



Lao People's Democratic Republic  
Peace Independence Democracy Unity Prosperity

# PROGRESS REPORT

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## Governance Round Table Meeting (RTM)

### IMPLEMENTATION OF PRIORITY AREAS OF GOVERNANCE REFORMS

- Public Service Improvements
- People's Participation
- Rule of Law
- Sound Financial Management

Vientiane, Lao PDR

November 2004

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# INTRODUCTION

In April 2003 the Government of the Lao PDR (GoL) presented its priority policy initiatives (Governance Policy Paper<sup>1</sup>) to the donor community at the sectoral Round Table Meeting (RTM). The Paper addressed four key areas of reform:

- Part I: Public Service Improvement
- Part II: People's Participation
- Part III: Rule of Law
- Part IV: Sound Financial Management

These policy initiatives represented a significant statement by the Government regarding the broad strategies needed to bring about Governance reform. In the National Growth and Poverty Eradication Strategy (NGPES), presented at the full RTM in September 2003, we re-affirmed our commitment to strengthening the capacity of the Government and the Rule of Law, as a necessary condition for achieving poverty reduction objectives.

Improvements in governance are directly linked to poverty reduction, for limited public resources must be used effectively and efficiently in reaching out to help the poor. Importantly, in the transition to a more market-based economy, the system of decision-making must be more community-based, transparent and accountable. For the past decade, the Government has embarked on wide-ranging public administration reforms, designed to create an effective, efficient and low-cost public administration, together with the requisite institutional and legal framework.

This progress report contributes to the further discussions that will be held at the Governance RTM on 5 November 2004. The objectives of this Governance RTM are to:

- Provide all Governance stakeholders with an update of the progress of the implementation of priority policy initiatives;
- Outline the initiatives for which the government requires additional support; and
- Support continuing dialogue between the Government and the donor community on key policy and implementation issues.

The documentation for the RTM Follow-up meeting, consists of two parts. The current document focuses on the key developments over the past 18 months, providing an outline of the progress, difficulties and planned future initiatives under each of the four sub-sections of the Governance Policy Paper. Where there are initiatives which have been identified as requiring additional donor support these are listed under 'Future Opportunities'. It should be pointed out that the Round Table Meeting will enable further discussion on these opportunities between the Government and the donor representatives. Whilst some priority future initiatives have identified cost estimations, others require further analysis. These may be discussed further within the RTM Working Groups or directly with the concerned Government organisation following the meeting on 5 November.

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<sup>1</sup> 'Priority Areas for Governance Reform – A Policy Paper of the Government of Lao PDR on Governance Issues' March 2003

This is supplemented by an *Annex*, which lists (in matrix form) all of the policy initiatives from the Governance Policy Paper (April 2003), details of projected outputs, responsible agency, status of implementation, list of international support and additional budget required.

The report includes information relating to the key initiatives being undertaken across Government organisations to improve the fundamental aspects of Governance reform. It does not address every initiative outlined in the Governance Policy Paper. Instead, it identifies the major initiatives where we have begun implementation of the reform programme outlined in the Policy Paper, in strategic areas with actual or potential involvement of international partners. Clearly, with limited resources and extensive areas requiring reform, selection and implementation of key initiatives has required a measured approach.

As this documentation will show, the progress made to date has been steady and positive. It acknowledges that the key to the ongoing success of governance reform requires continuing and increased Government commitment and action to effect real change. Similarly, effective change requires long-term commitment by the donor community to support the Government in these efforts. Therefore, the report also identifies opportunities for further partnerships in priority initiatives that we aim to implement.

The RTM forum offers an opportunity to continue to address a key factor to improve effectiveness, namely, coordination. In order to further strengthen the dialogue between the Government and development partners there is a need for more consistent co-ordination, follow-up and discussion of these policy initiatives. With limited resources, we must ensure that these are being utilised efficiently, and effectively, and that there is close collaboration between Government agencies and projects. The Prime Minister's Office has made a commitment to ensure that there is effective coordination at the Governance sectoral level amongst government stakeholder agencies through the formation of a Governance Co-ordination Committee. In the future, this Committee will monitor the ongoing progress of these Government initiatives and address policy issues as they arise.

The remainder of this document follows the structure of the Governance Policy Paper, reporting on initiatives relating to each Part of the document.

## PART I - PUBLIC SERVICE IMPROVEMENT

### Improving organisational and individual performance to enhance service delivery to the people

to build a effective, efficient, well-trained, honest and ethical public service that is able to meet the needs of the multi-ethnic Lao people within a peaceful, predictable and stable society and that can promote sustainable economic development as a basis for eradicating poverty and gradually creating an industrial and modern state.

#### Background and Objectives

Building on the past ten years' experiences in Lao PDR with public administration reform, as well as lessons from other countries, the Government remains committed to pursue its ongoing program for civil service reforms, which will directly affect the outcome of the broader governance reform program.

Public Administration reform - which encompasses improvements to the structures and functioning of government organisations and to the management of their staff - is one of the main priority components of the governance program, because of its linkages to the NGPES, and the Socio-Economic Development Plan (SEDP), either directly in terms of improved service delivery, or indirectly through its impact on macro-economic stability and improved policy formulation and implementation. Our challenge is to develop a professional civil service that can support the achievement of national goals.

The Governance Policy paper identified the following strategic objectives which guide the selection and development of reform initiatives. These objectives continue to guide the Government's reform activities:

- § Development of a cost-effective and people centred public administration
- § Modernisation of civil service personnel management, including the use of Information and Communication Technologies (ICT)
- § Development of a productive and highly motivated public service
- § Development of a honest and ethical public service
- § Enhanced professionalism in the public service through training and development
- § Improving Information and Communication Technology (ICT) to enhance transparency and productivity

The key areas of progress in Public Service Improvement have been as follows:

## Development of a cost-effective and people centred public administration

### Progress

There were several changes to the *legal framework* during 2003, which represent significant steps forward in further refining the broad framework for the organisation, administration and management of the civil service.

*The Law on the Government* was adopted by the National Assembly on 6 May 2003. Amendments to this Law were adopted by the Government in three main areas: (1) formalising the co-ordination meetings between the central government and the provincial governors, (2) provision of a legal foundation for extraordinary meetings of the Government in times of crisis, or at the request of the President, (3) establishment of a Secretariat of the Government that will increase the capacity of the Cabinet in its research and analysis functions, as well as its monitoring and evaluation functions.

The *Law on Local Administration* (passed on 21 October 2003) outlines the basis for:

- The establishment of municipalities, which will enable the development and delivery of urban services in larger cities;
- the review of the structure of local level administrations (Provincial and District Offices). Initial work has commenced to review the organisational structure of selected District Offices in Luang Prabang (through the GPAR Luang Prabang<sup>2</sup> and GPAR UNV<sup>3</sup> projects). The focus of this review is to identify common functional areas (e.g. finance and administration) with a view to organisational restructuring. It should be noted that the underlying principle of this review is to redeploy staff from ‘back-office’ functional areas to ‘front-office’ service delivery roles. It is acknowledged that this will require significant training and development and this initial pilot activity will provide insights into future developments.

The *amendments to the Constitution* effected in May 2003 also provide the legal basis for the further development of municipalities and the regulation of the roles of the municipal authorities.

We recognise, however, that this legislation alone does not guarantee improved organisational performance. There still remain significant areas of duplication, red tape and unproductive bureaucracy and further work will be undertaken to identify opportunities to reduce the service delivery timeframes and improve the transparency and predictability of delivery of administrative services. One aspect of this work is to consider the use of a ‘One-Stop Shop’ model which continues to be implemented in Vietnam, with encouraging levels of success.

***The institutional strengthening of the Department of Public Administration and Civil Service (DPACS) and its upgrading to the Public Administration and Civil Service Authority (PACSA - thabeuang or sub-Ministry level) through Decree No. 64 (May 2004) is a further demonstration of our commitment to strengthen administration development and civil service management. The recruitment of the additional staff will occur over the next six months, and once properly oriented to their new functions, these new staff will provide PACSA with the much-needed resources to better manage the public administration and civil service***

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<sup>2</sup> GPAR Luang Prabang is supported by UNDP and Sida

<sup>3</sup> GPAR UNV is supported by UNV

management reforms. PACSA continues to be supported by the GPAR II Central<sup>4</sup> project which has been extended through till September 2006. In 2005, there will be an expansion of the number of provincial GPAR<sup>5</sup> projects. GPAR Saravane<sup>6</sup> will commence in early 2005 and it is planned that projects will be established in Xieng Khouang and Khammouane provinces in late 2005.

Another element of the restructuring of the Prime Minister's Office has been the upgrading of the Lao National Tourism Authority (LNTA), also to *thabouang* level, and further clarification of the roles of the State Audit Organisation<sup>7</sup> and the State Inspection Organisation to reduce duplication of mandates and function.

***The development of a national civil service database*** (Personal Information Management System - PIMS) has commenced. The structure and application of the unique national civil service identification number, and suggested revisions to the key personnel forms, (the CV and the Personal File), are being considered by the Government. A pilot test of the data collection forms and the database is planned to commence in late 2004 involving a selection of government agencies. Once the pilot phase has been completed it is expected that the national data collection and updating of the national database will commence during 2005. Changes have been made to the CV and Personal File forms to incorporate data that can be collected and shared with the social security and payroll systems. This will enable more efficient updating of the social security system as well as more timely updates to the payroll management system. The reporting facility of PIMS will provide management with more timely and detailed information about staffing. The initial functionality of PIMS will cover all personal data relating to staff qualifications, dependent details and work history. Once the initial national implementation has been completed, it is intended that PIMS will be expanded to incorporate leave management, training and development, and performance management.

The full functionality of this database needs to be further explored to identify opportunities to collect and share data with other agencies (e.g. currently the Lao Women's Union is unable to collect disaggregated gender data on civil servants). Consideration should also be given to linking this database with the Government Intranet being developed by Science, Technology and Environment Agency (STEA) to enable a networked system of civil service management to support administrative processing (e.g. leave and payroll management). As more technologies (including databases) are being developed and introduced into Government agencies there is an emerging problem with an increase in the development of identification numbering systems. It is important that, for efficient data sharing, these systems are developed in a coordinated manner under the guidance of STEA.

The implementation of the ***job descriptions*** activity continues, with job descriptions completed for staff from most of the Ministries and provinces. At present, approximately 80% of job descriptions for civil servants have been completed. We expect that these will be completed during 2005. The delays in its full implementation have been the result of staff uncertainty regarding their purpose and application. This will continue to be addressed by PACSA through the development of clearer guidelines and ongoing training support. The initial analysis of the completed job descriptions indicates that there is a need to increase the number of civil servants, particularly at local (remote) levels. Once the job descriptions have been completed, further analysis will be undertaken to develop a rightsizing strategy to ensure

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<sup>4</sup> GPAR II Central is supported by UNDP and SDC

<sup>5</sup> Governance and Public Administration Reform

<sup>6</sup> GPAR Saravane is supported by UNDP and UNCDF/EC

<sup>7</sup> Supported by the ADB project: Institutional Strengthening of the State Audit Organisation (SAO)

there is a ‘good fit’ between the functional needs of an office and the staffing quota allocated by PACSA.

