



## **Lao People's Democratic Republic**

Peace Independence Democracy Unity Prosperity

# **REPORT ON MEETING**

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## **Governance Round Table Meeting (RTM)**

### **IMPLEMENTATION OF PRIORITY AREAS OF GOVERNANCE REFORMS**

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

**Vientiane, Lao PDR  
November 2004**

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## Introduction

On the 5<sup>th</sup> of November, 2004, the Governance Roundtable Meeting (RTM) was held at the Lao Plaza Hotel. The purpose of the meeting was to:

- present updated information on the status of implementation of the Government's priority policy initiatives (as outlined in the Governance Policy paper – March 2003); and
- enable opportunities for detailed discussions between government officials and development partners on key issues.

The meeting was co-chaired by H.E. Dr Phankham Viphavanh, Head of Cabinet of the Prime Minister's Office and Mr Finn Reske-Nielsen UN Coordinator, UNDP Resident Representative to the Lao PDR. Senior government officials; Ambassadors and representatives from various Embassies; and, international organizations also attended the meeting.

During the meeting the Government highlighted their progress across a broad spectrum of key governance reforms; namely – public sector reform; people's participation, the rule of law, and sound financial management.

The discussions focused on developments in the area of governance reform: including, the need to improve the delivery of government services; the current strengthening of the country's legal framework; and, ensuring sound financial management of the government's expenditure.

### Summary of RTM Opening

The Governance RTM was opened by Dr Phankham Viphavanh, Chief of Cabinet, the Prime Minister's Office (refer to Annex 1 for full copy of the speech).

Dr Phankham provided a broad overview of the government's progression in the key areas of: public sector reform; people's participation, the rule of law, and sound financial management and outlined the meetings proceedings.

He expressed support for the government's ongoing commitment to transparency, dialogue and participation and explained that reform is a difficult process that requires ongoing support, commitment and cooperation from key ministries, donors and stakeholders.

Finn Reske-Nielsen, Resident Representative, UNDP, Lao PDR was the second speaker (refer Annex 2 for full copy of the speech). Mr Reske Nielsen congratulated the government for organizing the RTM and said that *Governance* is an important cross-sectoral area where reforms are a prerequisite for the achievement of broader development goals, as outlined in the National Growth and Poverty Eradication Strategy.

He congratulated the government on the progress in its reform activities but said there is still a long way to go, in order to meet the Government's objectives of economic growth, poverty reduction and attainment of the Millennium Development Goals (MDGs), so that Laos can graduate from the status of Least Developed Country (LDC) by 2020. In order to continue with this progress, he suggested, that strengthened coordination is required, not only from the government's point of view but also among international donors and other agencies.

Mr Reske-Nielsen closed his speech by saying that the international community stands alongside the Laos government during ASEAN.

The final speaker in the opening section was Mr. Khammoune Viphongxay, Director General, PACSA. He noted that there has been shift to develop a more strategic approach to the Governance reform program and offered the examples of the Preparatory Assistance project in the legal sector; the development of a strategy to look at more effective and efficient public expenditure management as well as changes to fiscal policies in the financial sector; and the development of a civil service-wide National Training Program.

Mr. Khammoune Viphongxay talked about the formation of a Governance Coordination Committee in the near future, and this will be another mechanism to encourage targeted, coherent interventions. Refer Annex 3 for a copy of Mr Khammoune's speech.

## Group Discussions

### Group 1 – Public Service Improvement and People’s Participation

#### **Overview**

Discussion Group I was chaired by Mr. Khammoune Viphongxay, Director-General of PACSA. The progress report on Public Service Improvement and People’s Participation was presented by Mr. Nisith Keopanya, Deputy-Director General, PACSA.

Mr. Keopanya reported the achievements of the government during the past 18 months. In the field of public service improvement, the government made progress in the following:

- Developing legislation crucial to service delivery improvement, e.g. the Law on Local Administration. This law provides the basis for the establishment of municipalities which will enable the delivery of urban services in larger cities, and it also enables the conduct of review of local administration structures for purposes of streamlining redundant functions and redeployment of staff from back office to front office
- Awareness- raising on the concept of One-Stop-Shop. This is meant to reduce red-tape by simplifying work processes involved in a number of key services.
- Preparing for the development of a National Civil Service Database which is a useful tool for civil service management
- Enhancement of the performance management system by developing guidelines for its implementation
- Modernizing of public personnel administration by enacting the new Civil Service Decree No. 82
- Developing a Civil Service Management Strategy and Framework Statement to provide a clear description of the principles of personnel management that will shape the development of key documents on civil service management
- Initiating steps towards the development of a National Civil Service Training Program

In the field of people’s participation, the government has made some progress in the following:

- Strengthening of the National Assembly with its approval of the improved procedural devices, financial oversight and provincial oversight guidelines for its use, and increased duration of sessions;
- Promoting a more open and transparent society through the creation of the Foreign Investment Forum, capacity building measures for the Lao mass media, and strengthening the data collection and analysis capacity of the National Statistics Centre;
- Developing a revised Decentralization framework and decentralization decree based on the local situation and culture.

Mr. Keopanya pointed out that although the government has made considerable progress during the last 18 months, there are still a lot of opportunities still to be realised and a lot of challenges that the government is facing. In closing, he invited the development partners to continue to work with the government for the ultimate benefit of the Lao people.

Refer to Annex 4 for a copy of the presentation.

## **Discussion**

The Charge d’Affairs of the **Swedish Embassy**, Ms. Annlis Aberg, shared with the group that Sida is supporting the GPAR Luang Prabang (LP) Project together with the UNDP. She mentioned that the overall results of the GPAR LP Project are encouraging and that the coordination between GPAR Central and GPAR LP is also good. However, she expressed concern on the sustainability of the activities in the project. In relation to this, she raised two issues: (1) to what extent has past decentralization experience been taken into account in the design of new decentralization implementation strategies, and (2) regarding vertical-horizontal line authority relationships, she asked if there is a regulation that governs the relationship between the Government and the Party within the GPAR context.

Mr. Khammoune responded that the past decentralization policy did not work since it widened the gap between the rich and poor provinces. Now, the government is careful with its decentralization plans. A carefully revised decentralization decree (to develop PM Instruction/01) has been drafted and this has been subjected to consultations with various stakeholders.

Concerning Party-Government relations, Mr. Khammoune explained that the role of the Party is to provide broad policy guidelines and the Government’s role is policy implementation. He added that Party participation in PAR is needed because it would be difficult for the Government to do it alone. The Party also criticizes the government sometimes for being slow in reforms, he said.

Bikash Dash of the **UNDP** Governance Unit commented that decentralization is not possible unless the capacity of the local level is built. The logic of piloting initiatives at the provincial/district level is to build the capacity of the provinces/districts. He then raised two issues. One, he inquired if there is a plan on the part of the Lao government to take lessons learned from pilot project initiatives on a broader scale. Two, he raised the issue of the difficulty in generating genuine understanding of the reasons for implementing government instructions at the local level. People in Luang Prabang, for instance, have no idea why they are doing district restructuring; they are not aware of the Law on Local Administration. Information dissemination is needed for people to understand central government initiatives, he said.

In response, Mr. Khammoune clarified that activities from each pilot province differ from each other. He mentioned that in Luang Prabang, lessons from the improvement of the government accounting system can be applied to other areas but they need to collaborate with the MOF to do this. As to the lessons from the training of village chiefs in Luang Prabang, he informed the group that the government has already a plan to conduct similar training in the whole country and that it has already produced training manuals for this. For the district restructuring, the government would study how to merge small offices and, from this lesson, the government would evaluate if this is possible and if this is good for other provinces. Lessons from other pilot provinces like Saravane, Xieng Khouang and Khammoune are yet to come. These provinces are still in the preparatory stage of pilot-testing reform initiatives.

On the issue of information dissemination/reporting system, Mr. Khammoune said that there is a reporting mechanism from the grassroots to the district and upwards on a weekly basis.

The Law on Local Administration also provides a reporting mechanism for the provinces/districts through the holding of monthly meetings where representatives from all local offices participate.

Michael Peyre, **NGO Consortium**, tackled the coordination issue. He said that for the implementation of the NGPES which is multi-sectoral, coordination is essential. He asked if there is an initiative that would improve inter-ministerial or inter-sectoral communication/coordination. He also inquired if the existing inter-sectoral committees can be converged into an institutional set-up which could serve as a one-stop-shop for donors or foreign assistance. On another matter, Mr. Peyre also inquired what direction the government is taking with regard to civil society organizations.

Dr. Bountheuang, Director-General, Department of International Cooperation of the MOFA, shared some information that DIC, which was formerly part of the Committee for Planning and Cooperation, was transferred to MOFA. With its transfer, it has been streamlined. In the near future, Dr. Bountheuang, visualizes the establishment of a one-stop-shop by MOFA to coordinate all development assistance. He also mentioned that, in the MOFA, the Department of International Organizations deal with NGOs. The note on the role and responsibilities of non-government organizations in Lao PDR has been issued. Unfortunately, there are no vertical line offices in the provinces so the Committee for Planning and Investment at the province level is still used to work with the donors. He informed the group that the government is studying how to set up offices at the local level to improve the link between the government and donors/ NGOs in the future. Finally, he gave an update that a new ODA decree, which specifies the MOFA as the focal point for all foreign assistance to Lao PDR, is now awaiting approval by the Prime Minister.

On another matter, Dr. Kikeo Chanthaboury, Deputy Director-General, General Planning Department of the Committee for Planning and Investment, gave comments on people's participation. He believes that there should be a good action plan or approach to deal with the people. In addition, he stated that the people should know what the government is doing to enable people's participation. He made the point that the government's socio-economic development plan and annual plans should be published and disseminated to generate people's participation.

Commenting on ethical public service, Dr. Kikeo suggested that public servants should understand that they are using taxes from the people; hence, service to the people should be the prime reason for providing services.

Concerning public service delivery, Michel Ligthart, **SNV**, brought up two issues. On the premise that GPAR initiatives on service delivery improvements like one-stop-shops and moving from back office to front office service delivery will inevitably generate more interest and requests from the public, he inquired if within the GPAR context, there is a mechanism to help the civil servants in coping up with increasing service delivery requests and responding to increased expectations.

He also inquired if GPAR would consider making a study on the service delivery initiatives from other sectors like health and education to see how their experience can benefit the further progress of governance and public administration reforms.

Nisith Keopanya in reply said that he would like to share his ideas which may not be responsive to the issues previously raised. He focused on the decentralization issue instead. He stated that the decentralization system in Lao cannot be copied from other countries. It should be based on the country's situation, capacity and culture; what areas should be decentralized or centralized. He admitted that PM Instruction 01 was not piloted and hence, it was not a successful attempt at decentralization. From this experience, he said, the government is now very careful in studying or piloting decentralization. He continued to say that there is a pilot in Luang Prabang, a key activity of which is the district restructuring in Pak-ou. One objective of this is to improve service delivery by strengthening the front office, improving the technical capacity of those who are providing frontline services. This is the reason why a study is being done concerning the functions of the various offices in Pak-ou. Improving the capacity of the local units especially the district is very important because they are the direct link to the grassroots.

