
19	Proportion of population with access to improved sanitation, Total, (%)					60	
	MALARIA AND TUBERCULOSIS (TB)						
20	Morbidity (prevalence rate) associated with malaria (suspected cases per year per 1,000)	44		48			15
21	Death rate associated with malaria, per 100,000	9		3.5			0.2
22	Proportion of population in malaria-risk areas using effective malaria prevention measures, (%)			24 (treated bed nets)			100
23	Prevalence rate associated with TB, per 100,000 population (excl. HIV positive)	144				72	50
24	Proportion of tuberculosis cases detected under DOTS, (%)		24	47			70
25	Proportion of tuberculosis cured under DOTS, (%)		72	83			85
	ENVIRONMENT						
26	Proportion of land area covered by forest (%)	47				>50	

Annex III. Some Consultation Steps in Formulation of the Plan

Date	Activities	Location
February 2004	Start Mid-term Evaluation of implementation of Fifth Five-Year Plan (2001-2005); and organize Workshops in the three regions	+ In Luang Prabang for Northern Provinces + In Vientiane Capital for Central Provinces and line Ministries and Agencies + In Champasack for Southern Provinces
April 2004	- Draft of Evaluation Report (three years of implementation completed)	- Vientiane Capital
January - July 2004	- Missions to Line Ministries and Provinces to guide the Methodology for formulation of the Sixth Five-Year Plan (2006-2010)	- Line Ministries and Agencies - Provinces
July 2004	- Report to the Government meeting on three years of implementation of the Fifth Five-Year Plan	- Vientiane Capital
September 2004	- Consultation Workshops with line Ministries and Agencies, Lao Academics and Mass Organizations, on frame of the Sixth Five-Year Plan	- Vientiane Capital - Luang Prabang - Champasack
November 2004	- Prime Minister's order to formulate the Sixth Five-Year Plan and to conduct Research on priority topics	- Line Ministries and Agencies and Provinces
January 2005	- Missions from CPI to line Ministries and Agencies and Provinces to assist them in the formulation of the Sixth Five-Year Plan	- Line Ministries and Agencies - Provinces
February 2005	- Consultation Workshops with Provinces, line Ministries and Agencies, Mass organizations and Academics in the three regions on the Sixth Five-Year Plan Priorities	- Luang Prabang (Northern Provinces) - Vientiane Capital (Central Provinces and line Ministries and Agencies) - Champasack (Southern Provinces)
March 2005	- Consultation Workshop on Research topics	- Vientiane Capital
June 2005	- Consultation Workshop with the partners in development on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital
June 2005	- Consultation Workshop with Private Sector on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital

Date	Activities	Location
June 2005	- Consultation Workshop with Lao Academics and Mass Organizations on the preliminary ideas for the Sixth Five-Year Plan	- Vientiane Capital
August 2005	- Finalize first draft of the Sixth Five-Year Plan in consultation with Provinces and line Ministries and Agencies through Workshops in three regions	- Luang Prabang (Northern Provinces) - Vientiane Capital (Central Provinces and line Ministries and Agencies) - Champasack (Southern Provinces)
September 2005	- Submit first draft of the Sixth Five-Year Plan to Government Cabinet Meeting for approval - Submit first draft of Sixth Five-Year Plan to Central Party Meeting for comments	- Vientiane Capital - Vientiane Capital
October 2006	- Submit a draft of the Sixth Five-Year Plan to National Assembly for comments	- Vientiane Capital
January 2006	- Circulate a draft of the Sixth Five-Year Plan to the Partners in Development and discuss the draft at the Annual Round Table Process Information Meeting	- Vientiane Capital
February 2006	- Submit a draft of the Sixth Five-Year Plan to the Central Party Meeting for comments	- Vientiane Capital
March 2006	- Consultative Workshop with the Partners in Development, Private Sector, Mass organizations and Lao Academics	- Vientiane Capital
March 2006	- Submit revised draft of the Sixth Five-Year Plan to the 8 th Party Congress for comments and endorsement	- Vientiane Capital
July 2006	- National Assembly Adopted the Sixth Five-Year Plan	- Vientiane Capital