The completion of the job descriptions is also important for the further development of the *Civil Service Performance Management system*, outlined in the Civil Service Decree (No 82). The guidelines and forms for this system are currently being developed for three categories of staff: managers, technical staff and administrative support. It is planned to conduct an orientation of this system with key staff from selected pilot Ministries during 2005. Once piloted and modified, the Performance Management system will be implemented nationally.

### Future opportunities

Whilst there has been considerable emphasis and support given to the capacity development of staff in all government agencies, the development of organisational systems and processes is still lacking. We recognise that this working environment still requires fundamental change and is central to achieving public service improvement. There is a need for greater analysis, documentation and discussion on the existing work practices that will help to identify more streamlined approaches. In this respect, the conduct of process mapping is necessary. The output of the process mapping exercise would provide a base from which government organizations can rethink how their work practices can be improved and identify crucial areas where changes should be made.

With the support of donors the Government could identify key work practices/processes that could be process mapped (analysed) and then modified. Whilst modifying existing work processes is a sensitive issue and will face some resistance in the work place, we are committed to proceeding with these changes.

## Modernization of public service personnel management

### Progress

An important foundation for the *strengthening of civil service management* has been the approval of **Decree No. 82** on the Civil Service Statute in May 2003. Through this new statute, the government plans to improve efficiency and effectiveness in government, by introducing more performance-oriented human resource management and ethical work practices. This Decree formalises the already existing division between civil servants and positions of high leadership, which will be ruled by separate legislation, monitored by the Central Committee for Organisation and Personnel (CCOP). The Decree provides for new civil servants to spend some initial period of their civil service career<sup>8</sup> working at the District level. Through this, we aim to ensure that sufficient numbers of required staff are available to support local government.

This Decree was distributed throughout ministries and provinces through a series of workshops in 2003. PACSA has conducted several workshops with key users to identify initial reactions and areas for change with the new Decree. Furthermore, an independent review will be conducted in early 2005 to identify further needs for strengthening this Decree through the development of clear supporting documentation and an effective national training

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<sup>8</sup> Decree 82 requires new civil servants to spend at least 2 years out of their first 5 years as a civil servant working at the District level.

program which will enable staff to properly understand their rights and responsibilities as a civil servant.

The Government has also recently produced a Civil Service Management Strategy and Framework paper. This is a significant step, as the statement provides a clear and simple description of the principles of personnel management that will shape the development of key documents such as the Civil Service Management Framework manual and the associated Civil Service Terms and Conditions of Employment manual. Such documentation is very important, as it forms a bridge from new legislation, such as the Civil Service Decree, to ‘grass roots’ reform in personnel management processes and practices.

### Future opportunities

The review of Decree No. 82 will identify further areas of development which will be managed by PACSA. In conjunction with the development of a National Training program, an Induction Training program for all new civil servants will be developed and implemented. It is likely that this development will occur in late 2005/early 2006. Further donor support is likely to be necessary for the implementation/delivery of the Induction program, however details of this support will not be known till late 2005.

## Development of a productive and highly motivated public service

### Progress

Despite limited budgetary resources for civil servants’ salaries, it is expected that the Government will approve an increase in the base salary of all civil servants. This decision, which is expected to take effect from July 2005, provides for base salaries to be increased by up to 20%. We are also considering the establishment of a remote area allowance for all civil servants, (consistent with that approved by Decree No 237, dated December 1998, for teachers working in remote areas). This policy is being considered as a further incentive for staff to move to rural Districts.

Despite the recent decision to increase base salary levels, the current pay scale remains severely compressed (compression ratio of 2.4) and is not competitive with those offered by the private sector.

Whilst the base salary level and allowances for civil servants is clearly identified, there is a need to establish greater transparency of benefits paid to civil servants. Consideration should also be given to the development of eligibility criteria and guidelines for the payment of benefits to civil servants.

As mentioned previously, there is continuing development of the *Civil Service Performance Management system*, although this has been constrained by the incomplete development of job descriptions across all ministries and provinces. The upgrading of PACSA will enable further resources to be committed to this initiative in 2005. The *ASEAN Resource Centre on Performance Management* has been established in PACSA and provides resource information on regional and international performance management approaches and experiences.

### Future opportunities

Further support is required to monitor the evolution of wages in other sectors and to develop strategies for an improved payroll structures across the civil service. This would enable the

Government to set targets for indexed salary increases and to outline a strategy for addressing the low salary compression rate to provide a greater incentive for performance-based results from managers.

## Development of an ethical public service

### Progress

The Government is committed to addressing the problem of corruption in the civil service. A draft Law on Anti-Corruption has been developed (to replace Decree on Anti-Corruption, No. 193) and will be discussed at a Government meeting (of Ministers and Governors) in November 2004. It is scheduled to be presented to the National Assembly in October 2005. Additionally, there will be a workshop<sup>9</sup> conducted for Government officials, also in November 2004, to consider the UN Convention on Anti-Corruption.

The Civil Service Statute (Decree 82) identifies key principles for ethical behaviour and this will be enhanced in 2005 with the development of a Code of Ethics for all civil servants. This will be supported by a national training program to enable staff to understand their obligations and expectations as a civil servant. The key to effective compliance with this Code of Ethics will be for senior and middle managers to understand and role-model these standards for their staff. Integration of these standards into the proposed performance evaluation system will also help to mainstream these standards into daily working life and demonstrate that we are committed to developing and maintaining standards of ethics for all staff.

Recent workshops have been conducted with Government stakeholders (May and October 2004) to identify the main causes of negative phenomena within the civil service. These identified several key causes:

- Managers and staff have a variable understanding of the Government policies and their responsibilities;
- The legal frameworks for reforms are incomplete: Some laws are still missing; and rules/regulations to support the laws have not been developed;
- The Decentralisation system is unclear: Guidelines on organisational restructuring and allocation of staff based on the new job descriptions are not adequate;
- There is limited capacity in public administration at central and local levels, including low individual capacity, weak organisation systems and slow decision-making processes;
- There is an insufficient budget to support the reform initiatives.

With the support of development partners the Government is attempting to address these issues. The main initiatives are to ensure a structured approach to legal and financial management reforms, and capacity building (individual and organisational) as a major component of each project

As previously mentioned, we have taken steps to strengthen the role of the audit and inspection bodies through the development of Decrees to more clearly detail the role and mandate of the State Inspection Organisation (No 10/PM approved on 25 January 2004) and the State Audit Organisation (No 24/PM approved on 25 February 2004). A review of the machinery of government<sup>10</sup> in 2005 will also provide an assessment of existing government

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<sup>9</sup> Supported by the *Strengthening Legal Instruments in Lao PDR, Phase II* project (UNDP/EC/Finland)

<sup>10</sup> To be undertaken in 2005 by an independent consultant – GPAR II Central project activity

structures and consider the appropriateness of existing roles and make recommendations to strengthen their level of independence and reporting.

### Future opportunities

There is an opportunity to consider support to a review of existing pay systems and to consider options for improving both the compression rate and the salary levels for all civil servants. This review could also consider options for providing greater transparency of salary packages for all civil servants covering basic salary rates, and benefits and entitlements.

## Enhanced professionalism in the public service through training and development

### Progress

Initial work has been undertaken to develop a *National Civil Service Training Program* for key staff, which will focus on core knowledge and skills (competencies). Whilst this program will focus initially on staff in the Organisation and Personnel Departments of line Ministries and provinces, the generic nature of these topics will mean the program can be extended to all civil servants. Discussions have been held with regional (ASEAN) partners to identify areas of suitable support in curriculum design, development and delivery. The training program will also address the training needs of new staff through the development and delivery of a National Induction Training program to ensure that all new civil servants are provided with a consistent understanding of their rights and responsibilities (including ethical standards) together with initial skills development.

The National Organization for Study of Policy and Administration (NOSPA) currently provides mostly longer-term (2 to 4 years) training programs in political, social, administrative and management skills development. As the national Civil Service Training Program is developed, it will be important to share the instructional design and delivery experiences with NOSPA.

The mode of delivery of the National Training Program is still to be considered; however, development of capacity among local training providers will be a priority.

### Future opportunities

The development of a National Training Program requires regional support to ensure that contemporary civil service management topics and training methodologies are incorporated into this program. It is critical that more innovative and results-based training delivery strategies are used. This will involve developing the skills of local trainers (and training providers) and the development of training materials that enable staff to apply these skills in the workplace. It is anticipated that this support (curriculum and training program development, and training delivery) over the next 2-3 years will cost approximately USD\$2 million. Consideration should also be given to the establishment of a National Civil Service Training Centre once the training program has been developed.

## ICT as a tool to enhance productivity, accountability and transparency

### Progress

Our Government, through the Science, Technology and Environment Agency (STEA) and international development partners, has initiated/progressed various activities since the last Governance RTM. These include:

- *Connection, by optic-fibre cabling*, of 16 Ministries has been completed which enables these Ministries access to the Internet. In the larger Ministries, ICT Units have been established to facilitate a computerized system including LAN, information processing, email access and development and maintenance of a homepage. Under the guidance of the *Lao National Internet Committee (LANIC)* procedures for use of the Internet in these 16 Ministries have been finalised and implemented.
- *Drafting an e-policy paper*, which outlines our ICT development strategy as well as the challenges and constraints, has been completed. Once it has been approved, an ICT Master Plan will be developed in order lay out the key steps for implementation. This paper will be discussed further, through National consultation, in December 2004.
- The *Lao-India IT Training Centre* (25 workstations) is being finalised. This is due to open in November 2004 and will provide much needed facilities for IT training of key staff.
- The *creation of a web portal for the business sector* and an *on-line booking system* for the Hotel and Guesthouse Association are part of the initiatives which have been developed (or are in development) in the *e-commerce sector*.
- In education, a priority sector of the NGPES, an ICT Master Plan is being implemented to *upgrade the National University of Laos' Computer Science Department* to a Faculty and to offer a Degree course (IT Bridging course) at Masters level. Furthermore, plans are being developed to establish a computer curriculum in teacher training colleges and secondary schools.
- *ICT training for government officials* is currently being conducted at a number of centres and colleges with international donor support and private sector investment.
- The Bank of Lao is currently working, with private company investment, to *develop a credit card system*.
- Regional workshops on *increasing the productivity of SMEs* by using ICT tools are scheduled to commence in November 2004.
- Priority sectors have been identified, and currently an *e-government feasibility study*<sup>12</sup> is being undertaken to identify further initiatives.
- In the *e-commerce* sector, awareness-raising for decision makers and capacity building initiatives for the government and the private sector have been implemented through seminars and workshops.

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<sup>11</sup> Decree 82 requires new civil servants to spend at least 2 years out of their first 5 years as a civil servant working at the District level.

<sup>12</sup> Supported by Korean International Cooperation Agency

- Various research projects are now also underway in order to *develop software* that will enable to edit and browse text in the Lao language.

### Future opportunities

We will draft a number of e-commerce laws in 2005 to develop a legal framework for using ICT to enhance trade and tourism, including issues of data protection, privacy and basic consumer protection.

In order to develop national standards for the use of computers and establish standard operating procedures a number of different types of standards have been surveyed. We will establish a Lao Digital Information Exchange Network, which will function as a standardisation body and a technical resource website.

The health, industry and agricultural sectors require further attention as ICT related activities with high potential have been identified but have not yet been undertaken.