In relation to decentralization, Mr. Khammoune spoke about the decentralization of civil service management functions. At the moment he said, the civil service management is highly centralized. For the future, he said that the government will transfer this authority to line ministries and provinces; the new Civil Service Decree provides for this.

Dr. Kikeo made the comment that there should be a balance between centralization and decentralization and that decentralization should consider that there are 18 provinces in Lao and not 18 independent countries.

Mr. Dao Minh Chau, **SDC**, commented that PAR is not purely a technical process but also a political process. In line with this, he asked about the role of elected bodies like the National Assembly, in the design and monitoring of PAR in Lao.

Secondly, Mr. Chau inquired about the link between GPAR and the implementation process of NGPES. He said that GPAR should create an enabling environment for poverty alleviation but he wanted further elaboration on the linkage of GPAR and NGPES.

He also raised the issue on coordination. He said that he wants to learn more about the coordination of the development partners, coordination among the ministries and also the coordination or link of the four components of the GPAR program.

A member of the National Assembly (NA), Dr. Phonethep Pholsena, Head of Human Resource Office, CCOP, in response, discussed the roles and duties of NA Members. He said that NA members have the right to oversee the implementation of laws and regulations by the ministries and the local authorities, and that the NA can question the Prime Minister and ministers about the status of policy implementation. If their performance is not good, they can be removed from office. At the provincial level, Dr. Phonethep said that an investment committee is established to coordinate investments.

Also, he commented that there are many international projects in Lao and he would like to ask donors to focus on human resource development and infrastructure. Finally, he said that it is also good to continue the capacity building of civil servants for sustainability reasons.

Nisith Keopanya explained the linkage of GPAR and NGPES. He said that GPAR is focused on policy-drafting while NGPES takes care of policy implementation. He elaborated by citing an example. Poverty eradication projects like irrigation, for instance, is implemented by

NGPES but the capacity building for the local authorities involved in the irrigation project is the responsibility of GPAR.

On coordination, he stated that a Governance Coordination Committee has been established as a mechanism for internal coordination with relevant stakeholders. There is also the GPAR Coordination Meeting held annually which serves to coordinate efforts of various donors. Some aspects of civil service management like salary and compensation, job description, performance evaluation are linked to financial management. This is an example of a linkage between the four components of the governance policy paper.

Mr. Khammoune suggested that the discussion be continued in the plenary session in the afternoon since there is no more time left for the session. He then thanked the participants for their active participation and closed the discussion session.

## Group 2 – Rule of Law and Access to Justice

### **Overview**

Mr. Khamphone Sipaseuth, Head of Division, Legal Research Centre, Ministry of Justice opened the discussion group with a presentation highlighting the progress which has been made since April 2003 when the Government presented its priority policy initiatives in the Governance Policy Paper in order to establish and improve the Rule of Law and Access to Justice in the Lao PDR. He elaborated by outlining the five main objectives of the reform in the legal sector and provided an update of the achievements which have been made in the previous eighteen months in accordance with each of the five objectives. Additionally he mentioned the Government's future priority initiatives in order to accomplish these objectives, thereby giving representatives of the donor community a clearer idea of potential areas of support

Please refer to **Annex 5** for a copy of the power point presentation.

### **Discussion**

Ms. Setsuko Yamazaki, Deputy Resident Representative, UNDP commented that she felt that a more balanced discussion of reform issues which affect the country was possible as there had been both an admission of failure as well as progress on behalf of the Government. She was also pleased that reform to establish a legal framework was now to follow a more coordinated and strategic approach and wondered if there had been a convergence of opinion after the post evaluation of the study tour in Vietnam in regards to legal reform.

Mr. Soutta Chommanichanh, Director-General, Legal Dissemination Department, Ministry of Justice responded by referring to page 35 of "the report" which he considered to an appropriate observation of the situation at the moment. He said that the Ministry of Justice was in the process of drafting a legal judicial strategy which will be submitted to the Government in good time. This will then provide a clear direction for the activities of the various units of the judicial system.

A positive result of the Vietnamese study tour had been the adoption of the concept of a master plan which will be useful for planning a legal framework and implementing initiatives. He felt that the initiatives in the report were appropriate, but now needed to be prioritised and that the prioritisation of tasks to be tackled should also be linked to the ideas of donors.

Mr. Johan Hallenborg, Second Secretary, Embassy of Sweden congratulated the Government for their presentation and the enactment of laws which promote independence of the courts and independence for the lawyers in the country.

He was pleased the framework of legal reform had already been mentioned downstairs as he regarded this as the Government's sign of commitment to the framework. He stressed that the quality of this framework/vision will be the most important consideration when they look towards future assistance. He was happy to note that lessons had been learnt from Vietnam and also looked forward to participating in the consultation process in the development of a framework,

which would include the identification of priorities and initiatives and where the donors could feed into this.

He also mentioned that the ratification of human rights will also be important and their integration into the reform of the legal framework will be examined. He ended by saying that he looked forward to continued dialogue and future consultations.

**Mr. Kisin Siphanggam, Permanent Secretary, Ministry of Justice** commented on Mr. Hallenborg's observation regarding human rights, as he said that efforts had been made in improving the legal instruments to secure the adherence to human rights and also that this issue had been debated by the National Assembly. He gave examples, namely the Law on the Development and Protection of the Rights of Women and the amendment of the Law on Criminal Procedure relating to arrest and detention which have articles in line with human rights declarations. Additionally he mentioned that a statement had been issued that officials (and their organisations) who have arbitrarily arrested and detained individuals will be held accountable for such actions and that cursive measures will be taken.

**Mr. Samane Souvannasao, Vice-Committee, Legal Commission, National Assembly** drew attention to the Village Mediation Units (VMUs) which had been mentioned in the presentation as they were important in providing legal assistance and were a tool for helping people to resolve disputes among themselves. He felt that more elaboration was needed because the Ministry of Justice wanted to make VMUs part of the judicial system and establish more units throughout the country, and that up to now members of the National Assembly had not received any additional information. He therefore asked for further elaboration as to how they would tie in with the legal system and also for elaboration on procedures and the enforcement of mediators' decisions.

**Ms. Josephine Kalinauckas, First Secretary, European Commission** wondered what the situation was like before in villages, and whether VMUs were an adaptation of traditional justice based on structures that people are used to, or if they are part of a new system?

**Mr. Samane Souvannasao Vice-Committee, Legal Commission, National Assembly** reiterated his question concerning the jurisdiction of VMUs.

**Mr. Soutta Chommanichanh Director General, Legal Dissemination Department, Ministry of Justice** explained that VMUs were adapted from the traditional way of settling disputes and formally established in 1997. As the Lao PDR is made up of a large number of ethnic minority groups, there is the dilemma that many members of these groups are not aware of existing state laws. He went on to highlight an example of the practice of one ethnic group's customary law regarding marriage which was in conflict with the state law and the difficulty of resolving disputes if one party wants to apply customary law and the other state law. He said that this was not an isolated case and that in many parts of the country customary laws are used in the mediation process. Ultimately VMUs were there to settle disputes in a peaceful manner and played an important role in maintaining peace and stability at the village level. The task was therefore to try and 'marry' tradition and the law and ensure that the state law was able to override any negative backward traditional practices.

He went on to highlight the problem that many of the village chiefs who are the chair of a VMU, (which also consists of members the Lao Women's Union, the Youth Union and the Lao Front), are not familiar with existing laws and so that there currently is a need to co-ordinate with

provincial and district authorities to organise legal training. So far only the administration of Vientiane City has organised such training but in other provinces there was the absence of a systematic approach.

He concluded that VMUs therefore have many positive aspects, but also negative aspects regarding their operation. Mediators do abuse their rights and exploit people who require their services, particularly for example when it comes to the charging of fees.

He explained that current official rates for mediation services were too low, and therefore the reality was that mediators in different villages charged varying rates, with Vientiane City being the most expensive.

He went on to say that the aim of VMUs was to find a peaceful resolution to problems without one side exerting any pressure on the other, but that this principal is not adhered to in practice. Sometimes one party involved in the dispute are the relatives of the mediator, and that in this situation pressure is put on the other party. Delaying tactics are another problem, as it is in the mediator's interest to extend the process due to the fact that they are able to charge both parties every time that they use the VMU's services. He therefore felt that there was a need to improve the operation of the VMU.

He concluded by saying that the Government would like to see the mediation process conducted in a peaceful manner, and not that one party sees themselves as the victim of a vendetta. Furthermore, it would be ideal if all civil cases and even non-serious criminal cases could be solved through mediation at this level.

**Mr. Samane Souvannasao, Vice Committee, Legal Commission National** warned that one had to be very careful when comparing the use of customary and state laws, as the application of customary laws could lead to the violation of state laws. The law states that everyone is equal in front of the law. What if one party wants to use customary law and the other state law in order to settle a dispute? He asked for a good explanation in order to support VMUs in this situation.

He added that one needed to consider the downsizing policy of the State Authorities. An Administration Law is already in existence which clearly stipulates the functions of the village and the chief of the village.

He said that one should focus on upgrading the legal awareness of people and strengthen the judicial system instead of abolishing the number of district courts. One needs to be very careful in pushing people to use customary laws if they are in conflict with the constitution he added. It would be good to discuss legal enforcement in the Lao PDR and not let people find a way of avoiding the implementation of the law itself.

**Mr. Kisin Siphanngam, Permanent Secretary, Ministry of Justice** said that he would like to respond to the question from **Ms. Josephine Kalinauckas, First Secretary, European Commission** regarding the practice of traditional customs and the system which existed previously. VMUs used to only be chaired by the village chief but now a new development is that members of the Lao Women's Union, the Youth Union and the Lao Front are also included in the mediation process.

He added that since the opening of the country and the introduction of the market orientated economy, people have forgotten that many disputes can be solved at the grass roots level and that it is unnecessary for many minor cases to end up in the courts. The Government has opted for a "rebirth" of VMUs as there were already a number of unsolved cases, and this traditional

way of settling disputes was already in existence. The importance of the function of VMUs has become apparent and therefore the aim is to increase the establishment of VMUs, which in some areas will involve the creation of village clusters. He added that really it was a question of ownership and that minor cases should be settled among the people themselves, instead of having to file a case in court.

**Ms. Anna Clancy, First Secretary, AusAID** wanted to address the issue of making the Law more accessible to the public and asked which methods were being used to increase accessibility to remote communities and in particular ethnic communities? She felt that people who have had limited educational opportunities, and are illiterate would probably find the complexity of legal language and the interplay between customary and state laws quite confusing.

She asked if the Ministry of Justice and other concerned agencies were looking at innovative ways to disseminate laws to these communities by using either local languages or local forms of dissemination. Furthermore she asked how understanding was being monitored at the village level and if there was any independent monitoring of the decisions being taken by the VMUs?