There are several areas of need that we have identified for donor support. These include:

- Implement ICT Master Plan (currently being developed)
- Further development of the Government Intranet system – Local Area Network (LAN) and Wide Area Network (WAN). Estimated at \$2 million.
- Establish ICT Units in Ministries (e.g., MOJ, MOH, MIC). This is estimated at \$50,000 per Ministry
- Capacity development for each sector in ICT policy development and project planning and technologies disseminated to provincial level. This could be undertaken through the use of mobile seminars and information resource centres
- ICT training for government officials through local training providers (STEA Training Centre, Skill Development Centre<sup>13</sup>, night classes at local secondary schools and the Participatory Development Training Centre (PADETC))

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<sup>13</sup> Supported by JICA



## PART II - PEOPLE'S PARTICIPATION IN THE LAO

### PDR

#### Ensuring people-centred development

to ensure that all Lao people are given the opportunity to be associated in all areas of decision-making, that they can fully enjoy their constitutional rights and that they are educated and well-informed so that they can express their opinion on government policy, on how our government is servicing them and participate fully in all areas of cultural, social and economic development.

#### Background and Objectives

The Government continues to target the following strategic objectives outlined in the Governance Policy Paper:

- 1. Ensuring a stable and peaceful society and improving human security.*
- 2. Strengthening the National Assembly*
- 3. Promoting a dynamic and participatory society*
- 4. Promoting an open and transparent society*
- 5. Redefining central-local relationships – Bringing services closer to the people.*

The Government has long been committed to ensuring that the Lao people are closely associated in all areas of decision-making and that they are able to participate fully in all areas of the socio-economic development of our country. This participation includes not only the economic life of the country, in order to ensure that individuals are able to find their own means to sustain their livelihoods, but also the social, cultural and political life of the country.

For the Lao PDR, the concept of people's participation is fundamentally enshrined in our Constitution through the concept of 'Fundamental Rights and Duties of the Citizens' and through the structure of the political regime; the Government at central and local levels, the National Assembly, and other organisations including mass organisations and other social and professional organisations.

People's participation is the basis of the system of governance and a democratic approach to decision-making, through which we ensure the most direct involvement of the Lao people in the management of the country, thereby constantly submitting our policies and actions to the opinion of the people and legitimising our actions, plans and programs.

## Strengthening the National Assembly

### Progress

The Standing Committee of the National Assembly had agreed to the prioritisation of Financial Oversight, Provincial Oversight, Procedural Devices and Complaints from the recommendations which were made in 2000<sup>14</sup>. In May-June 2003 an Oversight Working Group was established to develop the detailed implementation proposals in these prioritised areas which were finalised and submitted to the Standing Committee. The National Assembly approved a number of the implementation proposals for Procedural Devices, Financial Oversight and Provincial Oversight in September 2004, in order to enhance the National Assembly's ability to oversee the activities of the government. The duration of each National Assembly session has also been increased from two to three weeks.

Improvements in the procedures for the National Assembly to oversee the legislative process have included the *establishment of a sub-law committee of the law committee*. The *Decree on Legislative Drafting* has increased the efficiency of the drafting process as major areas of concern or contention are identified and addressed before submission to the National Assembly. Furthermore, the *Legislative Handbook*, the manual for drafting, reviewing and approving legislation, has now been finalised and is awaiting publication. Additionally, public consultation procedures during the drafting process have been developed; however, these require further implementation.

There has also been some improvement in the process by which people are able to lodge a complaint against a court decision or maladministration, through recourse to the Assembly's Division of Complaints and Nationalities. The working rules of this Division have been recently submitted to the Standing Committee and approved.

*Training of National Assembly members* has been conducted both in-country and abroad, so as to enhance their understanding of the activities of regional and international parliaments, as well as on specific topics relating to various sessions, including the NGPES, Macroeconomics, etc..

In order to foster its international relations, the National Assembly has coordinated with international fora, such as the ASEAN Inter-Parliamentary Organisation (AIPO) and the Asian Forum for Parliaments on Population and Development (AFPPD), of which the Lao PDR is now a member. The NA is currently preparing to host the 26th General Assembly of AIPO, which is to be held September 4-9, 2005, in Vientiane. A *Gender Mainstreaming Action Plan* was drafted in 2003, and has been adopted by the National Assembly. Workshops have been conducted to enhance the skills and awareness of National Assembly members with the end goal of increasing women's representation within the National Assembly.

A *Gender Mainstreaming Action Plan* was drafted in 2003, and has been adopted by the National Assembly, which has identified National Assembly members, women members and staff as the target groups. Workshops have been conducted to enhance the skills and awareness of National Assembly members, with the end goal of increasing women's representation within the National Assembly.

A National Assembly website is now in operation, but efforts need to be made to ensure the regular publication and dissemination of the Bulletin on the activities of the National Assembly to the public.

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<sup>14</sup> Gopalan Report on the Review of the Oversight Process in the National Assembly - 2000

The following initiatives have been identified as future priorities:

- Strengthening the capacity of the National Assembly in drafting, revising, amending and adopting draft laws.
- Strengthening the ability of the National Assembly Standing Committee to oversee the activities of the Government and the Courts.
- Increasing information dissemination concerning the activities of the National Assembly.
- Participating more actively in international fora (e.g. AFPPD) in order to gain international support.
- Completing preparations for more effective participation in the ASEAN Inter Parliamentary Organisation, as the Lao PDR will assume the Chair and host the conference in 2005. Preparations have included the clarification of the rules and regulations for conducting the conference with support from Vietnam, which hosted the conference in 2002.
- Training National Assembly representatives as well as technical staff both locally and abroad.

### Future opportunities

We have identified the following areas as requiring donor support:

- Continued support to strengthen the capacity of the National Assembly in drafting, revising, amending and adopting draft laws
- Developing the ability to disseminate information concerning the activities of the National Assembly

## Promote Open and Transparent Society

### Progress

The Government is committed to ensuring *broad-based participation in the processes for development of government policies and strategies*. For instance, the Committee for Planning and Investment (CPI) coordinates an Annual Consultative meeting – Foreign Investment Forum, with the private sector in an attempt to promote more active dialogue with stakeholders to ensure that broader perspectives are contributing to the development of Government policies and strategies. Whilst there is active discussion with civil society organisation at project level, there is a need to establish effective mechanisms for dialogue with Government.

The development and capacity building of *mass media organisations* continues with the training of media staff through training provided by the Institute for Development of Lao Mass Media. In 2003/4, the Institute provided various training courses for key staff on Reporting, Editing, Presenting and Media management. One of the biggest challenges facing this continued capacity development is the need to upgrade cameras and editing equipment in the Institute. Much of the equipment is analog and the upgrade to digital technology is overdue. The Department of Mass Media is an active member of the ASEAN TV News Exchange and the Asia-Pacific Broadcasting Union (ABU). With support from the ASEAN Cultural Fund (USD\$10,000 per year), the Department of Mass Media provides news material to Brunei where this is aggregated and edited into a weekly ASEAN news program. This

program (ASEAN Today) is broadcast weekly on Lao National TV. Mass media officials participate in training programs<sup>15</sup> delivered by the Asia-Pacific Institute for the Development of Broadcasting (AIDB).

Despite these efforts to improve the quality of journalism and reporting, the overall quality of written work continues to be a major concern for the Ministry of Information and Culture and there is an ongoing need for external support.

The regional crises of Severe Acute Respiratory Syndrome (SARS) and Avian Bird-Flu in 2003 and 2004 saw strong cooperation between the mass media organisations and the Ministry of Health as well as development partners. The mass media organisations were able to respond quickly by publishing articles and raising awareness of these issues within the community.

***Strengthening the data collection and analysis capability of the National Statistics Centre (NSC)*** – With the support of Sida<sup>16</sup> and Statistics Sweden, the National Statistics Centre is nearing the full implementation of a national Intranet linking each provincial and district office of CPI with the NSC. There has been a significant amount of capacity building undertaken (with support from various donors<sup>17</sup>), to increase capacity in survey methodology, analysis and reporting. The organisational restructuring within NSC has included the merging of the Information Services and IT Divisions to ensure more timely website development and maintenance. Reports recently completed by NSC include the Lao Expenditure and Consumption Survey (LECS) 3 (available in Lao and English languages) and the Poverty Analysis (based on the LECS 3 data) which will be available later in 2004.

NSC is currently testing scanning equipment and facilities designated for use in the 2005 Census. NSC has also demonstrated its ability to work collaboratively with other Ministries (e.g., Ministry of Health) to assist with data collection and analysis in those Ministries.

Ongoing challenges which are limiting the work of the NSC include:

- Whilst the capacity of NSC staff at central and local levels is increasing, there is still limited capacity and numbers of adequately (statistically qualified) trained staff within the Ministries (e.g., in Ministries such as Labour and Social Welfare, Information and Culture, and Justice, there are no staff allocated to the Statistics Unit). This has also limited the potential for the NSC database to be linked with existing databases in the Ministries to efficiently utilise secondary data from these Ministries.
- There is a limited government budget to ensure the sustainability of the existing data surveys. Whilst the Government has provided funding for non-salary costs since 2000/2001, these funds are insufficient to maintain the current survey workload.<sup>18</sup>. This limited budget makes it particularly difficult for staff to undertake survey activities in the provinces and districts.

## Future Opportunities

One key area where further support is needed is access to an Intranet to enable government officials to be able to better share their news articles throughout the country. Access to an Intranet would contribute to improved coordination between the Ministry of Information and Culture at Central and local levels, mass media organisations and other Government agencies.

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<sup>15</sup> These training programs are supported by the French, Swedish and German governments and UNESCO

<sup>16</sup> 'Improving Statistics in Lao PDR'

<sup>17</sup> including JICA, ILO, UNFPA, UNICEF, CIDA, UNICEF, AusAID, USAID and ADB

<sup>18</sup> The 'Improving Statistics in Lao PDR' project is supported by Sida till 2007.

Difficulties with transport and mail delivery systems continue to affect the timeliness (and newsworthiness) of stories, and providing access through the Government Intranet would enable improvements in the delivery of news bulletins. Any developments relating to the Intranet would need to be coordinated through STEA.

There is also a need to provide continued support for the upgrading of existing equipment in the Institute for Development of Lao Mass Media (from analogue to digital equipment, estimated at USD\$30,000) and the continued delivery of training programs on Reporting and Writing.

## Redefining Central-Local Relationships: Bringing service delivery closer to the people

### Progress

The objective of bringing service delivery closer to the people continues to be strengthened through the ongoing refinement of the Government's Decentralisation policy and the further development of planning capacities of staff at local level to ensure greater input by the communities in the planning, monitoring and evaluation of development activities.

In April 2004, DPACS supported the *development of a revised Decentralisation Framework and Decentralisation Decree* to strengthen the Decentralisation policy of the Government. This development included significant consultations with stakeholders from all levels of Government, and identified a comprehensive range of changes to the existing PM Instruction 01 approved in 2000. The key features of the proposed Decentralisation Decree are:

- The need to develop empowerment in the government system at the lower or local levels of the government organization, which are closest to the point of service delivery
- The need for the judiciary, customs, national tax, national treasury and national audit or national inspection services to function under the full control of the concerned central ministries.
- The strengthening of the Central Government in order to:
  - be fully in control of our national revenue,
  - finance and guide the delivery of basic social and other government services throughout the country,
  - be professionally and institutionally strong enough to set very clear national policy guidelines and to strategically plan, monitor, evaluate and adjust the implementation of these policies,
  - guarantee respect for the (gradually improved) legal and regulatory framework.