**Mr. Kising Siphangam**, responded by stating that there were already a number of mechanisms in place for members of ethnic groups and the general public to increase their understanding of the law and to have access to legal consultations. The Ministry of Justice has a Legal Dissemination Department who have been responsible for broadcasting information on the radio and television as well as the publication of articles and features in newspapers and magazines. The Department also responds to questions (including those posed by members of ethnic minority groups) which are sent to them.

He added that the Ministry of Justice, the National Assembly, the Office of the Supreme Public Prosecutor and well as the People's Supreme Court have all assigned personnel to go into public and private schools to increase legal awareness among students, and these of course included members of ethnic minority groups. Moreover on the anniversary of the promulgation of the Constitution there is normally a public campaign to highlight both the positive and negative aspects of the implementation of laws. The National Assembly has also assigned Deputies from various ethnic minority groups to go to the villages and disseminate this information in their own language.

He said that he would also like to mention the establishment of District Judiciary Units in one hundred and forty districts, as one of their functions is to provide free legal consultations to members of the public. It was also the role of the chief of the Unit to disseminate legal information to the local community, including members of ethnic groups so that they increased both their understanding of and adherence to the law. He also mentioned plans to broadcast radio and television programmes in which questions could be asked and answered in minority languages. He ended by stating that if donors saw the importance of such an undertaking the Government would be happy in receiving assistance in this matter as there was a shortage of funding.

**Mr. Samane Souvannasao Vice-Committee, Legal Commission, National Assembly** agreed with Mr. Kising that it was one of the roles of National Assembly members to report the resolutions of each session, such as new laws which have been adopted to the local communities in their electoral constituencies. He added that it was a difficult task to educate

people living in remote communities about sophisticated laws and therefore aspects of laws, which have the greatest bearing on the livelihoods of these communities, were selected and disseminated. This is one way how people's access to the law is increased and it helps them to understand how to resolve disputes, as for example through the village mediation unit. He also explained that every Constituency has a National Assembly Office which has a section that works as an ombudsman and accepts people's complaints. This he said is a type of monitoring function, as the workings of the VMU are examined to see if they are consistent with the Constitution and the Law.

He then raised the issue of the enforcement of decisions and the mediators' jurisdiction as the decisions of mediators were not legally binding. The party that is not happy with the decision is able to take the case to court. In these circumstances he said that focus should be on the development of the judicial system such as the establishment of more district courts and not the creation of VMUs. If we looked at civil procedures within the current system, mediation is replicated before a decision is made according to the law, resulting in a kind of 'double mediation'.

**Mr. Johan Hallenborg, Second Secretary, Embassy of Sweden** agreed that an ideal situation would be the strengthening of the court system prior to the creation of VMUs. The theory would be to create a rule of law system with an independent judiciary, but in reality he said, it was not always that simple. He asked **Mr. Samane Souvannasao, Vice-Committee, Legal Commission, National Assembly** about developments regarding last year's constitutional changes which were to remove the complaints procedure away from the National Assembly, so that people would be able to lodge their complaints in the court system. He thought that the idea was to remove this function from the National Assembly so that there would be a court system and not an extra judicial system for complaints.

**Mr. Samane Souvannasao, Vice-Committee, Legal Commission, National Assembly** responded by saying that the National Assembly has sometimes been singled out as being a high court and that efforts were being made by the National Assembly to try and find a way to resolve people's complaints. He felt that knowledge of the ombudsman function did need to improve as the intention was to increase people's access to the law and to help them resolve disputes. He added that this issue was debated in great depth during the amendment of the Constitution as to whether the National Assembly should or should not have the right to examine court decisions.

He felt that people's complaints needed to be effectively dealt with, as this is what countries all over the world are doing in cases of maladministration by state bodies, civil servants or officials. Because it is an important issue, complaints procedures are already a component of the action plan of the UNDP and EU's National Assembly project, and so the rules for lodging complaints are currently being worked on.

The second point that he wanted to raise was in relation to the ratification of international treaties and conventions which the Lao PDR has signed. He went on to offer an explanation as to why ratification is such a lengthy process, as for example the Covenant on Political and Civil Rights had been signed in 2000. The Lao legal system is considered to be dualism, and no stipulations have therefore been made for international law. It is therefore necessary to firstly draft and adopt domestic law in order to be able to support the provisions of international treaties and conventions which have been signed. He therefore advised the submission of relevant domestic draft laws in cases where anyone wanted the National Assembly to ratify

international treaties or conventions. He cited the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) as an example as the Lao PDR had signed a long time ago, but up until recently this was only supported by provisions in other laws before the adoption of the Law on the Rights and Protection of Women.

**Dr. Jayampathy Wickramaratne, Legal Advisor, Ministry of Justice** wanted to know about the experience and ability of the judges who had been appointed to the Central Appellate Court.

**Mr. Kysinh Sinphanngam, Permanent Secretary, Ministry of Justice** explained that previously there were only two tiers of court and now the Government had established an Appellate Court in the Central region, which however still needed to be done in the North and South. He therefore asked if there was any support from the donor community to ensure that all Lao people had access to these facilities. He then referred to Dr. Wickramaratne's question and stated that only the best judges from the People's Supreme Court and the provincial courts were selected and appointed by the Standing Committee of the National Assembly.

**Dr. Jayampathy Wickramaratne, Legal Advisor, Ministry of Justice** said that he was pleased to hear that experience had been taken into account with the appointment of judges as during the legal sector evaluation several provincial judges had expressed their wish for avenues of promotion. He also recommended that recent graduates should be appointed to the lower courts and then be promoted, instead going directly into the higher courts.

**Mr. Samane Souvannasao, Vice-Committee, Legal Commission, National Assembly** took the opportunity of explaining the structure of the Lao court system and highlighted that it was a three tiered system with the existence of a District, Provincial and Supreme court. The jurisdiction of each court depends upon the value of the case, and so a court at each level can be the court of first instance. If an appeal is made against the decision of the court of first instance the court on the next tier becomes the Appellate Court, so for example if the district court takes the first instance they can appeal to the provincial court. He continued that it would be preferable for cases to be resolved in the Appellate Courts of the lower courts and not to go beyond this level either to the Supreme Court or to the National Assembly.

**Mr. Bounpheng Saykanya, Ministry of Foreign Affairs** questioned why the ratification of the international treaty on terrorism had been listed as a future priority in the Progress Report for the RTM, where as in fact it has already been ratified. He also wondered what stage the consultation process had reached regarding the ratification of the international convention against torture.

**Mr. Denis Sainte-Marie, NOSPA, French Embassy** stated that he had noticed a large number of training initiatives as a component of the process of judicial reform, which were being implemented by various agencies and supported by various donors. Given this context he wondered if there was a mechanism or forum for the co-ordination of training activities.

**Mr. Kysinh Sinphanngam, Permanent Secretary, Ministry of Justice** replied that the Legal Judicial Institute had the mandate for the training of civil servants and should be approached regarding either the selection of trainers or curriculum development. He ended by saying that he would be able to assist in finding appropriate trainers in legal matters should DPACS wish to conduct training in the provinces.

## Group 3 – Sound Financial Management

### **Overview**

The presentation for group 3, Sound Financial Management, was chaired by Mr Saysamone Saysouliane, Deputy Director-General, Fiscal Policy Department, Ministry of Finance.

The presentation discussed many issues relating to sound financial management and outlined the government's progress, accountability and transparency to ensure sound financial management of financial resources

Refer to **Annex 6** for a copy of the power point presentation.

Main priority areas were outlined in the last governance meeting:

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

### **1. Development of a Sound Fiscal Policy**

The main objective of Fiscal Policy is to increase the revenue-to-GDP ratio through an expanded tax base and improve effectiveness of revenue collections;

- Ensure that the budgetary framework becomes more supportive of poverty eradication and private growth and investment;
- Improve transparency and accountability in budget activity;
- Reduce the public-debt-to-GDP ratio to a sustainable level;
- Improve regulatory framework.

The government 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)

## Future Opportunities

### Revenue Strategies

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).

### Expenditure Strategies

- 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. Broad donor opportunities and become stakeholders.

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

Regarding *tax administration*:

- Want to streamline the procedures;
- 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.

### *Customs Administration System*

*Goal – to develop national custom system.*

- 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)
- -Customs Law has been drafted and is expected to be submitted to the NA in early 2005;
- In terms of regional integration, the Customs Department has adopted the 8 digit ASEAN Harmonized System Tariff Nomenclature

### Future opportunities

- 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
- The main challenge is to 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

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

#### Progress

- Modification of the current budget nomenclature and chart of accounts.
- Enhancing the reporting system of budget expenditure by rolling out computerized accounting system.
- Completed a register of government accounts in the commercial banks throughout the country and has started to close those accounts that weren't open without authorization.
- 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.

#### Future Opportunities

- Prepare a concept paper for new treasury law.
- Draft a new treasury law. (have already drafted paper on 9 priority areas)
- Identification of key state holders for budget consultation. There is a NEED to draft a new paper (strategy?)first.
- 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.

### 4. Modernization Of The Accounting System

#### Progress

1. develop *new regulations for private enterprise accounting*, 15 International Accounting Standards have recently been selected by the Government
2. A manual on regulations and procedures for public accounting has been completed
3. budget treasury software has been installed in thirty-seven Finance Units (representing all line Ministries)
4. increase the number of businesses who maintain proper accounting records

#### Future Opportunities

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

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

### Progress

- 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
- 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 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

### **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.

### **Summary of Presentation**

Reform is a long-term process and we hope that the donors will continue their support. The most important thing is the first step, and that is already achieved.

The implementation of the reform process is on track.

(There was insufficient time to complete the presentation)

### **Discussion**

**Mr. Bernhard Striese, First Secretary, German Embassy** asked when the government would not require any further overseas development assistance to make up their budget?

**Mr. Siousavath Songvilay, Director-General, Fiscal Policy Department** answered that there are still outstanding issues that are considered challenges. The issue concerned is how to prioritise the budget. Revenue mobilization in Lao PDR is very lenient. If the GoL takes too much revenue from the budget it will affect the whole society. The government still has weaknesses in this field. Therefore donors continue to play an important role in this area. He added that the GoL considers that economic growth and poverty eradication as an important goal. However, the GoL cannot ensure economic growth at the expected rate (i.e. 6%). According to data, domestic savings are slightly above 10% of GDP. Lao PDR needs more investment and resources to be imported into the country, in order to have the economic growth they hoped for.

In the Lao economy the ODA is very important. The most important thing at the moment is how to manage the ODA – i.e. ensure transparency and accountability.

The GoL still has to serve the people so can not be sure that by 2020 that they will no longer need ODA anymore. A future reduction of ODA, depends on the status of domestic resources and whether the GoL can reduce the current budget deficit. This will all need to be done step-by-step.

In conclusion, it is too difficult for the GoL to forecast when ODA will no longer be required

**Phillippe Beaugrand, Resident Representative, IMF**, asked about accountability and transparency. He also wanted to know what the plans were for establishing and disseminating budget data. He said that he would like to have information on 2003-2004 budget plans and the latest one just approved by the National Assembly.

He said that the IMF would like to see more detailed budget plans, both preliminary and approved.

**Siousavath Songvilay, Director General, Fiscal Policy Department** answered that the fiscal policy department and department plan to distribute the budget information for fiscal year 2004-2005 to various organizations by the end of the year, perhaps by the end of November.

The MoF are planning to launch a website by mid-2005. The MoF have already established a website committee who are working on this. All the materials required for budget transparency will be published on this website. However the MoF still need to get information systems in order and build capacity in this area first.

The MoF is working with policy advisors from IMF who are advising GoL on a new accounting system. The GoL is now a member of GGTS which will help them to move toward a more transparent system.

Technical assistance from Japan is under discussion regarding more transparent systems. MoF is trying to design a project to improve the data information systems and have already requested assistance from JICA and the Japanese Embassy (but are still awaiting an answer).

**Phonesaly Souksavath, Deputy Director-General, National Statistics Centre** also responded to the question. She said that the MOF is trying to encourage transparency and accountability by subscribing to the GPPS (system). This will help control the quality of information and data. The computerized system, the MoF is looking to move to, will help improve transparency (i.e. databases) and will help improve ability to draw up statistics etc.

**Ms Michiyo Kakegawa, Advisor, Japanese Embassy**, asked for an elaboration on the plan to strengthen the National Customs Administration. She requested information on how the government is going to strengthen revenue collection from provincial governments etc.? Also wanted to know how performance in revenue collection in this area has been improved?

**Saysomone Saysouliane, Deputy Director-General, Fiscal Policy Department**, answered that the MoF is concentrating on the first step of customs service. Control over certain checkpoints is the first step.

The volume of exports and imports is currently around 70 – 80%. The main responsibility of the customs department is to: control, audit and customs clearance. With policy advice from the IMF, the MoF has established a post clearance customs system. The result of the pilot project was very positive.

In relation to the budget information for PM 203 – 204, the MoF believes it can reach the target by 100% and will also be able to reduce illegal customs operations through this project. The PM decree 192 declares that all imports out of the country are a central responsibility.

The MoF should control all revenue resources higher than 60 – 70%. There needs to be a centralized body to control this kind of revenue collection, especially when the VAT is introduced. The MoF want to introduce VAT by 2006.

**Rosemary Kalapurakal, Assistant Resident Representative, UNDP posed a number of questions.**

Firstly she said, that there is such a broad range of reforms proposed and there seems to be too much to do and a too fragmented plan. What the priorities are over the next year? She also suggested that some of the initiatives were very political. Wanted the government to indicate where the actual opportunities for donor support were.

Secondly, she noted that the list of reforms is quite fragmented, i.e. in the area of customs and tax. Rosemary believes that there are insufficient linkages between the areas.

**Saysomone Saysouliane, Deputy Director General, Financial Policy Research Department, MoF** said that the MoF recognises that they can't do everything at the same time and that they need to establish what are the URGENT initiatives for the next fiscal year 2004-2005.

The revenue target that was set by the MoF, is very ambitious but is achievable, (an increase to 360 000 000 kip) - or a 23% increase in revenue in nominal terms. The MoF want to increase the GDP ratio to about 8% and believe they can achieve these targets over the next year. The MoF said they have had very good progress in enforcement and increasing function in revenue collection.

Revenue policy is a medium term objective, and can't be changed in the short term.

The MoF still require donor assistance in many areas, such as expertise from abroad. As various organisations have different expertise the MoF need to engage a number of international organizations

The MoF need to continue future discussions on the following topics:

- Fiscal decentralization.
- Capacity building.
- A preparatory assistance project in the Finance sector.
- Need to improve revenue to GDP ratio
- Strengthening function of tax and customs administration.

MoF wants to have more ownership of the reform programme and mobilize the financial resources from different donors

The government agrees that one of the main weaknesses is in the coordination function of the MoF. The MoF recognizes that they need focal points between tax department and customs department and want to have a programme approach rather than a project approach. Ideally, the MoF would have a comprehensive, programmatic approach, which they currently don't have.

MoF is still thinking about what mechanism of coordination they could have and how to better mobilize donor resources and manage these funds in a programmatic way.

**Siousavath Songvilay, Director General Fiscal Policy Department** also responded to Rosemary Kalapurakal's question. He said that the fiscal policy in Lao PDR has two main objectives:

It is important for the government to focus on self reliance and mobilize domestic resources and institutional improvements are also a priority. Through the implementation of the MoF plans during 2004-2005, there should be an increase of about 25% (did not say what this increase was in relation to). The MoF also wants to highlight management mechanism in the decree for example, the 7 checkpoints.

The customs areas that the MoF want to focus on, include:

- 1) Oil
- 2) Vehicles
- 3) Construction materials
- 4) Electronics

Currently, the capacity of the staff at the customs checkpoints is not very good. The MoF request assistance from UNDP, the IMF and other donors to concentrate on building capacity in this area.

Regarding coordination, there is some overlapping of work between the MoF departments and there needs to be improved communication and collaboration.

**Sandra Nichols, Governance Specialist, Asian Development Bank ADB** said that the ADB wants to know the status of the internal review of PEMSP within the MoF and when will they share more information about this?

**Saysomone Saysouliane, Deputy Director General, Financial Policy Research Department, MoF** said that the government agrees on the principal of the programme.

The MoF plan to hold a workshop shortly to discuss PEMSP (internal workshop within the MoF). The basic concept of this programme has been agreed upon by the MoF and is currently being worked on alongside colleagues from the ADB and World Bank. Before consultation with various donors, the MoF wants to have an internal government meeting first.

PEMSP is a very broad programme, with responsibility spread amongst so many different departments i.e. need to discuss timeframe with the Treasury department.  
The main outstanding issue is to talk about the timeframe of the programme.

Fiscal policy and fiscal reform has such a broad impact, so the MoF needs to be very careful on this issue. By the end of the year the MoF will be able to provide the information to the ADB.

Saysomone, personally, is very concerned about how to present the programme to the government, something this large and would like to draw up a concept paper on how to present this programme to the government.

**Scott Rolsten, American embassy** discussed tax holidays. He said some members of the international community were hoping that the Lao government would reconsider this idea of tax holidays. Many donors and embassies believe that investors are more worried about courts/judicial systems that are available to them, rather than worried about tax.

**Saysomone Saysouliane, Deputy Director General, Financial Policy Research Department, MoF** said that the Law on Foreign Investment has been approved already. The details of this holiday are in the law. Incentives given by the government have been divided into different zones (i.e. investment in remote areas is at a fixed rate). But many of these incentives are dependent on the rate of investment.

The reason why the government is applying this incentive is to encourage investment. The advantage of being land-locked, is that Laos is surrounded by large countries, whom they can provide services to. The GoL is now aiming to move up from the LDC status and we want to provide incentives to investors in areas such as: agriculture, banking, business.

**Question: Mel Jones, Senior Programme Officer, European Commission,** posed a follow-up question on private sector development.

He said in the Private Sector Development report: The "FUTURE OPPORTUNITIES" section was very brief – only mentioned modest support required for translation and investment laws. Mr. Jones believes that this initiative is very modest, in a sector that needs much more help. There are clearly other private sector investment areas that could be targeted. For example, Laos is currently ranked 130 out of 170 countries according to the ease or difficulty of setting up a business.

Why isn't this mentioned in the measures taken so far? It is too hard to set up a business in Laos. Can further thought be given to promoting the private sector?

**Saysomone Saysouliane, Deputy Director-General, Fiscal Policy Department, MoF** said that the tax incentive is not a big factor influencing the FDI but from the point of view from the fiscal policy it is a good offer for investors.

However, at the same time the main objective of fiscal policy is to reverse the decline of tax collection. For this purpose, the MoF wants to grant more tax incentives. The main weakness lies in the coordination between the CPI and CCP.

There are so many things that have to be done in order to provide a good environment for private sector investment. The private sector will really contribute to Lao PDR's growth. The MoF want a friendly market, a market economy. The GoL are very new in this field.

There are so many things influencing private sector investment: i.e. size of market, high cost of transportation; how to integrate into ASEAN. We discuss this further at a later date.

If we have time we can discuss in more detail regarding legislation and licencing in private sector investment.

**Jane Davies, Programme Officer, Governance and NGO's, AusAID wanted to discuss** improving efficiency in department of Land and land titling etc.

Aus AID providing technical assistance. Now in the second phase of the project and want to know how you think this sector will contribute to overall objectives? What are your objectives and constraints?

She said AusAID is very interested in the establishment of the Land Management Agency.

**Response:** The MoF wants to obtain revenue from the transfer of land ownership. The land revenue should be more than 100 000 000 kip but is only at the moment it is 45 million kip.

The GoL needs to plan better and use lands more efficiently. Laos PDR is a natural resource-rich country however the Government only raises a small part of budget revenue from this. The Government has to discuss what they think about land that is not subject to sale and purchase. Currently, there is only tax transfer of lands. There are some profits in lands transfer that can't be taxed. There needs to be a lot more discussion at the technical level and a workshop will be organized to discuss this matter. For example there is no tax on the house, only the land.

## Overview of Plenary Discussion

After the individual groups returned a plenary discussion was held, involving all participants. Further questions were raised and were addressed by those parties responsible for each area. Please find following the questions raised and responses:

**Mr Somphone Dethoudom, Director-General, Department of Urban Planning, Ministry of Communication, Transport, Post and Construction said:**

Now that the Law on Local Administration exists, what should be done to clarify responsibility? The Law divides administration into tiers of Center, province / city, district, and village. Regarding to Vientiane Capital City, VUDAA covers 4 districts. This is related to financial management, revenue and expenditure management.

After the availability of the Law, decrees and regulations to support its implementation will consequently be issued. I asked a consultant with the French Embassy to support a permanent consultant of municipality management. The consultant raised an issue that up to now, after availability of the Lao on Local Administration, the definition of the Law or scope of responsibility is not clear. Today, the vice mayor is chairperson of VUDAA and deputy district governors as vice chairpersons. Will there be 4 districts in Vientiane Capital? This matter directly affects my area of responsibility.

**Mr. Khammoune Viphongxay, Director- General, PACSA responded:**

Thank you Mr Co-Chairmen. There are many questions that were raised in this meeting. In particular, there are 3-4 issues related to Group I, Part I and Part II, which I would like to response to or explain.

Firstly, I would like to response to Mr. Somphone, Director of Urban Planning, CTPC, regarding to the implementation of the Law on Local Administration or how to establish VUDAA or municipalities.