Even though it will be a long term process with many steps to be taken, this new PM decree should create a renewed starting point for moving forward with decentralisation.

As there are significant differences in stages of development among provinces, districts and villages in the Lao PDR, the decentralisation policy cannot be implemented at the same time everywhere. However, the empowerment of poor provinces or districts should not lag behind rich provinces or districts. *Intensive human capacity building in poor provinces and districts* is therefore critical to ensure the success of the decentralisation policy.

The proposed Decentralisation Decree is currently being considered by Government with a decision expected in 2005. The responsibility for the implementation of this Decree will rest with PACSA.

To further progress the *Law on Local Administration* in relation to the establishment of municipalities, a study team will be established in 2005 to consider necessary arrangements (and a proposed model) for the establishment of a pilot municipality in Vientiane and Luang Prabang. In Vientiane Capital City, the proposed municipality design will combine four existing Districts administrations and the urban planning and management functions of VUDAA<sup>19</sup>.

The Committee for Planning and Investment (CPI) continues to *improve the planning capacity of key planning staff at local levels* to promote/utilise broader and more effective participation techniques. UNCRD and JICA continue to support the capacity development of planning staff, particularly in the poorest Districts. The construction of the National Planning Training Centre (supported by the Vietnamese Government) in Vientiane and the development of a training curriculum will further strengthen the capacity development of key planning staff. This Training Centre will commence operations in early 2005 and will provide short and long-term courses which will be managed by the National Economic Research Institute (NERI).

The GPAR UNV project in Luang Prabang province is working with provincial officials to review and adjust the National Planning Guidelines with a view to streamlining the procedures, particularly for village officials in rural areas. Guidelines for the administration and management of the Village Development Fund were finalised in September 2004, and will better support local officials to plan and manage these development funds.

The ability of staff to undertake the monitoring and evaluation of development projects is still limited. Whilst the opportunity for skill development is improving with support from UNCRD (JICA), Vietnam and UNDP, the limited budget available to staff to visit and evaluate projects will continue to restrict activity in this important function.

## Future Opportunities

Once the Government has decided on the proposed Decentralisation Framework (and amended Decree) there will be a need for further analysis (e.g., functions, responsibilities, resource requirements, staffing, capacity development, institutional arrangements, and financial management systems). The activities to be undertaken (and the support required) will be further elaborated in 2005 after we have considered the proposed changes.

The study of municipal design in 2005 will be coordinated by PACSA under the GPAR II Central project.<sup>20</sup> However, it is envisaged that a separate project will need to be established from 2006 to support the implementation of the first phase of the pilot municipalities.

Whilst the Government is providing capacity development for village officials to ensure more effective development planning, monitoring and implementation of activities, we would also like to consider different models of informal administration at the *kum ban* 'cluster of village' level. Whilst the former *tassengs* (or sub-District administrations) were abolished in early 1990s, there may be efficiencies in local planning (e.g. resource mobilisation) which can be achieved through involvement of *kum ban*. In this context, CPI would like support to

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<sup>19</sup> Vientiane Urban Development Administration Authority

<sup>20</sup> With support from SNV

undertake a study to consider different models of design, capacity development, organisation and administration of *kum ban*.

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<sup>21</sup> The ‘Improving Statistics in Lao PDR’ project is supported by Sida till 2007.

## PART III - RULE OF LAW AND ACCESS TO JUSTICE

to develop a coherent, credible and predictable legal framework established in a transparent and participatory manner, while at the same time building efficient, effective, equitable and accessible justice and law enforcement institutions and systems.

### Background and Objectives

As outlined in the Governance Policy Paper and the NGPES, the Government of the Lao PDR recognizes the establishment and improvement of the legal system to be an integral part of continuing development policy and work. Since the early 1990s, the Constitution and constitutionally promulgated laws have been the main mechanisms for governing our society and guaranteeing the rights of Lao people, thereby moving the country closer to its objective of becoming a “rule of law” state.

The main objectives of reform include the following:

- § Ensuring the establishment of a complete, clear and coherent legal framework that provides the required transparency and certainty of laws and institutions to further the socio-economic development of Lao PDR and facilitate our integration into the global community;
- § Strengthening the capacity of all institutions in the legal and justice sectors and all other relevant state agencies to enable them to fully carry out their constitutional duties and implement and enforce the rule of law in Lao PDR with a high degree of accountability;
- § Strengthening informal and formal mechanisms for dispute resolution so that they appropriately address the needs of the multi-ethnic population to ensure a peaceful society;
- § Ensuring predictable and transparent mechanisms for legal enforcement in order to create a stable and secure environment based on the rule of law; and
- § Improving the ability of all people in Lao PDR to access the justice system and public decision-making process so that they are able to exercise their constitutional rights and duties under the law.

In 2003, an in-depth review<sup>22</sup> of the legal sector in Lao PDR was carried out, jointly, by the Government and UNDP. The Legal Sector Evaluation (LSE) assessed the extent of progress in the Lao legal sector over a five-year period, i.e., since an earlier review carried out in 1997. This evaluation complements the Governance Policy Paper in identifying key challenges to reform and priority initiatives for the future, including in its scope: the National Assembly; Ministry of Justice; the Courts; Judicial Process and Remedies; Office of the Public Prosecutor; International Law Activities of the Ministry of Foreign Affairs; Legal Education and Training; and the Lao Bar Association.

Whilst the development assistance provided by donors through their various projects has strengthened our legal system, the LSE notes that the effectiveness of such assistance was limited by the lack of an overall vision for the development of the legal sector, the strategic

agenda for reform and a coordination framework for government interventions and international assistance.

The LSE emphasized the need to strengthen existing mechanisms for government coordination, and the development of additional complementary structures. It strongly recommended that future support to the legal sector be on the basis of a well-coordinated legal sector programme that has improved coordination among government institutions, among donors, as well as between donors and government. In this regard, there is a pressing need for the development of a sector-wide development strategy to guide reforms in the legal sector for the next 10-15 years.

## Establishment of a complete, clear and coherent legal framework

### Progress

There has been significant progress in the *further development of the legal framework*. We adopted the *newly amended Constitution in 2003*, and *amended and promulgated several laws*, including: the *Law on Local Administration*, the *Law on the People's Court*, and the *Law of the Public Prosecutor* in order to ensure conformity with the Constitution, as part of its long term strategy for effective legal reform.

The implementation of the *Law on Local Administration* has resulted in modifications to provincial and district administrations due to the determination of the roles and rights of various agencies.

In order to harmonize our domestic legal framework with international laws, a number of the provisions of the UN Declaration on Human Rights concerning arrest, detention, custody and juvenile criminal procedures were proposed, accepted and adopted in the amended Law on Criminal Procedure in March, 2004.

Additionally, in preparation for the National Assembly's ratification of the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, workshops were conducted by MOFA for the representatives of various government agencies. These workshops focussed on the procedures and mechanisms for ratification and the dissemination of the translated versions of the aforementioned covenants.

The *Constitutional Amendments* resulted in the transfer of the administration of the local lower courts from the Ministry of Justice to the People's Supreme Court, and the establishment of Courts of Appeal in the Central region for the People's Supreme Court and the Office of the Supreme Public Prosecutor.

As indicated earlier, several laws have been passed to strengthen the functioning of the government, including the *Law of the Government* and the *Law on Local Administration*. A number of draft laws, namely the *Law on Special Economic Zone*, the *Law on State Economy* and the *Law on the Settlement of Economic Disputes*, in addition to draft presidential decrees and draft decrees, have been formulated and submitted to the cabinet for revision in order to promote macro-economic growth and protect the environment.

Another major achievement is the Legal Research Centre's compilation of a record of existing legislation, including their amendments, on CD-ROM, which has been disseminated to various agencies for their reference and to ensure their compliance with the law. The CD-ROM is currently being updated to include legislation introduced between 2002 and 2005.

An important initiative to help clarify the *long-term strategic framework for future reforms* in the legal area has begun in collaboration with a number of international partners. A key

objective of the Preparatory Assistance<sup>23</sup> (PA) project, launched in 2004, with the Ministry of Justice, Office of the Public Prosecutor and the People’s Supreme Court, is to help develop a long-term legal sector development strategy.

Building on the LSE, the PA will support the government in developing a coherent, common, strategic development framework and ‘vision’ to guide future development and reform of the legal sector, as well as all resulting development initiatives and activities. This will be a collaborative exercise led by the government and with systematic consultations between the government and the donor community.

With assistance from several donors, we have also formulated a number of initiatives in respect to *international law*. The following initiatives have been identified as priorities for future activities:

- § Clarifying the status of international law within our domestic legal framework.
- § Harmonizing our domestic legal framework with international law and educating the agencies responsible for application of international commitments.
- § Continuing preparations, signings, and ratifications of international treaties related to the prevention of terrorism, torture, the protection of rights of migrant workers and children and other inhuman activities.
- § Increasing the capacity of Lao diplomats in international law and international negotiations.
- § Publishing a manual for drafting, reviewing and approving legislation to promote uniformity of legislative processes.

Additionally, we are continuing the process for the eventual *ratification of the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR)*. Workshops have been conducted by MOFA, with international donor assistance, for representatives of various government agencies. These workshops have concentrated on the procedures and mechanisms for ratification as well as for the dissemination of the translated versions of the aforementioned covenants.

## Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

The process of formulating the legal sector development strategy is one that will involve consultations with various partners, including international development agencies. It is expected that this process will help identify additional opportunities for cooperation between specific government and donor agencies.

Courts of Appeal have been established in the Central region, however the infrastructure requires further strengthening. Judges require legal training and supporting staff need to be recruited. Furthermore the Courts of Appeal still need to be established in the North and South of the country and we need assistance with the construction of buildings, facilities and recruitment of supporting staff. This infrastructure development is estimated at USD 625,000.

Standardised judgment, notary and affidavit forms have not yet been produced. Funding is requested for their development so that we can distribute them throughout the country.

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<sup>23</sup> Supported by UNDP

Evaluation and comparative legal studies have been conducted through the Legal Research Centre. Modest funding is requested so we can ensure the regular publication and dissemination of reports and studies related to legal issues in the Lao PDR.

In order to synchronize the domestic legal framework with international law, the Ministry of Justice requests support for the planned separation of the *Drug and Criminal law*.

## Strengthening the informal and formal mechanisms for dispute resolution

### Progress

*Village mediation units have been strengthened*, through an Instruction by the Minister of Justice (January 2004), and the development and issuance of regulations concerning their organisation and operation. These units (currently operating in approximately 90% of all Lao villages) will need to continue to ensure that there is the option of settling disputes in all villages. This is of high importance, as these units are the first, and often, only, recourse to settlement of disputes for the general population.

The *Law on the People's Courts* has been amended, adopted and promulgated which has clarified the division of responsibilities through the establishment of a Civil, Criminal, Commercial, Family and Juvenile Chamber. Judges have also been assigned to each of the respective Chambers and their capacity has been strengthened through training courses in their specialised fields. However their numbers need to be increased and the various Chambers established in all of the courts.