The Law on Local Administration was officially adopted to address this. The Prime Minister issued a decree to enforce the Law. The question of local administration improvements is consistent with the Law. I would like to inform everyone as to what have been done after the Law became available. The Law defines the capital city and municipalities as a form of local administration in a city with density of population, with economic, social, and cultural developments. This is the definition of the Law.

Regarding Vientiane Capital, there are 4 districts in the heart of it and the organization responsible for them is VUDAA. Nowadays, PACSA and PMO are the concerned organizations and have prepared drafts of legal documents, and decrees to support the Law. The drafts are basically finished and will be further discussed with other concerned organizations. At the same time, we have also prepared a plan for municipality establishment. We have also prepared guidelines to create committees for preparation of municipality establishment nationwide, one committee per province. However, we received governmental advice that we should have a plan first, get it approved, and then follow it. Today, the plan is being prepared for the establishment of future municipalities.

As for Vientiane Capital, we Vientiane Capital executives have held discussions as to what form it should take once established, and how it will be delineated. In fact the area of VUDAA does not cover all territories within the 4 districts in the central of Vientiane. It only covers all of the territories / villages in two districts, Chanthaboury and Sissattanak, and partially cover the territories of Xaysettha and Sikhottabong districts, of which a part of their territories are located inside the area of the municipality while other parts sit outside the boundaries. Thus, the area of municipalities in Vientiane Capital will be re-delineated whether it will follow delimitation of VUDAA or be widened. This is under consideration.

In addition to the four mentioned districts, there are some Had Sai Phong district villages around Say Seta Thi Rath hospital / Don Koi which will be transferred to be under the administration of the capital municipality according to the capital policy.

In regard to what the municipality management organization is: municipality management organization will be a unification of VUDAA and the administration of the 4 districts. A restructuring will take place in order to form a new organization, which will be called the Municipality Administration Organization. This is my response to the issue raised by Mr Somphone.

The second issues was raised during the Group I discussions. The first issue is that of the One Stop Shop (OSS). The representative interprets OSS in a different ways. FAO has projects operating at district level. In implementing these projects, they have experienced some red tape that slow their implementation and wasted their time. This means reduction of unnecessary administration procedures needs to occur, not necessarily OSS. The representative was referring to the reduction of decision-making procedures at central, provincial, and district levels and said they are a waste of time. Donors want to reduce this procedure and directly implement projects at district level.

We discussed the OSS, in the morning group session. The OSS covers the areas of investment, trade, importation and exportation. This has been implemented. It is another issue.

The other issue raised by during the group discussion was on the coordination between vertical and horizontal lines, especially within the area of finance. This query is in regard to the coordination between vertical and horizontal lines or the relationship between central and local management or implementation management of social-economic development programs. This coordination is not really difficult because social-economic development programs or annual budget are approved by NA. Then, the Prime Minister issues decrees to enforce them. If the decree of the Prime Minister is fully observed, the implementation of the annual social-economic development plan will not face difficulties as it clearly defines who will undertake the decision-making in various areas; what will be decided by provincial governors, and what will be decided by ministers. This is not really difficult. However, in the case of ministerial projects operating at the local level, the financial budget management is the responsibility of the central level. However, national projects operating at local level that are complicated and require advanced technology are also under the responsibility of the central level, especially the management of financial matters.

I would also like to take the opportunity to respond to Rosemary Kalapurakal, from UNDP, on the issue on the Governance Coordination Committee.

We already mentioned in the RTM and in the Annual Conference that Governance reforms are not implemented by a single organization, not only by PACSA and PMO, but also through coordination between key agencies. For example, today's meeting is held in coordination with some key agencies such as MOF, MoFA, MOJ and MOF. It is necessary to establish a Governance Coordination Committee. In the past, when we have had a meeting to discuss issues we have had to invite people, with participants varying from meeting to meeting. So, our activities are not on-going. Thus, it is essential to have a Governance Coordination Committee. This process has commenced. The PMO coordinates with other ministries so that they will appoint their officers as members of the committee. Members of the committee will be key agents in different sections to disseminate and enforce the Governance Policy of the Government in their working places.

We have already compiled a list of the majority of the members for this committee. Once we have collected all the member's names, we will propose the member list to the Government for official appointment. It is agreed that the Chief Executive of PACSA will be appointed as the chairperson of the committee, and representatives from key organizations such as MOF, CPI, CTPC, CCOP, NOSPA, MOJ will also be appointed as members. All activities related to Governance are mandatory to them and they shall participate in order to ensure effective implementation of Governance policy.

**Mr Siasavath Songvilay, Director General, Fiscal Policy Department said:**

Some issues raised in the RTM have related to Sound Financial Management were responded to by the Chief Executive of PACSA, especially relating to the division of local financial management.

I would like to add that, according to the decree on budget implementation or plans, the decree of the Prime Minister on implementation of socio-economic development and the 2004-2005 budget - the financial management is in accordance with the national consistency principle, especially the centralized budget accounting at the National Treasury. This will transform the treasury, taxation, and customs into a tool for revenue collection to reach the 60% target that was mentioned earlier today. The national consistency principle means that localities are not allowed to issue any other regulations.

I would like to add, regarding to short-term and long-term financial strategic plan, we have a plan but it is not yet officially approved. It is expected that in 2005-2006 fiscal year, the short-term and long-term financial strategic plans, will be passed. It is expected that revenue collection, expenditure management and the balance of debt will be clarified in the plans. Expenditure should be monitored, and linked with NGPES. The budget will be allocated according to priorities. The budget will be appropriated according to objectives and the goals of the new millennium in 2015 to deliver the nation from the least developed countries by 2020.

To achieve these objectives, effectiveness of budget expenditure management needs to be improved gradually. Policy on expenditure management in the short-term should focus on the settlement of the debt within the treasury system; and, improvement in the effectiveness of budget expenditure in the following fiscal year. In the current fiscal year, attention will be given to the price gap in cash procurement and in credit, according to budget. To achieve this goal, we will pay more attention on vertical financial management, especially on financial service.

Regarding to Law on taxation/ customs and foreign investment - in brief, the amended law on promotion of foreign investment is underway and is gradually being internationalized.

## Comments

### Dr. Phankham Viphavanh, Chief of Cabinet, the Prime Minister's Office

I would like to comment on two issues in addition to those already mentioned.

Firstly, I would like to comment on Mr. Finn's earlier point on the private sector development. This is really important, as it affects the reform process of the Lao PDR. In the past, the relationship between government and private sector was that the government controlled the private sector. Nowadays, at the time of reform, there are two main aspects to consider:

Firstly, the private sector should be developed. The government needs to support private sector growth and development, so that it can contribute to the national socio-economic structure. Why? The Government alone cannot achieve socio-economic development. The government collects tax and customs from private sector. Therefore, it is necessary to create conditions and convenience for the private sector. Obviously, in order to do so, many legal documents need to be amended.

Secondly, the Government should manage / control the private sector in order to ensure that businesses act according to laws and regulations. However, this needs further explanation as in some localities this is unclear, and there is no in-depth understanding. In these areas attention is given to management/control, rather than reasonable support to the private sector. My second point is regarding the municipality. For the capital districts of provinces, no problems should occur. UDAA of each capital district in each province will automatically become municipalities. This is similar to private sector management. We should have a new concept of administration. When I presented the Law on Local Administration to the National Assembly, some representatives raised an issue as to why it is necessary to establish a municipality while we have existing districts? It needs time to explain. Since the establishment of the Lao PDR we've never had municipalities. People do not understand the issue is normal and natural. I always have to explain that the municipality and the district are not the same, even though they are at the same level. It needs reform. It is called a Governance reform. It is not a reform if it is kept unchained.

In case of UDAA and municipality, it is the same, we need a new concept. UDAA will be abolished, as it is a technical organization, but not a local administration organization. The structure of the district will certainly change when it is established a municipality. For example, Thakek district, Khammouane province, when it is established as a municipality, will no longer be called Thakek district, but Thakek municipality. Then, its function and structure will be changed. UDAA is a technical organization for management of infrastructure development. Its tasks will be transferred to the municipality. In other words, it is an abolishment and combination of a district and UDAA, which will form a municipality.

Regarding Vientiane Capital, the 4 mentioned districts and VUDAA will be combined. Re-delimitation will be conducted, as mentioned by Mr Khammoune. It is important to ensure good public service delivery for people living in urban areas: security of life and assets; convenient living conditions (i.e. no pollution). We should not copy ideas from other countries. Importantly, we should understand what our purpose is, as I mentioned earlier.

## Closing Remarks

### Mr. Finn Reske-Nielsen, Resident Representative, UNDP, Lao PDR

I would like to thank everyone who came today. Smaller gatherings like this promote much better dialogue. I think we would all agree, having listened to the presentations that in fact a lot of reforms have been agreed to by the Government of Lao PDR, both in terms of public service reform, people's participation, financial management, and the promotion of rule of law.

I would like to thank you for the presentation on the new roles and responsibilities of the National Assembly. I would like to encourage everyone to read the resolution that was passed at the end of last month's session. It gives a very broad and strong mandate for reform.

A lot of progress has been made, but we all know that governance reforms take a long time and it is a difficult process. These reforms are difficult, whether we are talking about improving the mechanical efficiency and effectiveness of the government, or strengthening the rule of law. These things take time, a concerted effort and a commitment from all parties. There is no doubt in my mind, that the commitment is there from the Lao government and that the Lao government is firmly committed to this process

At the same time, we are all acutely aware that there is an issue of capacity constraint. My favorite example of this is: if you want to build rule of law, you need to have a lot of capacity in the legal sector, for example only half of all judges have a formal legal background. This requires capacity development, these are not issues unique to the legal sector, they cut right across governance. This is an area where development partners and donors need to redouble our efforts, join hands in a serious way with the government, to support the government in their ambitious reform programme they have embarked upon.

I would like to draw attention to one of the two major documents – the collection of matrices put together by the PMO, Ministry of Justice and Ministry of Finance. Which I think provides a systematic overview of objectives and related activities required to achieve those objectives, and the kind of relationships the government would like to enter into with partners. This document, for the first time, provides a systematic overview of the activities and identifies ways to coordinate activities. A lot of people have been talking about coordination and this is perhaps one of the best coordination tools available. It is the best coordination tool in the governance area that you could ask for. It would be good if this was replicated in other areas, so there is much more clarity and we have a much better system to be able to do things in.

We have had a very good dialogue today, as we did yesterday. That dialogue, hopefully, will not be a one off thing or a dialogue that will take place once every 18 months. We could have more formal gatherings like this, perhaps on an annual basis. It is very important that the momentum generated by a gathering like this will not be lost. More often than not, in a meeting like this, a report is produced that just ends up on a shelf in everyone's. This is not very helpful we need to go further than this.

I would like to make reference to a suggestion made by my colleague, Rosemary. When she said "perhaps the donor working group on governance could engage more". We would like to reiterate the appeal that perhaps the donor working group on governance could appeal to the government to engage in a serious and strong dialogue with the donors in that context. The

donor coordination group has not been established to create a division between government on one side and donors on the other. They have been created to facilitate dialogue and make life easier on everyone. I would like to really strongly echo Rosemary's suggestion that those groups meet every three months or when required. When you receive an invitation to these meetings, please come along.