Research on the *Law on the Settlement of Economic Disputes* has been completed and has been submitted to the government for revision. The training of judges has continued since the jurisdiction of the provincial and district courts was transferred from the Ministry of Justice to the People's Supreme Court. Training has also been conducted for the arbitrators

A new initiative commenced in 2004 to *strengthen The Lao Bar Association (LBA)*, with support from UNDP. This aims to improve not only the organizational functioning but also to increase the number and capacity of LBA members, improve public awareness about the role of lawyers and LBA, and thereby strengthen the legal profession. The LBA's members have also improved their capacity through training courses and have been issued with counselling cards. Furthermore, the MoJ has given the LBA increased autonomy and the LBA is now able to directly establish contacts with international Bar Associations.

This same initiative also enables the further strengthening of the Village Mediation Units in partnership with the Department of Judicial Administration in the Ministry of Justice, building on a 2003 study by the Ministry of Justice and Save the Children (UK).

The initially planned *reduction in the number of district courts* has not been continued by the People's Supreme Court due to the level of demand and reduction in people's access to justice. However, the courts are now able to reach a verdict on penal cases.

As indicated earlier, revisions have been made to the working rules of the National Assembly's Division of Complaints and Nationalities in order to clarify the divisions of responsibility relating to the complaints and appeals process.

## Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

- Improving the capacity of village mediation units through the provision of guidelines and the training of arbitrators, and ensuring the establishment of village mediation units in all of the country's villages.
- Continuing the program of legal training for judges, lawyers and prosecutors.
- Continuing participation in international and regional fora to promote conflict management.
- Continuing to strengthen the Lao Bar Association so that it can gradually assume a more independent status and provide improved legal services to the Lao people.
- Improving communication between the central and local offices of the Ministry of Justice, the Office of the Supreme Public Prosecutor and the courts. IT equipment needs to be installed or upgraded. Intranet and internet connections also need to be established between central and local offices and the Ministry of Justice has requested USD 50,000 for this purpose.

## Ensuring predictable and transparent mechanisms for legal enforcement

### Progress

The *organisational structure* of the Office of the Supreme Public Prosecutor, and the Courts at both central and local levels, has been improved through the adoption and promulgation of the *amended Law on the People's Court* and the *Law on the Office of the Public Prosecutor (2003)*. The People's Supreme Court has established a *Court of Appeals* in the Central region and has *instituted Civil, Criminal, Commercial and Family and Juvenile Chambers*.

We have also continued *capacity building of prosecutors* at central and provincial levels through training in investigation and information management systems, with support a range of donors.

Additionally, the *Law on Judgement Enforcement* has been adopted and promulgated, however, officers responsible for enforcement require further training. We also need to improve cooperation with concerned agencies to ensure effective enforcement.

The National Assembly has recently *finalised the Legislative Handbook*, which focuses on the public consultation processes. The Handbook, which is now ready for publication, will assist in the effective implementation of the *Decree on Legislative Drafting*.

### Future Opportunities

We have identified the following initiatives as priorities by the Government for further donor support:

- Review and improvements to the organizational structure of the Office of the Supreme Public Prosecutor and the courts at all levels in order to clarify roles and responsibilities.
- Undertaking 'training of trainers' programmes in the fields of legal affairs, legal dissemination and the drafting of legislation and other legal documents.

- The development of manuals for the drafting of legislation and the dissemination of laws.
- Upgrading the knowledge and qualifications of public prosecutors.
- Ensuring strict compliance with the promulgated Law on Judgement Enforcement through the capacity building of personnel responsible for enforcing the court's decisions. Funding has been requested to develop a training plan and to further train trainers in the Department of Legal Enforcement in order to enhance their capacity in working methods, ethics and legal procedures.
- Undertaking education campaigns in schools to promote legal awareness. We require support to help raise the teachers' legal awareness and develop teaching materials.

## Strengthening the capacity of all institutions in the legal and justice sector

### Progress

A number of capacity-building initiatives, involving various institutions, have been described above. Additionally, various several Committees of the National Assembly have actively participated in the *exchange of lessons with other countries*, focusing on the resolution of people's complaints and also the implementation of court decisions.

The People's Supreme Court and the Office of the Supreme Public Prosecutor have sent delegations to, and received delegations from China, Vietnam and Myanmar and have developed bilateral cooperation with ASEAN members. A Memorandum of Understanding has also been signed with China and Vietnam to obtain assistance in the organisation of training for judges, public prosecutors and investigators.

The *middle level law school in Luang Prabang* completed its first year of operation but requires further improvements in its facilities, particularly the construction of student accommodation and improved management. The law school in Savannakhet has continued its operation and currently needs further strengthening as well as its own building. The capacity of the Faculty of Law at the University of Laos has continued to be strengthened through improvements in facilities and teacher training, and the management of the Ministry of Justice's Judicial Training Institute has improved.

*Legal Units have been established in each of the Ministries* and its members have received training, but there is a further need to strengthen their capacity to draft laws. Some Ministries have begun the installation of computer network systems, but currently there is no intranet system on Laws within the line Ministry and with other government agencies, and international links remain restricted.

### Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

- Continuing to upgrade the capacity of the National Assembly to draft and revise legislation.

- Strengthening the capacity of the Committees of the National Assembly to oversee the activities of the government, the Peoples Supreme Court and the Office of the Supreme Public Prosecutor.
- Actively participating in international fora to upgrade knowledge related to international affairs.
- Providing management and record-keeping training to officers in legal sector institutions.
- The Government would like to increase bilateral cooperation with ASEAN and neighboring countries in the area of judicial training and has asked for USD 100,000 so that regular bilateral and regional training exchanges can be held.
- The Ministry of Justice, the People’s Supreme Court and the Office of the Supreme Public Prosecutor require the establishment of LAN and WAN computer network systems on laws which are linked to other government organizations, the National University of Laos and international organisations. Provincial offices need to be equipped with computers and their staff require ITC training. The computer network systems of the Ministry of Foreign Affairs and the National Assembly also need to be upgraded. Further budget analysis is required in order to determine the full needs and costing.
- The construction of training facilities in the Vientiane Prefecture Court and the Vientiane Justice Department also requires further support. The Law school in Luang Prabang has now completed the first year of operation and USD 100,000 is requested for further construction of facilities, the provision of equipment and the establishment of student accommodation. A further USD 150,000 is needed for the Law school in Savannakhet as it requires its own facilities. USD 70,000 has been requested for the construction of for Judicial Training Institute’s conference hall.
- Strengthening the capacity of the Faculty of Law of the National University of Laos and the Judicial Training Institute by building a strong team of trained staff and ensure the provision of vehicles, equipment and materials as well as books and documents for the library.
- Establishing and improving active and functioning legal units in all line ministries and build staff capacity.
- The Vientiane Justice Department and the Vientiane Prefecture Court are currently under construction. The Ministry of Justice has asked for international support in order to ensure timely completion.
- The provincial court offices for Khammouane province need to be constructed and a request for USD 100,000 has been made for this.

## Initiatives to strengthen the Ministry of Justice

### Progress

*The qualifications of the personnel in the Ministry of Justice have been upgraded* at both central and local levels through the organisation of regular technical and ethical training programmes. Job descriptions have been developed and now exist for all positions within the Ministry of Justice. All new personnel have been appointed to suitable posts.

Delegations from the Ministry of Justice were sent to Vietnam and China on study tours. Representatives also participated in regional and international fora on legal matters to extend international cooperation.

An improvement in the legal enforcement of court decisions has resulted due to increased coordination with the Office of the Supreme Public Prosecutor, the police and other concerned agencies, but regulations concerning the division of responsibilities still need to be established.

## Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

- The training of personnel in the Ministry of Justice, particularly at the local level requires further support and a training needs assessment is yet to be completed. One training area that has been identified is in the Notary Department, as we need to ensure that there are five trained notary staff members in each of the nine provinces.
- Ensure the establishment of courts and mediation units at the central and local level to increase their numbers and provide more alternatives for Lao people. Additionally, we need to introduce gradual reforms so that these courts and mediation units, as well as Notary Offices, will operate independently.
- Regulations concerning the division of responsibilities between different agencies regarding the enforcement of court decisions need to be drawn up. International support has been requested for their establishment.
- The Ministry of Justice would like to continue to participate actively in international and regional fora on legal matters and has asked for USD 10,000 in financial assistance to ensure future attendance.

## Priority initiatives for the People's Supreme Court

### Progress

Improvements have been made in the *organisational machinery of the People's Supreme Court (PSC)*. Personnel have been reallocated as well as new staff recruited since the adoption and promulgation of the amended Constitution and the Law on the People's Court. The PSC submitted a proposal to the National Assembly to appoint a number of lawyers as judges and also assigned judges to the Criminal Chamber, the Commercial Chamber, the Civil Chamber, and the Family and Juvenile Chamber. The capacity of judges of the PSC the local courts has been upgraded through training courses.

The *Court of Appeals*, which has been established in the Central region, requires further strengthening through the appointment of additional judges and allocation of support staff. Additionally a Court of Appeal still needs to be established in the Southern and Northern regions of the Lao PDR.

The Court Journal, which was previously published on a regular basis, and then lapsed, now needs to resume regular publication.

Internet and intranet communications systems for the courts at central and local levels remain inadequate and require development.

## Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

- International support has been requested in order to further review the roles, duties and operations of the People's Supreme Court in order to improve its' efficiency and effectiveness. A further streamlining of personnel will be needed once the functional review has been completed.
- The People's Supreme Court requires international support to continue improving its case resolutions to ensure cases are resolved in a more timely manner and that decision making is neutral, strict and in accordance with the law.
- A request of USD 50,000 has been made to assist with the continued development of a comprehensive training curriculum for judges and the establishment of a 'training of trainers' program within the People's Supreme Court in order to upgrade staff skills in all areas. The capacity of existing judges' needs to be raised at the local level and USD 50,000 has been requested for a training program.
- The regular publication of the People's Supreme Court's casebook and journal has been discontinued due to a lack of funding and publication of the appellate court decisions has not been undertaken. International support has been requested to resume publication.

## Priority initiatives for the Office of the Supreme Public Prosecutor

### Progress

Improvements have been made in the Office of the Public Prosecutor's internal management and its name has been changed to the Office of the Supreme Public Prosecutor (OSPP). Improvements have also been made in the allocation of existing staff and the recruitment of new staff for the OSPP and offices at the local level. The collection of statistical data on infractions and law violations has also been developed.

Studies were conducted to finalise the regulations on the organisation and operation of the Court of Appeal, which has now been established in the Central region. Appointments of prosecutors at the Court of Appeal level have been made, but the need for additional numbers of qualified staff, materials and facilities currently hinder effective operations.

Training courses have been attended by prosecutors to upgrade their capacity to conduct research and prepare evidence for presentation in court and to monitor the implementation of laws. However the monitoring of the implementation of laws continues to be a challenge for prosecutors due to a lack of resources and the absence of a clear mandate.

A review of the prison system was initiated which found that an improvement in the conditions of prisons is necessary and the adherence to prisoners' rights requires further attention.

### Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

- Improving the monitoring and control of law enforcement from central to local levels. We require further support to improve the reporting system of the central Office of the Supreme Public Prosecutor through the computerization of data collection and statistical information requires. In order to achieve this, ICT equipment needs to be procured and a request of USD 40,000 has been made for this purpose.
- Improving the understanding between the different organisations involved in law enforcement and penalty adjustment, particularly among prosecutors, the police, the Ministry of Justice and the Ministry of Defense. Support is needed for the training of enforcement officers, police, prosecutors and the chiefs of villages to achieve this.
- Training needs have also been identified for staff at all levels, particularly in researching and preparing evidence for presentation to courts, in legal education and the respect of law and ethics. A needs assessment has been made but further international support is needed for the continued development of a comprehensive training curriculum for prosecutors and specialized investigators as well as the training of trainers for the Office of the Supreme Public Prosecutor. Support is also needed to train prosecutors at the provincial level so as to improve the quality of their technical activities.
- Ensuring that the new primary tasks outlined in the Law on the Office of the Public Prosecutor are drafted as a set of additional regulations and handbooks are produced to support their implementation.
- Ensuring that the cross examination of all criminal cases is clear, just and acceptable to all parties concerned.
- Enhancing the capacity of the OSPP to ensure the equitable processing of all pending penal and civil cases within a determined timeframe.
- Implementing a compensation policy for individuals of exceptional performance and enforce disciplinary action for violators.

### Improving the ability of all the peoples of the Lao PDR to access the justice system.

#### Progress

**For activities relating to legal dissemination** - Two hundred and fifty copies of the official gazette and two hundred copies of the special issue were published and distributed in 2004. Further support and funding is required to ensure increased publication, wider distribution and translation. The Ministry of Justice has expanded the scope of *legal literacy programmes* through the mass media and information on laws was disseminated through the radio, television and newspapers. In addition approximately two thousand copies of law books covering commercial law, as well as other legal sectors, were published and distributed.

Legal dissemination requires further attention, particularly the circulation of the courts' decisions and their translation into the languages of the various ethnic groups. Further funding is also required for the systematic publication of law books and the official gazette, and the use of the performing arts and popular public entertainment as a means of legal education has not yet been undertaken.

**For activities relating to improving legal assistance** - the initiative to strengthen the Lao Bar Association has been very positive. A new LBA office has been opened, separate to the Ministry of Justice, and efforts are being made to strengthen the LBA's organisational structure as well as an increase in the public's awareness and use of its services. An increase in the membership numbers (from 30 to 60 since 2003) and provision of legal training for lawyers as well as the expansion of its services to other provinces will result in an improved provision of legal assistance for underprivileged groups. However, the provision of legal assistance will be slow, as currently such services are not available throughout the entire country and there is an inadequate number of lawyers to ensure equitable provision.

Knowledge of the law has also been strengthened through the education system, as a middle level law school has been established and is now in operation in Luang Prabang province in addition to the law school in Savannakhet. Furthermore, numerous private schools are now providing law courses, especially in business law.

The establishment of a Family and Juvenile Chamber has ensured that juveniles are provided with legal assistance and that their cases are separated from those of adults.

However, these measures to improve the provision of legal assistance are in their initial stages and require further development, and other mechanisms, such as translation services for ethnic groups who are unable to speak Lao, still need to be established.

**For activities relating to women, young people and children** - The National Commission for Mother and Child ensured that representatives from various Ministries and mass organisations were consulted and given the opportunity to make recommendations on the draft law on the Development and the Protection of Rights and Interests of Women.

The draft law on the Development and the Protection of Rights and Interests of Women, which was formulated by the Lao Women's Union (LWU), was approved by the National Assembly in October 2004. It specifies measures for the prevention of domestic violence and the trafficking in women and children so as to create more equitable conditions for the development of women.

The LWU office responsible for providing legal assistance at the central level has been upgraded and has also organised training courses on legal matters for LWU members at provincial and district levels. UNICEF has organised training for judges at the provincial level to raise awareness of children's rights and has also conducted a study of juvenile custody in detention centres.

## Future Opportunities

We have identified the following initiatives as priorities of the Government for further donor support:

### Legal Dissemination:

- § Ensuring systematic publication and wider distribution of law books and the Official Gazette.
- § Expanding the scope of legal literacy programs through the mass media and establishing performing arts and popular entertainment as a tool for legal education.
- § Continuing the compilation of laws and other legal documents from 2002-2005 on CD Rom and ensuring their dissemination to various agencies.
- § Creating a legal basis for the progressive circulation of court decisions and judgments', beginning with the People's Supreme Court and creating mechanisms for the public to obtain easy access to them.

- § Increasing efforts to translate court decisions into the languages of ethnic minority groups for dissemination.

Legal Assistance:

- § Strengthening the LBA to enable it to better provide legal services to disadvantaged groups.
- § Continuing road and telecommunications infrastructure development to enable better access for remote communities.
- § Continuing to strengthen knowledge of the law through the local schooling system.
- § Initiating the establishment of a simple mechanism to provide translation services for people who do not speak Lao.

Women, Youth and Children:

- § Continuing to restructure and update the office responsible for providing legal advice to women.
- § Researching, enhancing and monitoring the implementation of measures to ensure the respect of women and children's rights.
- § Continuing to enhance young people's awareness of the law to prevent crime and ensure that juvenile cases follow the juvenile judicial process.
- § Enabling the LWU to support further collection and analysis of gender data and reporting to Government and communities.

## Part IV - SOUND FINANCIAL MANAGEMENT

### Accountability and transparency to ensure sound management of financial resources

**to achieve macro-economic stability and sustainable growth with equity, by establishing sound, accountable and transparent financial management practices.**

#### Background and objectives

With the adoption of the New Economic Mechanism (NEM) in 1986, our Government has committed itself towards reform for a market economy. In September 2003, we took a more direct and effective role in the country's overall social and economic development process by issuing the National Growth and Poverty Eradication Strategy (NGPES) which also functions as the country's first Poverty Reduction Strategies Paper (PRSP). This strategy recognizes the importance of creating an enabling environment for growth and development to encompass macroeconomic stability, private sector development, regional integration, and as well as to improve public expenditure management, all areas emphasized in Part IV of the Governance Policy Paper. This new direction in public policy seeks to promote the private sector and foreign direct investment as the main engine of growth for economy and to strengthen public expenditure management. With regard to the latter, the overall emphasis is to ensure pro-growth and pro-poor fiscal policy formulation, increase efficiency, accountability and transparency in budget preparation and execution, review of intergovernmental fiscal relations, modernization of an accounting system, and enhanced inspection and audit systems.

In spite of average inflation rate of about 12 percent during the fiscal year 2003/04, the overall economy has experienced strong growth with expected real GDP growth of 6.5 percent. The key goal for fiscal year 2004-2005 is to reduce inflation to a single digit level and achieve a real GDP growth of between 6.5 and 7 percent.

The main priority areas in financial management, listed at last year's Governance Round Table Meeting, still remain. These are:

1. Development of a sound fiscal policy
2. Development of transparent and accountable practices for the implementation of efficient and equitable revenue collection policies.
3. Development of transparent and accountable practices for expenditure planning and management.
4. Modernization of the accounting system
5. Development of a banking sector capable of supporting private sector led growth and expanding rural outreach.
6. Ensuring accountable and transparent management of ODA
7. Strengthening of capacities in the audit and inspection bodies.
8. Improving efficiency in land management and administration
9. Improved environment for private sector development

## Development of a sound fiscal policy

### Progress

A key question confronting policymakers in our country is how the National Growth and Poverty Eradication Strategy can use *fiscal policy* to lift us out of Least Developed Country status by 2020, while ensuring the sustainability of fiscal policy. To achieve this ultimate goal, we have issued a range of policies to promote private sector development and improve social well-being.

The fiscal policy has the following objectives:

1. increase revenue-to-GDP ratio through an expanded tax base and improved effectiveness of revenue collections;
2. ensure that the budgetary framework becomes more supportive of poverty eradication and private growth and investment;
3. improve transparency and accountability in budget activity;
4. reduce the public-debt-to-GDP ratio to a sustainable level; and
5. improve legal and regulatory framework (new customs/tax laws).

The immediate objective in this fiscal year is to reverse the decline in government revenue of recent years. To achieve this, *the government has initiated a number of reforms relating to revenue*, including taking preliminary steps for establishing a national customs administration and strengthening of the tax administration. As a result, the revenues have performed well and are expected to reach 99 percent of the target amount. On the expenditure side, the government is taking further steps to strengthen expenditure management to enhance the efficient use of public funds and avoid incurrence of new arrears.

The government, in partnership with a range of donors (including the World Bank, International Monetary Fund and Asian Development Bank) is embarking on a range of short- and medium-term strategies as part of a *Public Expenditure Management Strengthening Program (PEMSP)*. These strategies focus on five main areas in public expenditure management:

- fiscal planning and budget preparation (Module A);
- revenue and expenditure management (Module B);
- intergovernmental fiscal relation in priority sectors (Module C);
- review of financial legislative and regulations (Module D); and
- capacity building assessment and strategy (Module E)<sup>24</sup>.

These reform strategies are outlined both in short and long-term action plans. The Government's short-term objective in fiscal year 2004-2005 is to increase the revenue-to-GDP ratio, while improving the resource allocations to the priority sectors of the NGPES. Key objectives include: an increase in budget revenue of approximately 23.8 percent which is equivalent to raising the revenue-to-GDP ratio by 0.8 percentage points; higher recurrent expenditure to address inadequate spending on wage, maintenance and supplies; reduction in

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<sup>24</sup> Detailed in the upcoming Public Expenditure Management Strengthening Program document.

public investment and increase in public savings to provide a contingency against unforeseen developments.

## Future Opportunities

To achieve the targeted improvement in budget revenue and expenditures, a package of tax, customs and treasury reform measures has to be implemented. The revenue measures include the restoration of a two-rate turnover tax, rationalisation of domestic excises, improvements in revenue administration, and further centralized customs administration.

For strengthening public expenditure management our strategic priority is to *prepare for the establishment of a strong national treasury*. A first step to improving the efficiency of treasury operations is to develop an integrated cash management system at least covering the central treasury and the six largest provincial treasury offices, which account for almost 80 percent of total provincial expenditure. To support this mechanism, the treasury laws need to be revised in the sense of establishment of a unified treasury under the authority of the Ministry of Finance.

With reference to the medium and long term, the challenge will be to identify effective revenue measures to increase the Government's tax base and national tax rules, in order to gradually reduce the resource gap. The policy package will consist of:

- an assessment of the legality of existing tax exemption and enforcement of the existing legislation,
- the conversion of turnover tax to a full fledged VAT (the challenge will be to ensure proper preparations are in place for the operation to be successful );
- overall policy review to rationalize and consolidate existing tax rate;
- adoption of GATT valuation for controlling undervaluation of imports which have lead to revenue leakage;
- consideration will be given to strengthening the personal income tax system as a potential source for future revenue (longer term objective).

On the *expenditure side* we plan to make the budgetary framework become more supportive of private sector growth and investment and also increase the proportion of its budget assigned to priority areas of expenditure, education, health, rural infrastructure and environment conservation, to support this long term policy. We also plan to review a regulation framework for intra-government fiscal responsibility. One of the main objectives is to clearly detail the assignments of revenue and expenditure responsibilities between the central and provinces to develop a mechanism for intra-government transfer.

We will shortly consider the strategies being proposed in the PEMSP document. Based on this consideration, we will further elaborate opportunities for donor support.