Once again thank-you to government, it has been extremely well organised. I would like to thank Dr Phankham for chairing today.

### **Dr Phankham Viphavanh, Chief of Cabinet, Prime Minister's Office**

We have now come to the end of the meeting. On behalf of the Government I thank you for your participation. The discussion has been frank and constructive. Very important issues have been raised and your input will help the government continue our activities across a broad reform agenda.

Some of the key points raised today include:

- 1) The need for stronger central coordination of Public Administration Improvement activities at the central level, and the need to establish effective coordination at the local level
- 2) The importance of effective communication about changes such as decentralisation. If officials at the local level don't have a deep understanding of the reasons for change, then change is very difficult to implement.
- 3) For sound financial management, there was discussion about greater coordination between various departments that lie within the Ministry of Finance, and how this can be done.
- 4) This is linked to increased transparency and accountability within the Ministry of Finance, including wider dissemination of budget information through strategies such as the launch of the Ministry's website in mid 2005.
- 5) Regarding rule of law and access to justice, the important issue of access to legal information and support for ethnic minorities has been raised, current strategies explained, and opportunities for improvement suggested.

The government is indeed, highly committed to this reform process. As I mentioned earlier, governance reform is a long, difficult process. There are no simple answers. But as you have seen, change is happening, and good coordination of activity, alongside your continued support, will help pave the way for this much needed reform. The government needs to find a way to ensure that there is strong and effective coordination of the implementation of these policies.

This meeting provides an opportunity to formally acknowledge the contribution our donors have made. I thank-you all as without your continued support we would not have come this far. Donor support is critical to our success, and your expertise, funding and encouragement are greatly appreciated.

I urge you to return to your organization with increased determination to play a role in effective reform activity. We need to all work together with renewed energy and strengthened coordination to ensure that we fulfill our planned governance reform objectives.

Once again, thank you very much for attending and sharing your views.

I now declare the 2004 Governance Mini round Table meeting closed.

## Round Table Meeting Opening Speech

5<sup>th</sup> November, 2004.

### Opening Speech

**Dr Phankham Viphavanh, Chief of Cabinet, the Prime Minister's Office**

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Excellencies

Honourable guests

Ladies and Gentlemen

On behalf of the Government of Lao PDR, I welcome you to the Round Table Meeting Follow-Up. I thank-you for making the time to attend and encourage your active participation and contribution to the important subject of governance reform in Lao PDR.

Since our last Round-table meeting in April last year, the government has progressed on a number of important fronts; namely – public sector reform; people's participation, the rule of law, and sound financial management.

Yesterday, the Government had organized the Round Table Meeting to assess and follow up the implementation of the government policy as we well know as the National Growth for Poverty Eradication Strategy (NGPES).

Ladies and Gentlemen,

Today we will be discussing some of the Government's achievements over the past eighteen months. Some of the broader, more strategic achievements include; Reform of the constitution and regulatory and legislative framework and, the strengthening of financial management systems, including strengthened public expenditure management.

Whilst the progress has been measured, it is important that we focus on establishing a strong foundation for future reform. In this regard, the revision of the constitution, the preparation of the legal sector framework and the review of the decentralization policy have been important steps.

This roundtable meeting is an expression of the government's commitment to transparency, dialogue and participation. I hope today's meeting will provide an opportunity for us all to share a strengthened vision in the country's strategic, longer-term government reform objectives, and their implementation.

In accordance with feedback from the Round Table Meeting last year, we have restructured today's meeting. This morning, Mr. Finn Reske-Nielsen, Resident Representative for UNDP, will give his welcome speech. Following this Mr. Khammoune Viphonxay, Director General of the Department of Public Administration and Civil Service, will present an overview of the

implementation of the Government's Policy on Governance. After this, we will then divide the meeting into three syndicate group presentations.

The first group will focus on Public Service Improvements and People's Participation. This presentation will be located in the Plaza Hall.

The second presentation will focus on rule of law and access to justice. This meeting will be held in the Room Plaza 1.

The third presentation will concentrate on Sound Financial Management and will be held in the Room Plaza 2.

After these presentations and discussions, each syndicate chairperson will present a summary of today's discussions, in the Ball Room.

In today's meeting and in any other future dialogue, we want to focus on the very specific progress that has been achieved in the individual sectors. We will also outline key future initiatives and genuine donor opportunities.

Good governance is critical to the development of our country and a fundamental part of achieving the Lao PDR's Millennium Development Goals (MDGs) and the NGPES goal of eradicating poverty by the year 2020. The government is firmly committed to taking the many necessary steps to ensure that the Lao PDR government becomes the pinnacle of good governance. However, the road to reform is a long and sometimes difficult one, which requires ongoing support, commitment and cooperation from key ministries, donors and stakeholders. I am pleased to see that many of you are represented here today.

Ladies and Gentlemen,

I would like to take this opportunity to thank-you for your ongoing support. Your support has greatly helped us, the Government, in undertaking our reform activities and moving closer to our goal of good governance. We will all need to continue working closely together in the future to ensure the success of sector wide government reform.

A further strengthening of communication and cooperation between key players within this sector and donors is necessary to ensure a fully integrated and effective government reform programme.

I would like to reiterate once again the government's firm commitment to this reform process.

Your questions and comments will be welcome during the discussion session. Once again, I welcome you and thank you for your participation.

I now declare the Round Table Follow-up Meeting open.

Thank you.

### Opening remarks by Finn Reske Nielsen, Resident Representative, UNDP, Lao PDR

Your Excellency Dr. Phankham Viphavanh, Chief of Cabinet in the Prime Minister's Office, senior members of the Lao Government, ambassadors, and friends from the development community.

Good morning.

I should like to join Dr. Phankham in welcoming you to this governance roundtable meeting. I would also like to thank the government for the effort they have put into organizing today's meeting. I believe that this effort signifies commitment to governance reform from the very top level and represents another important step towards transparency and accountability, two of the cornerstones of good governance.

Yesterday, at the mini-RTM, the government and donors discussed the overall National Growth and Poverty Eradication strategy, which identifies a number of key sectors where attention – and resources – will have to be focused in order to achieve the objectives of economic growth and poverty eradication. The NGPES identifies *Governance* as an important cross-sectoral area where reforms are a prerequisite for the achievement of broader development goals.

Today's meeting, accordingly, is a fitting follow-up, taking a more focused look at governance reforms needed for development. The government's priorities for governance reform are well detailed in the *Governance Policy Paper*, which was presented at the Round-table meeting in April 2003. As outlined in that paper, reforms are to be effected in four main areas: Public Service Reform; People's Participation; Rule of Law; and Sound Financial Management.

The issues and strategies proposed in this excellent document span a wide range of measures that will need to be taken in order to ensure that fundamental values of good governance are in play in Lao PDR. As outlined by the government, these include, among others: a commitment to political stability; transparency, accountability, and participation; improving government service delivery; controlling corruption; and ensuring that the country is characterized by Rule of Law through a sound legal framework and an effective and impartial judiciary.

We all know that progress along these governance dimensions is fundamental to meeting the Government's objectives of economic growth, poverty reduction and attainment of the MDGs, so that this country can graduate from the status of LDC by 2020.

Today's meeting, 18 months after the sectoral RTM, gives us, --government and international partners -- an opportunity to review the progress made in each of the main areas. The idea is not to discuss every initiative that is mentioned in the Policy Paper. Rather, we have a chance to discuss the main strategic priorities that the government has already initiated or is making significant progress with, and identify the opportunities for collaboration.

As we will see during the course of today's discussions, there are several strategic initiatives in each of the sub-sectors that merit in-depth discussion. These include the:

- review and strengthening of the legal framework for decentralization and further piloting in the provinces;
- evaluation of the legal sector and the proposal for a long-term development strategy for the sector; and

- Public Expenditure Management Strengthening (PEMS) Programme.

In each of these cases, what is proposed is a partnership between a range of government institutions and a number of international partners. If implemented, these initiatives would go a long way to creating the enabling environment for achievement of the country's poverty reduction and growth objectives.

Today's meeting presents an opportunity for an open dialogue between the government, donors and other key stakeholders, which I hope everyone will take the opportunity to participate in. The format of today's meeting, with focused discussion groups, will enable all partners interested in each sub-sector to get a good understanding of where we stand with regard to specific initiatives, and share ideas and possibilities for partnership. I strongly encourage you all to undertake more in-depth discussions with a view to identifying concrete opportunities for partnership, involving a wider range of government and international actors.

I believe that the government has made good progress in its reform activities but there is still a long way to go, for us all. Just as your feedback and cooperation is important today, so is ensuring continuous dialogue in the future. I would like to reiterate Dr. Phankham's point that we need to strengthen coordination, not only from the government's point of view but also among international donors and other agencies. We need to all work together towards our common goals, to ensure a more programmatic approach can be adopted.

In three short weeks, Laos will be hosting the ASEAN Summit for the first time. All eyes will be on this country, which will have a chance to reaffirm its rightful place on the regional stage as a full partner in ASEAN and, during 2004-2005, as Chair of this important forum. The international community stands alongside Laos as it indicates to a very large audience, not only its economic performance but also its commitment to the values of good governance, recognizing it as a precondition for growth and poverty reduction.

Thank you very much.

-ends-

## Governance Roundtable Meeting

Lao Plaza Hotel  
Friday 5<sup>th</sup> November 2004

### Overview of Implementation of Governance Policy Initiatives Presented by Mr. Khammoune Viphongxay Director General, PACSA

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Ladies and Gentlemen

I am pleased to have this opportunity to present to you today. The purpose of my presentation is to give an overview of the progress made in governance reform in the 18 months since the last Governance roundtable meeting and the release of the Governance Policy Paper.

You have been provided with a detailed progress report and matrix. The overall picture within these documents is one of steady progress across the four main governance components. Not surprisingly, some areas have moved forward more rapidly than others. I have selected key elements from the report, and will share them with you today. I hope that this overview will provide a broad context within which the 3 smaller group discussions can take place later this morning.

It is important to note that whilst the Government has continued to implement various initiatives, with donor support, there has also been shift to develop a more strategic approach to the Governance reform program.

An example of this has been the approach taken with the Legal sector. In 2003, the Government undertook an evaluation of the Legal Sector projects. Based on these findings a **Preparatory Assistance** project, was created with the aim to develop an integrated Legal Reform Framework. This Framework will identify the vision and objectives for change; as well as those activities which are needed to support this. This approach has strong support from the donors and will provide a better coordinated solution to the current issues.

In the Finance sector, the Government, with key donor support, is developing a strategy to look at more effective and efficient public expenditure management as well as changes to our fiscal policies. This approach is critical to supporting the Government's ability to address the budget needs to support the NGPES.