Further initiatives that we have committed to undertaking include:

- Review and amendment of PM decree 192.
- In-depth review of the fiscal affordability of NGPES policies, programs and sequencing.
- Further development and implementation of the PEMSP, with the involvement of a range of donors.

## Development of transparent and accountable practices for the implementation of efficient and equitable revenue collection policies

### Progress

As indicated above, our Government, together with international partners, has been focusing on the modernization of both tax and customs administrations.

Regarding *tax administration*, emphasis has been placed on introducing new procedures for ensuring effective registration of taxpayers, simplification of methods used for filing and payment of taxes, introduction for new procedures for detecting under-reported incomes, training of tax officials in the introduction of Information Technology solutions to support the collection process.

With regard to *customs administration*, we have taken preliminary steps towards the establishment of National Customs Administration by allowing the Customs Department headquarters to take over more control of seven major international checkpoints (PMO Circular #301 dated March 1, 2004). At this early stage, this change has resulted in a more uniform and consistent application of the legislation and increased revenues (e.g. exemptions are now only granted at the central level and revenues collected by these checkpoints have now been deposited into the central government bank accounts). Preliminary steps have been taken for preparing a reorganization of the Customs Department Headquarters and field offices.

A new Customs Law has been drafted and is expected to be submitted to the NA in early 2005; this new law will meet international standards and conventions and will be WTO-compliant. Emphasis has been placed on strengthening the operations of the Post Clearance Audit Division in order to detect cases of undervaluation, strengthening of the Inspection Program (several provincial mobile brigades have been placed under the direct control of the Customs Department headquarters), strengthening of its IT system for capturing trade data from all import export declarations, and development of a training plan for increasing the capacity of its customs officials.

In terms of regional integration, the Customs Department has adopted the 8 digit ASEAN Harmonized System Tariff Nomenclature in October 2003, and has taken steps to identify the benefits of adopting the “single-window” and “single-stop” concepts. The Customs Department has taken steps to prepare a preliminary outline for a more comprehensive customs reform program that will also include a trade facilitation component. As mentioned above, a priority aim of revenue policy is to raise the revenue-to-GDP ratio, as much as possible. This year, revenue collection performed significantly better than the last two fiscal years, and the total amount of the domestic revenue is expected to reach approximately 99 percent of planned revenues. Progress mentioned above has had an impact on the improved revenue performance.

The key challenges for the Government’s revenue policy still remain to raise revenue-to-GDP ratio further, by around 0.8 percentage points. To achieve this target, the budget revenue mobilization should be centred on the rationalisation of tax administration between Central and local governments and advancing preparations for the implementation of a VAT. Regarding the tax administration it is intended to begin the process of bringing the large taxpayer units in the provinces under centralized control. To support this policy we are working on legislations to establish an authority of the Tax Department over the provincial large taxpayer units. This legislative document will provide arrangements for all national government revenue collected by these units to be deposited into a central government bank

account. We are planning a package of tax measures that includes the restoration of a two-rate turnover tax, rationalization of domestic excises, reform the structure of personal income taxes by lowering the top marginal rate, and finally further improve revenue administration.

Preparations have commenced for the introduction of a single rate VAT in 2006/2007. At this stage, a conceptual framework setting out the main parameters of the VAT and the modalities for its implementation is being developed.

To achieve our revenue goals we will also continue to identify strict measures to be taken to combat corruption.

## Future Opportunities

We have identified the following initiatives as future priorities:

- Amend the tax law (with support through the Sida-funded Tax project)
- Approval of the new customs law and drafting of new supporting regulations
- Full establishment of a National Customs Administration whereby all customs checkpoints report to the headquarters (via regional customs offices)
- Adoption of the GATT valuation principles and further strengthening of the enforcement capacity (e.g. anti-smuggling program, investigation program)
- Facilitation of trade by adoption of single-window concept and implementation of a “fast-track” clearance process for importers/exporters having good track record
- Continue with reduction of custom tariffs in line with AFTA agreement; and
- Prepare a concept paper for the conversion of the turnover tax into a full-fledged VAT
- Implementation of strict measures to combat corruption and financial crime

## Development of transparent and accountable practices for expenditure planning and management

### Progress

Some significant steps have been taken to improve *public expenditure management*. Firstly, the budget, accounting and fiscal policy departments have been engaged in modifying the current budget nomenclature and chart of accounts. This modification provides additional functionality code, codes for new revenue components, and reallocation of some expenditure components for economic purposes. Secondly, the Ministry of Finance has been enhancing the reporting system of budget expenditure by rolling-out a computerized accounting system. The implementation of the computerized accounting system, developed with financial assistance from ADB, has progressed well. This system has been installed in the key line ministries and plans are underway to complete the installation for all line ministries by the end of 2004 and for all provinces by the end of 2005. Thirdly, the treasury completed a register on government accounts in the commercial banks throughout the country and has started to close those accounts that were opened without authorization. The next step is to work out a clear framework to manage those accounts. Finally, the treasury has finished a census of arrears as of September 2003 (of fiscal year 2002-03) and is working on a plan to clear these arrears and avoid the build up of new arrears.

One of our key challenges in this area will be to strengthen expenditure planning, budget preparation, budget execution and improvement reporting system. We intend to work closely with its international partners on this issue.

An immediate step to *improve the efficiency of treasury operations* will be to develop an integrated cash management system covering the central treasury and the six largest provincial treasury offices, which account for 80 percent of total provincial expenditure. In parallel, a draft of a new treasury law will be prepared, which will establish a unified treasury under the authority of the Ministry of Finance. The drafting of a new treasury law will be done with support from the IMF and the World Bank.

There is also a need for improvement in the budget preparation process<sup>25</sup> to include wider consultation and to commence the budget process earlier, as specified in the current budget law. An important aspect of this is to increase the transparency and accountability of budget execution. We are planning to issue annual and mid-year reports on budget execution with justifications for any deviations between the projected and actual expenditures.

## Future Opportunities

The following initiatives have been identified as future priorities. Whilst the details of the proposed Public Expenditure Management Strengthening Program (PEMSP) have not been finalised, it is intended to address the following:

- Prepare a concept paper for new treasury law.
- Draft a new treasury law.
- Identification of key state holders for budget consultation.
- Redesign of the consultative process, culminating in final approval of National Assembly.
- Publication of a mid-year budget review and full year budget.
- Increase budget coverage; include donor assistance as much as possible.
- Develop a capacity building plan to strengthening budget preparation and executive.

## Modernization of the accounting system

### Progress

In order to develop *new regulations for private enterprise accounting*, 15 International Accounting Standards have recently been selected by the Government and are currently being translated into Lao. A study has also been undertaken in recent months to harmonise the old accounting system with the selected standards.

A manual on regulations and procedures for public accounting has been completed, new budget treasury software has been installed in thirty-seven Finance Units (representing all line Ministries) and training regarding its use has been conducted. The extension of public accounting regulations, procedures and systems to all of the Ministries and provinces is planned in 2005.

Efforts have also been made to implement the plan to *increase the number of businesses who maintain proper accounting records*, and as a result there has been a noticeable rise in businesses following standard procedures. The capacity of the accounting department's staff

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<sup>25</sup> Initiatives to strengthen budget preparation process outlined in the upcoming Public Expenditure Management Strengthening Program document – Module A

to implement the new regulations has also been strengthened through an ADB training programme for the public sector and a World Bank programme for the private sector.

### Future Opportunities

It is planned that the State Accounting system will be extended to all provinces in 2005 and it is anticipated that the ADB will continue to support this initiative.

## Development of a banking sector capable of supporting private sector led growth and expanding rural outreach

### Progress

In order to meet our poverty reduction objectives, we are committed to accelerate the implementation of our structural reform agenda with a view to achieving a higher sustainable growth rate and strengthening our resource management capacity. The *reform of the banking sector* has been under way with support from the ADB and World Bank and has achieved positive results. Restructuring plans have been established for the two State Banks (BCEL and LDB) and the placement of international banking advisors in these two banks has resulted in significant improvement in their operations and credit management practices. Further steps have been taken with the Agricultural Promotion Bank (APB) by undertaking restructuring activities and institution building program.

We are also taking steps to effect a prudent and supervisory framework for the banking system. We have continued to develop our program of on-site inspections of the state bank. The actual credit growth was based on a careful assessment of risk, especially for foreign exchange credits.

The Bank of Lao PDR monetary policy aims to reduce inflation. With the increase in foreign financing and build-up of government deposits at the BOL and the maintaining strict control over the net domestic assets of the BOL, gross official international reserves to over 4 months of imports and money reserves have increased steadily. While the state owned banks have continued to restrain credit and improve credit quality, SOB credit has been able to achieve a moderate growth rate. Sales of government securities have been developed, starting with debt clearance bonds and recapitalization bonds to the SOCB.

A monetary program has been designed that continues to be centred on maintaining strict control over the net domestic assets of the Bank of Lao PDR. This is being achieved through limiting the rate of expansion of the net domestic assets of the state owned banks. These measures are contributing to ensure a downward trend in inflation and support sustainable growth.

### Future Opportunities

The goal remains to create a sound and competitive banking sector. The strengthening of the supervision of the banking sector and capacity development are essential tasks for the banks. The development of performance targets for the state banks, in consultation with the ADB and World Bank, will continue to be undertaken.

## Ensuring accountable and transparent management of ODA

### Progress

Our Government continues to improve the efficiency and effectiveness of the Round table process. With support from the UNDP, the Round Table project was evaluated in December 2003, which identified further areas for reform. Foreign Aid Reports (FAR) are produced annually which detail the planned versus actual expenditure of projects (by sector). The Aid Co-ordination & Management System – ACMS (established with support from ADB) is currently being reviewed to further improve the quality of its data.

We have drafted a Decree on Procurement (and a supporting Implementation Instruction) to assist the Procurement Monitoring Office (Ministry of Finance) to monitor and supervise procurement processes.

There is a need to strengthen government ownership of ODA, beyond the Ministry of Foreign Affairs. There are limited resources currently available to manage this role; greater effectiveness is possible only through a carefully managed transfer of responsibilities to key agency level. The evaluation of projects would benefit from a more rigorous assessment of the outcomes (impacts) of project activities in addition to the project inputs and budget expenditure. This requires capacity building of staff responsible for the project management of these ODA initiatives to develop a stronger results-based focus at sector level. Additionally, the monitoring, management and coordination of our policy initiatives at sectoral level requires greater commitment and action from responsible agencies.

### Future Opportunities

Further support is needed to explore options for delegation of ODA responsibilities to sectoral level. Agencies responsible for the sectoral coordination need support (technical assistance, management guidelines and training) to guide them through more effective planning, management, evaluation and reporting of ODA. Further assessment of budget requirements is needed to provide clearer indications of these figures.

## Strengthening of capacities in the audit and inspection bodies

### Progress

With the support of the ADB<sup>26</sup>, our State Audit Organisation (SAO) is working towards improving the effectiveness of audits through the use of modern audit methodologies, systems and procedures. Its progress to date includes:

- A macro-level assessment entitled “Accounting and Auditing in Lao PDR—A Diagnostic Assessment of Current Practices and a Roadmap to International Standards”, expected to be finalised in late 2004, identifies specific areas for reform within the SAO.
- Decrees were approved in January 2004 by the Prime Minister in an attempt to more clearly delineate their respective roles and responsibilities. Work is continuing on the

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<sup>26</sup> ‘Institutional Strengthening of the State Audit Organisation project

development of new audit legislation. The backlog of legislation before the National Assembly has meant that this legislation can not be considered before late 2005.