In relation to Civil Service Reform the Government is working on the development of a National Civil Service Training Program which will address core knowledge and skills for all civil servants.

Our discussions today must aim to build on this coordinated approach. The Government will form a Governance Coordination Committee in the near future, and this will be another mechanism to encourage targeted, coherent interventions.

In my overview presentation I will cover the four main components of governance reform:

1. Public Service Improvement
2. People's Participation
3. Rule of Law
4. Sound Financial Management

### 1. Public Service Improvement

I will begin with improvements to **Civil Service Management**. Developments in this area have been numerous. **Firstly, we have significantly strengthened the legal framework.** The revised Constitution, adopted by the National Assembly in May 2003, has further refined the broad framework for the organization, administration and management of the civil service. It also provides the legal basis for the further development of municipalities, a high priority area of reform in the future. The Law on Government and the Law on Local Administration were also passed during 2003.

**DPACS has been upgraded to a sub-ministry**, or thabeuang, becoming the Public Administration and Civil Service Authority (PACSA). This change strengthens PACSA's ability to coordinate the civil service management reform program, and provides it with more resources to fulfill this demanding function.

In addition to ongoing strong support for PACSA through **the GPAR II Central project**; there has also been preparations for the expansion of the number of provincial GPAR projects. GPAR Saravane will commence in early 2005, and it is planned that projects will be established in Xieng Khouang and Khammouane provinces in late 2005.

Work is continuing on **development of a national civil service database**, with much remaining to be done. This is a vital development in relation to effective civil service management, and will require ongoing collaboration with the Department of Social Security and Payroll system in the Ministry of Finance.

An important development since the last RTM has been the **approval of the Civil Service Decree No. 82**. This decree provides a basis for more performance-oriented human resource management.

Low levels of capacity is one area that continues to limit the implementation of reforms across the civil service. We have taken a strategic approach with this and will develop a **National Civil Service Training Program**. The development of a nationally consistent training program based on the competencies required in different job categories is a very high priority. The opportunity exists for substantial donor involvement in this critical area.

Linked to progress towards fair levels of pay is the issue of an **ethical public service**. The Government is committed to addressing the problem of corruption in the civil service in a number of ways. In particular, 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 in November 2004.

In the field of **Information and Communications Technology**, we have initiated and progressed various activities since the last Governance RTM. These include:

- **Drafting an e-policy paper**, which outlines our future ICT development strategy

- **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, and
- **The creation of a web portal** for the business sector and an on-line booking system for the Hotel and Guesthouse Association in the e-commerce sector.

## 2. People's Participation

Next I will summarise key developments in the area of **people's participation**.

Work has been ongoing in the strengthening of the **National Assembly**. Examples of improvements include:

- The working rules of the Division of Complaints and Nationalities, which govern its operation, were submitted to the Standing Committee and approved.
- The Draft of the Gender Mainstreaming Action Plan has been adopted by the National Assembly.
- A National Assembly website is now in operation.

Promotion of an open and transparent society has taken a number of forms, including capacity building in mass media organisations. Our ability to respond quickly to regional crises with the SARS and Avian Bird-Flu in 2003 and 2004 shows that we have strong cooperation between the mass media organisations, government agencies and development partners.

The data collection and analysis capacity of the **National Statistics Centre** has been strengthened. The NSC recently completed the Lao Expenditure and Consumption Survey 3 which is now available in Lao and English languages.

Improved service delivery to the people is a fundamental principle of public administration reform, and one of the most challenging to implement. **In April 2004 PACSA supported the development of a revised Decentralisation Framework and Decentralization Decree**. This process included extensive consultation with stakeholders from all levels of Government, and a number of significant changes to the existing PM decree were identified.

As there are significant differences in the stage 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 the rich provinces or districts. A very **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 achieve the goals of our National Growth and Poverty Eradication Strategy we have to improve our planning capacity** and to ensure that development activities reflect the real needs of the people. CPI is working hard at improving this capacity at all levels through access to appropriate training and improvements in the Planning Guidelines.

### 3. Rule of Law and Access to Justice

The Government recognises that the establishment and improvement of the **legal system** is a fundamental building block for the long-term development goals of the country.

A **Legal Sector Evaluation** was carried out in 2003 which identified the need to develop an overall vision and strategic agenda for legal sector reform, and a coordination framework for government interventions and international assistance.

As a result, a **Preparatory Assistance Project** has been designed to develop a Legal Sector Reform program for the Lao PDR for a period of 3 to 5 years. A primary focus of the project is to help develop a strategic vision for legal sector reform, which is being coordinated by the Ministry of Justice.

As mentioned earlier, the **legal framework has been strengthened** by the adoption of a number of important laws. In the judicial sector, the administration of local courts has been transferred from the Ministry of Justice to the People's Supreme Court.

**In order to harmonize the domestic legal framework with international laws**, a number of the provisions of the UN Declaration on Human Rights were proposed, accepted and adopted in the amended Law on Criminal Procedure in March, 2004.

**Efforts have continued to improve formal and informal mechanisms for dispute resolution.** 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.

The **Lao Bar Association** has been strengthened through improvement in its regulations and organizational structure as well as an increase in its membership.

**Mechanisms for legal enforcement** have been improved. The organizational structure of the Office of the Supreme Public Prosecutor, and the courts at both central and local levels, has been improved through the adoption of the amended Law on the People's Court and the Law on the Office of the Public Prosecutor.

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

**Capacity building across the sector has remained a priority.** Legal units have been established in each of the ministries and their members have received training, but there is ongoing 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 limited.

The **People's Supreme Court** has seen improvements made to its organizational machinery. Personnel have been reallocated and new staff recruited. A Court of Appeal has been established in the central region, and there are plans to establish additional Appeal Courts in the North and the South in the near future.

**Improving access to the justice system for all the peoples** of the Lao PDR remains a significant challenge. The Ministry of Justice has initiated a number of communication strategies, including increased publication and distribution of official legal gazettes and laws, and expanding the scope of legal literacy programs through the mass media.

**Providing legal assistance to all** is also a significant challenge, given the lack of people with sufficient legal training to provide such support. Knowledge of the law is being strengthened through the education system; 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.

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.

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

#### 4. Sound Financial Management

Finally, I will summarise significant developments in the area of sound financial management over the last 18 months.

**Sound fiscal policy** provides a strong foundation from which to build. The current policy has 5 key objectives:

1. increasing revenue to GDP ratio by expanding the tax base and improving effectiveness of collection;
2. having a budgetary framework that is more supportive of poverty eradication and increases in private investment;
3. greater transparency and accountability in budget activity;
4. reducing the ratio of public debt to GDP to a sustainable level; and
5. improving legal and regulatory framework (new customs/tax laws).

The immediate objective in this fiscal year has been to **reverse the decline in government revenue**. To achieve this, the government has initiated a number of reforms relating to revenue. 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 has **developed short-term and medium-term strategies** aimed at strengthening public expenditure management. These strategies are being used as the basis for the development of short- and long-term action plans.

Implementation of **efficient and equitable revenue collection policies** is vital to our efforts in many other areas of development. If we are not successful in this, many other activities will be stalled.

Regarding **tax administration**, emphasis has been placed on introducing new procedures ensuring registration of tax payers, and for detecting under-reported income. Tax officials have undergone additional training, which has included the introduction of IT solutions to support the

collection process. The Government has also taken steps to reduce clearance times for import and export of goods, consolidating the multiple import/export declarations into a single administrative document.

We are currently working on legislation to establish the authority of the Tax Department over the **provincial large taxpayer units**. This legislative document will see all national government revenue collected by these units deposited into a central government bank account.

Preparations have begun for the **introduction of a single rate VAT** in 2006/2007.

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 control of seven major international checkpoints

To further strengthen national customs administration, we are **drafting a new customs law** aimed at bringing all customs department staff under the effective control of the central Customs Department.

Work has also been taking place **developing transparent and accountable practices for expenditure planning and management**. The Ministry of Finance continues to implement the computerized accounting system. The system has been installed in key line ministries and it is planned to complete the installation for all line ministries by the end of 2004 and for all provinces by the end of 2005.

Importantly, the **Treasury completed a register of government accounts** in the commercial banks throughout the country and has started to close those accounts opened without authorization. Treasury has finished a census of arrears as at September 2003, and is working on a plan to clear these arrears and avoid the build up of new arrears.

Modernisation of the Accounting system has seen **new regulations for private enterprise accounting** developed; 15 International Accounting Standards have recently been selected by the Government and are currently being translated into Lao.

Lao PDR needs to develop a **banking sector capable of supporting the private sector to promote economic growth** which extends to rural areas. Supported by the ADB and World Bank, the Government has seen rapid progress in this area recently. Restructuring plans have been established for the 2 state banks (BCEL and LDB). We are also taking steps to strengthen the prudent and supervisory framework for the banking system, and have continued to develop our program of on-site inspections of the state banks.

**Strengthening the capacities of audit and inspection bodies** presents particular challenges. With the support of the ADB project 'Institutional Strengthening of the State Audit Organisation', the SAO is working towards conducting effective audits on the basis of modern audit methodologies, systems and procedures. Significant assessments have been completed, decrees approved and procedures manuals developed.

In an effort to develop a **clearer and more stable environment for private sector development**, new legislation has been developed and current laws amended. This should result in a much improved legal and regulatory framework.

## **Conclusion**

My presentation today has attempted to highlight some key developments over the last 18 months. The next stage of today's meeting, the move to 3 small groups, will allow us to look in more details at progress and challenges in governance reform in Lao PDR, and most importantly, to look at opportunities for improved collaboration between government and our international partners.

When talking of governance reform, it is very common to hear the expression 'long-term process' used. When reviewing progress over the last 18 months, the truth of this expression is clear. On the one hand, at a macro-level, progress has sometimes felt slow. Yet, at the same time, as my presentation has demonstrated, many important activities have been taking place, helping to create an environment which is more supportive of significant change.

We thank our partners for their long-term commitment to the cause of governance reform in Lao PDR. We encourage you now to explore ways in which our collaboration can be even more effective in the future.

Thank you for your attention.

Presentation on Public Service Improvement and People's  
Participation

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**Governance Roundtable Meeting**

**Presentation on Public Service  
Improvement and People's Participation**

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Presented by Mr. Nisith Keopanya  
Deputy Director-General, PACSA

Lao Plaza Hotel  
Friday 5th November 2004

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**Public Service Improvement**

- Legislative Developments
  - Including Law on Local Administration
  
- Review of organisational structures at district level
  - 'back office' to 'front office'
  
- One-Stop shops
  - Learning from success in Vietnam

## **Public Service Improvement**

- National Civil Service Database
  - Unique ID number for all civil servants
  - Revision to key forms
  - Links with social security and payroll
  
- Performance Management System
  - Extensive work on job descriptions
  - Performance Management System currently under development

3

## **Public Service Improvement**

### ***Opportunity***

Process Mapping – analysis of existing work practices

- Civil Service Decree No. 82
  - Introduces more performance-oriented civil service management approach
  
- Civil Service Management Strategy and Framework
  - Basis for CSM Framework manual and Terms and Conditions of Employment manual

4

## **Public Service Improvement**

- National Civil Service Training Program
  - Focus on core knowledge and skills (competencies)
  - Incorporate National Induction Program
  - Innovative, results-based delivery strategies

### ***Opportunity***

Support for curriculum and training program development, and training delivery

5

## **Public Service Improvement**

- Ethical Public Service
  - Code of Ethics

### ***Opportunity***

Support review of existing pay systems, consider options for improved compression rates and salary levels

6

## **Public Service Improvement**

- Use of ICTs
  - STEA activities
  - E-policy paper

### ***Opportunities***

- Implement ICT master plan
- Completion of Govt. Intranet
- Establishment of ICT units in ministries
- Capacity development

7

## **People's Participation**

- Strengthening the National Assembly
  - Approved implementation proposals
  - Increased duration of sessions
  - Improved oversight procedures

8

## **People's Participation**

- Promotion of more open and transparent society
  - Foreign Investment Forum
  - Capacity building of mass media organisations
  - National Statistics Centre

### ***Opportunity***

Access to Intranet for key Government officials

9

## **People's Participation**

- Decentralisation Framework and Decree
  - Key features of proposed Decree include empowering local government to enhance service delivery, while strengthening central government control in critical areas such as national revenue

### ***Opportunity***

Support study on effective activity at kum ban level

10

## **Conclusion**

- A picture of successes, challenges and opportunities
- We must work together for the ultimate benefit of the Lao people

**Please share your thoughts!**

Presentation on Rule of Law and Access to Justice

**Rule of Law  
and Access to Justice**

**Progress Report**

Mr. Khamphone Sipaseuth

Goals and Objectives:



## Goals to be achieved by:

- **Ensuring the establishment of a complete, clear and coherent legal framework;**
- **Strengthening the informal and formal mechanisms for dispute resolutions;**
- **Ensuring predictable and transparent mechanisms for the enforcement of laws;**
- **Strengthening the capacity of all institutions in the legal and justice sector;**
- **Improving the ability of all people to access the justice system and the public decision making process.**

3

Ensuring the establishment of a complete, clear and coherent legal framework.

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Ensuring the establishment of a complete, clear and coherent legal framework.

**B. *Priority initiatives:***

- Prepare Strategic Framework for the Legal sector
- Continue preparation for the signing and ratification of international treaties related to the prevention of terrorism, torture and other inhumane activities, as well as the protection of the rights of migrant workers and children;
- Prepare for the ratification of the ICCPR and ICESCR;
- Develop standardized forms for the legal sector;
- Publish a manual for the drafting, evaluation and review of legislation to promote uniformity in legislative processes.

5

Strengthening the informal and formal mechanisms for dispute resolutions

**A.**

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Strengthening the informal and formal mechanisms for dispute resolutions

**B. *Priority initiatives:***

- **Improve the capacity of VMUs and expansion of VMUs all over the country;**
- **Continue programme of legal training for judges to raise the capacity of existing judges and reduce negative perceptions of the justice system;**
- **Continue to participate in international and regional forums to promote conflict management.**

7

Ensuring predictable and transparent mechanisms for legal enforcement

**A.**

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Ensuring predictable and transparent mechanisms for legal enforcement

**B. *Priority initiatives:***

- **Continue to review and improve the organizational structure of the Office of Supreme People’s Prosecutor and the People’s Court at all levels in order to clarify roles and responsibilities to keep pace with socio-economic change in the country;**
- **Continue the programme of ‘training of trainers’ on legal matters;**
- **Continue to develop the manual on legislative drafting and the manual on law dissemination;**
- **Continue to upgrade the knowledge and qualifications of public prosecutors.**

9

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

- 1.
- 2.
- 3.

Strengthening the capacity of all institutions in the legal and justice sector: Achievements & Priorities

## **1.The MoJ:**

### **A. Achievements:**

- **Upgraded skills and knowledge of staff;**
- **Revised the PM's Decree on the Organization and Activities of the MoJ;**
- **Participated in international conferences and forums on legal matters;**
- **Improved coordination in the legal enforcement of court decisions.**

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Strengthening the capacity of all institutions in the legal and justice sector: Achievements & Priorities

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Strengthening the capacity of all institutions in the legal and justice sector: Achievements & Priorities

## **2. The SPC:**

### **A. *Achievements:***

- **Improved the organizational machinery of the SPC;**
- **Established the Central Appellate Court;**
- **Resumed the publication of the Court Journal.**

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Strengthening the capacity of all institutions in the legal and justice sector: Achievements & Priorities

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Strengthening the capacity of all institutions in the legal and justice sector: Achievements & Priorities

### **3. The OSPP**

#### **A. Achievements:**

- **Improved internal management, relocated existing staff and recruited new staff;**
- **Developed a system for the collection of statistical data on infraction and law violation;**
- **Upgraded skills and knowledge of investigators and prosecutors.**

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Strengthening the capacity of all institutions in the legal and justice sector: Achievements & priorities

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Improving the ability of all people to access the justice system and the public decision making process.

- 1. Activities related to legal dissemination;**
- 2. Activities related to improving legal assistance;**
- 3. Activities related to women, young people and children.**

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Improving the ability of all people to access the justice system and the public decision making process.

**1.**

**A.**



Improving the ability of all people to access the justice system and the public decision making process.

**B. Priority initiatives:**

- **Regularly publish law books and the Official Gazette and ensure wide distribution;**
- **Continue further efforts of legal dissemination through the mass media.**

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Improving the ability of all people to access the justice system and the public decision making process.

**A.**

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Improving the ability of all people to access the justice system and the public decision making process.

**B. Priority Initiatives:**

- **Continue to strengthen the capacity of LBA: professional ethics, knowledge and skills of lawyers;**
- **Continue to provide favorable conditions for all people to access legal services;**
- **Continue to expand legal knowledge through the education system.**

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Improving the ability of all people to access the justice system and the public decision making process.

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Improving the ability of all people to access the justice system and the public decision making process.

**B. Priority initiatives:**

- **Continue to improve and provide guidelines to the offices providing legal advice and training for women;**
- **Continue to research, monitor and enhance the implementation of measures to ensure the respect of women's and children's rights;**
- **Continue to enhance young people's awareness of the law in order to prevent crime and ensure that juvenile cases follow the juvenile judicial process.**

Presentation on Sound Financial Management

**SOUND FINANCIAL MANAGEMENT**

**Accountability and Transparency to Ensure  
Sound Financial Management of financial  
resources**

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

Fiscal Policy Department

1

**Main priority areas**

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

Fiscal Policy Department

2

## Development of a sound fiscal policy

1. Increase revenue-to GDP ratio through an expanded tax base and improve 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 government 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)

# Future Opportunities

## Revenue Strategies

- 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).

# Future Opportunities

## Expenditure Strategies

- 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**

#### ***Tax administration***

- Introducing new procedures for ensuring effective registration of taxpayers, simplification of methods used for filing and payment of taxes,
- Introducing new procedures for detecting under-reported incomes, training of tax officials in the introduction of Information Technology solutions to support the collection process.

## **Continue**

#### ***Customs Administration***

- 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)
- Customs Law has been drafted and is expected to be submitted to the NA in early 2005;
- In terms of regional integration, the Customs Department has adopted the 8 digit ASEAN Harmonized System Tariff Nomenclature

## Future Opportunities

- 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

Fiscal Policy Department

9

## Develop transparent and accountable practices for expenditure planning and management

### Progress

- Modification of the current budget nomenclature and chart of accounts
- Enhancing the reporting system of budget expenditure by rolling-out a computerized accounting system.
- 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
- Finish 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.
- Issue PM Decree No 03 on the Government Procurement of Goods, Work, Maintenances and Services.
- The Implementing Rules and Regulations on Government Procurement. No 0063/MOF.

Fiscal Policy Department

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## Future Opportunities

- 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

- Develop *new regulations for private enterprise accounting*, 15 International Accounting Standards have recently been selected by the Government
- A manual on regulations and procedures for public accounting has been completed
- Budget treasury software has been installed in thirty-seven Finance Units (representing all line Ministries)
- Increase the number of businesses who maintain proper accounting records

## Future Opportunities

- The State Accounting system ( Software) will be extended to all provinces in 2005 and it 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

- 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)
- Placement of international banking advisors in these two banks has resulted in significant improvement in their operations and credit management practices
- Monetary policy aims to reduce inflation. gross official international reserves has increased steadily to over 4 months of imports.

## 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.

## Ensuring accountable and transparent management of ODA

### Progress

- 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.
- 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.

## **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**

- 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.

## Progress con't

- 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

## Future Opportunities

- Auditing procedures 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 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 support of World-Bank and AusAID, 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  
Land Titling project II
- 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

Fiscal Policy Department

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## **Future Opportunities**

- The Land Law requires further work to ensure compatibility with Constitution and Law on Government
- 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.

Fiscal Policy Department

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## **Improved environment for private sector development**

- The *legal and regulatory framework* by drafting new and amending current legislation to encourage investment from the private sector. Law on Settlement of Economic Disputes, Law on the State Economy the Law on Intellectual Property Rights The Tax and Customs Laws are also under revision
- Amendments to the Decree on Commercial Banks, which will allow foreign bank branches to operate outside Vientiane, have been initiated and are under discussion.

## **Future Opportunities**

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

**LIST OF PARTICIPANTS**

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November 05, 2004  
Lao Plaza Hotel, Vientiane, Lao PDR**

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115. Dr. Jayampathy Wickramaratne	Chief Technical Advisor	Project, MOJ

### DOCUMENTATION

The following documents were *distributed prior* to the Round Table Meeting:

1. **Progress Report** – Governance Round Table Meeting – Implementation of Priority Areas of Governance Reform – November 2004  
(Lao and English versions)
2. **Summary of the Progress Report** – Governance Round Table Meeting – Implementation of Priority Areas of Governance Reform – November 2004  
(Lao and English versions)
3. **Priority Areas for Governance Reform** – Public Service Reform, People's Participation, Rule of Law and Sound Financial Management – **Matrices** – November 2004  
(English only)

The following documents were *distributed at* the Round Table Meeting:

1. **The Constitution of the Lao PDR** – (amended) – 6<sup>th</sup> of May 2003  
(Lao version only)
2. **The Law on Government** – 6<sup>th</sup> of May 2003  
(Lao version only)
3. **The Law on Local Administration** – 21<sup>st</sup> of October 2003  
(Lao and English versions)
4. **Decree 82/PMO on the Civil Service** – 19<sup>th</sup> of May 2003  
(English version)
5. **Strategy Paper on Governance and Public Administration Reform** – 2004  
(Lao and English versions)
6. **The Village Chief Training Manual** – 2004  
(Lao version)

All the above documentation is also available from the Project office, GPAR Central, Prime Minister's Office, Vientiane, Lao PDR  
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