- Several Audit procedures manuals have been drafted and will be subject to further field-testing. These include: procedures relating to the financial audit process and related reference materials (Volume 1), detailed audit programs for foreign-aided loan projects (Volume 2), and detailed audit programs for SOEs (Volume 3).

In addition, procedures manuals on Detailed Audit Programs for State-Owned Commercial Banks and Detailed Audit Programs for Government will be developed and tested during 2005.

- Ongoing capacity building for key staff (through domestic and international training programs)
- Development of strategic goals and strategies for fiscal years 2005-2009, a five year audit plan for fiscal years 2005-2009, and a human resource development plan for this five-year period.

In order for the SAO to adopt more modern audit methodologies, systems and procedures, the government will firstly need to approve the roadmap to reform identified in “Accounting and Auditing in the Lao PDR—A Diagnostic Assessment of Current Practices and a Roadmap to International Standards”.

The structure for possible draft audit legislation will need to be developed further through drafting, distribution, comment and amendment so that it can be submitted to the National Assembly and approved to provide the legal framework for the new systems and procedures.

Currently the internal audit mechanisms within the Ministries need to be strengthened, and government accounts do not have to be submitted systematically to the SAO. The reporting practices of the SAO to the National Assembly are also in need of improvement, as annual reports are submitted through the Prime Minister’s Office. These mechanisms will be considered as part of a review of the Machinery of Government which is planned for early 2005. The results of this review, together with recommendations for changes, will be forwarded to the National Assembly for consideration in late 2005.

### Future opportunities

Institutional strengthening of the audit and inspection bodies will need to be continued as outlined in the five year audit plan for the fiscal years 2005-2009. In order to achieve conformity with international auditing standards and procedures auditing manuals Volumes II and III require further pilot testing and revision and Volumes IV and V need to be drafted. Classroom and on-the-job training on these manuals will therefore need to be conducted. Performance and computer auditing are also only in their initial stages and will require further support through the extension of the existing ADB project which will end in December 2005.

## Improving efficiency in land management and administration

### Progress

With the support of the World-Bank and AusAID<sup>27</sup>, the Department of Lands (Ministry of Finance) and Department of National Land Use Planning and Development (PMO) have developed and received approval from the National Assembly for the revised Land Law. An implementation decree has been drafted and is currently under discussion. The Land Administration system has been developed and is being introduced in nine provinces. An important outcome for the communities is that land titles are being issued and registered, strengthening the rights of citizens and providing transparency in land registration. There has also been development and implementation of standard operating procedures in the valuation, cadastral surveying and registration process and a study into land allocation is currently being undertaken by GTZ. Capacity building of Department of Lands' staff to develop sustainable land administration activities is a current focus of attention.

Whilst the process of land registration is slow there are a number of ongoing challenges facing these initiatives. Further clarification is needed on legal definitions and the purpose of concessions and leases is still unclear. The Land Law requires further work to ensure compatibility with the Constitution and Law on Government. It is expected that there will be a need for extensive work in the area of land allocation and community ownership of land.

The future direction for land policy is, at present, unclear and there is an urgent need for a definitive land policy for Lao PDR to guide the direction of land management and land administration activities. A Land Policy Committee has been established but without a definitive land policy, it is difficult for this committee to operate effectively. Uncertainty still exists about the establishment of a proposed National Land Management Authority (NLMA), including functions and structure to be agreed.

### Future Opportunities

Further work is needed to clarify roles and responsibilities between central and local levels of the DOL. Longer-term, efficient delivery of services in land management requires greater decentralisation of administrative processes (and decision-making) from the central to the provincial level. The AusAID-funded TA are developing a decentralisation model for land administration and with the support of PACSA, there is an opportunity to analyse and pilot test the transfer of selected responsibilities to provincial authorities.

## Improved environment for private sector development

### Progress

Efforts have been made to provide more stability and clarity in the **legal and regulatory framework** by drafting new and amending current legislation to encourage investment from the private sector. These include the Law on Settlement of Economic Disputes, the Law on the State Economy and the Law on Intellectual Property Rights which have been drafted and are currently under revision. The Tax and Customs Laws are also under revision in an effort to simplify the excise, profit and personal income tax system.

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<sup>27</sup> Land Titling project II

Additionally the Law on Consumer Protection and the Law on Commercial Activities have been planned and now require drafting. Furthermore the amended Investment Law (both domestic and foreign) was recently approved in order to further streamline and reduce red tape.

**Banking regulations** have not yet conformed to international banking standards, although banking staff's awareness of the standards has increased due to the presence of international advisors at BCEL and the Phatanna Lao Bank. Amendments to the Decree on Commercial Banks, which will allow foreign bank branches to operate outside Vientiane, have been initiated and are under discussion.

In order to improve communication between the government and the private sector and **increase the flow of information**, public consultations have been conducted by MOF and CPI and a MOF website has been created. The publication of budget activities on the site is being developed, in addition to the annual publication of the official gazette on the National Budget. Furthermore there has been the establishment of a web portal for the business sector and an on-line booking system for Hotel and Guesthouse Association. However further support is needed to ensure the publication of the English versions of all laws and regulations with regard to investment activities, particularly the recently amended Investment Law.

### Future Opportunities

Modest support is needed for the translation and distribution of the recently amended Investment Law (Domestic and foreign).



## ABBREVIATIONS

AAPP	Association of Asian Parliaments for Peace
ACMS	Aid Coordination Management System
AFPPD	Asian Forum for Parliaments on Population and Development
AFTA	ASEAN Free Trade Area
AIBD	Asia-Pacific Institute of Broadcasting Development
AIPO	ASEAN Inter-Parliamentary Organization
AOEMA	Asia Oceania Electronic Marketplace Association
APB	Agriculture Promotion Bank
APDIP	Asia-Pacific Development Information Program
APF	Association des Parlements de la Francophonie
APPCED	Asia-Pacific Parliamentary Conference on Environment and Development
APPF	Asian-Pacific Parliament Forum
APPU	Asian-Pacific Parliament Union
ARCPM	ASEAN Resource Centre on Performance Management
ASEAN	Association of South-East Asian Nations
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATM	Automatic Teller Machine
AusAID	Australian Agency for International Development
BCEL	Banque pour le Commerce Exterieur Lao
BOL	Bank of the Lao PDR
BPO	Business Promotion Office
CCOP	Central Committee for Organization and Personnel
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEPT	Common Effective Preferential Tariff
CGOI	Committee for Government Organization Improvement
CIC	Committee for Investment & Cooperation
CIDA	Canadian International Development Agency
CLAIR	Council of Local Authorities for International Relations
CLMV	Cambodia Laos Myanmar and Vietnam
CPI	Committee for Planning and Investment

CRC	Convention on the Rights of the Child
CSO	Civil Society Organisation
CV	Curriculum Vitae
DANIDA	Danish International Development Agency
DDFI	Department of Domestic and Foreign Investment
DEFR	Department for External Financial Relations
DIC	Department of International Co-operation
DOL	Department of Lands (Ministry of Finance)
DONLUPAD	Department of National Land Use Planning and Development
DPACS	Department of Public Administration and Civil Service
DPMFDI	Department for the Promotion and Management of Foreign and Domestic Investments
EC	European Commission
FAR	Foreign Aid Report
FIMC	Foreign Investment Management Committee
GoL	Government of the Lao PDR
GPAR	Governance and Public Administration Reform
GRID	Gender Resource and Information Development Centre
GTZ	German Technical Co-operation (Deutsche Gesellschaft für Technische Zusammenarbeit)
HIV	Human Immuno-Deficiency Virus
HRD	Human Resource Development
HRM	Human Resource Management
IAI	Initiative for ASEAN Integration
IAS	International Accounting Standard
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
ICT	Information and Communications Technology
IDRC	International Development Research Centre
ILO	International Labour Organisation
IMPO	International Medical Parliament Organization
INTOSAI	International Organisation of Supreme Audit Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
IPU	Inter-Parliamentary Union
JICA	Japan International Co-operation Agency
JTI	Judicial Training Institute

KOICA	Korean International Cooperation Agency
KPL	Khaosan Pathet Lao (Lao National News Agency)
LAN	Local Area Network
LANIC	Lao National Internet Committee
LBA	Lao Bar Association
Lao PDR	Lao People’s Democratic Republic
LCCI	Lao Chamber of Commerce & Industry
LDB	Lao Development Bank
LECS	Lao Expenditure and Consumption Survey
LFNC	Lao Front for National Construction
LFTU	Lao Federation of Trade Unions
LNTA	Lao National Tourism Authority
LPRP	Lao People’s Revolutionary Party
LSE	Legal Sector Evaluation
LWU	Lao Women’s Union
LYU	Lao Youth Union
MAF	Ministry of Agriculture and Forestry
MCTPC	Ministry of Communication, Transport, Post and Construction
MOE	Ministry of Education
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoIC	Ministry of Information and Culture
MOJ	Ministry of Justice
MOLSW	Ministry of Labour and Social Welfare
NA	National Assembly
NEM	New Economic Mechanism
NERI	National Economic Research Institute
NGO	Non-Government Organization
NGPES	National Growth and Poverty Eradication Strategy
NLMA	National Land Management Authority
NORAD	Norwegian Agency for Development Cooperation
NOSPA	National Organization for Study of Policy and Administration
NPL	Non Performing Loan
NSAM	National School of Administration and Management
NSC	National Statistics Centre
NUOL	National University of Laos

ODA	Official Development Assistance
OSPC	Office of the Supreme Peoples' Court
OSPP	Office of the Supreme Public Prosecutor
PA	Preparatory Assistance
PACSA	Public Administration and Civil Service Authority
PADETC	Participatory Development Training Centre
PCC	Party Control Committee
PEMSP	Public Expenditure Management Strengthening Program
PIP	Public Investment Programme
PLB	Patanna Lao Bank
PMIS	Personnel Information Management System
PM	Prime Minister
PMO	Prime Minister's Office
PSC	People's Supreme Court
RT	Roundtable
SAO	State Audit Organisation
SARS	Severe Acute Respiratory Syndrome
SC	Standing Committee
SCB	State Commercial Bank
SCF (UK)	Save the Children's Fund (United Kingdom)
SCPA	Social Cultural and Professional Association
SDC	Swiss Agency for Development and Co-operation
SEACSN	South-East Asian Conflict Studies Network
SEDP	Socio-Economic Development Plan
SIO	State Inspection Organisation
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SPA	Supreme People's Assembly
SPC	State Planning Committee
SPO	Social and Professional Organisations
STEA	Science Technology and Environment Agency
UDAA	Urban Development Administration Authority
UNCDF	United Nations Capital Development Fund
UNCRD	United Nations Centre for Rural Development
UNCTD	United Nations Conference on Trade and Development

## Progress Report on Implementation of Governance Policy Initiatives – Abbreviations

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UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Education, Science and Culture Organisation
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund

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<sup>28</sup> Detailed in the upcoming Public Expenditure Management Strengthening Program document.