

THIRD UNITED NATIONS CONFERENCE ON THE
LEAST DEVELOPED COUNTRIES

Brussels, 14-20 May 2001

Country presentation

by

**THE GOVERNMENT OF LAO PEOPLE'S
DEMOCRATIC REPUBLIC**

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A/CONF.191/CP/29

Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

**THIRD UNITED NATIONS CONFERENCE
ON THE LEAST DEVELOPED COUNTRIES**

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Presentation of the Government of the Lao PDR

**ACTION PROGRAMME FOR THE DEVELOPMENT OF THE
LAO PDR 2001-2010**

Note: This report has been prepared under the responsibility of the National Preparatory Committee, consisting of the Ministry of Foreign Affairs, the Central Committee for Rural Development, the State Planning Committee, the Office of the Prime Minister, the Ministry of Industry and Handicraft, the Ministry of Agriculture and Forestry, the Ministry of Finance, and the Ministry of Commerce and Tourism. Technical support was provided by UNDP.

List of abbreviations

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APB	Agricultural Promotion Bank
ASEAN	Association of South East Asian Nations
AusAID	Australian Agency for International Development
BOL	Bank of the Lao PDR
CCRD	Central Committee for Rural Development
CFDI	Comprehensive Forum for the Development of Indochina
CMEA	Council for Mutual Economic Assistance
CPA	Comprehensive Plan of Action
EPI	Expanded Programme on Immunization
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMS	Great Mekong Sub-region
GSP	Generalized System of Preference
HIPC	Heavily Indebted Poor Countries
HRD	Human Resource Development
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
Lao PDR	Lao People Democratic Republic
Lao PRY	Lao People's Revolutionary Youth
LECS	Lao Expenditure and Consumption Survey
LTUF	Lao Trade Union Federation
LWU	Lao Women's Union
MAF	Ministry of Agriculture and Forestry
MCT	Ministry of Commerce and Tourism
MFN	Most Favoured Nation status
MIH	Ministry of Industry and Handicraft
MDF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MRC	Mekong River Commission
MTEF	Medium-Term Expenditure Framework
MW	Megawatt
NEM	New Economic Mechanism
NGO	Non-Governmental Organization
NPC	National Preparatory Committee for the Third UN Conference
NRCHRD	National Review Conference on the Human Resources Development
NTA	National Tourism Authority
NUOL	National University of Laos
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting countries
NPAAP	National Poverty Alleviation Action Programme
PIP	Public Investment Programme/Plan
PMO	Prime Minister Office
RD	Rural Development
RTM	Round Table Meeting

SEDP	Socio-Economic Development Plan
SOCB	State Owned Commercial Bank
SPC	State Planning Committee
TR	Transferable Ruble of the Central Bank of Russia
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference for Trade and Development
UNDCP	United Nations Drug Control Programme
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UXO	Unexploded Ordnance
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

TABLE OF CONTENTS

	Pages
1. Introduction	1
2. Performance in the 1990s	2
2.1 Agriculture and Forestry	3
2.2 Rural Development	3
- The UXO problem	4
- The Narcotic Drug Problem	4
2.3 Human Resources Development	5
2.3.1 Education	5
2.3.2 Health	5
2.3.3 Personnel development activities	6
2.3.4 Labour and Social Welfare	6
2.4 Industry and Handicraft	6
2.5 Infrastructure development	7
2.6 Services	8
General evaluation	8
3. Assessment of factors that have facilitated or constrained the country's development	9
a) Peace and social stability	9
b) Economic infrastructure	9
c) Policy reforms	9
d) Conducive Environment for Private Sector Development	9
e) Domestic Resources Mobilisation	10
f) Governance	10
g) Women	11
h) Environment	12
i) Human Resources constraints	12
j) Agriculture and the rural sector	13
k) Industrialisation and technological development	13
l) HIV/AIDS Control	13
External opportunities and constraints	14
a) Official Development Assistance (ODA)	14
b) External debt burden	14
c) The export sector	15
d) Foreign Direct Investment (FDI)	15
e) The Regional Cooperation Dimension	16
Vulnerability to shocks	17
Exemples of Best Practices (Boxes)	18
- Rice Self-Sufficiency	18
- Repatriation and Reintegration of Lao refugees	19
- Foreign Assistance in the Transport and Communications Sector	20

4.	Programme of Action, 2001-2010	21
4.1	Introduction	21
4.2	Development vision, Mission and Overall Objectives	22
	4.2.1 Development vision	22
	4.2.2 Development mission	22
	4.2.3 Overall objectives	23
4.3	Framework for the implementation of the strategic objectives	24
	4.3.1 Macroeconomic and social policies and targets	24
	- Economic Sector	24
	- Social Sector	25
	4.3.2 General guidelines for the Development of the Economic Sectors	27
	- The Agriculture-Forestry Sector	27
	- The Industry Sector	29
	- The Trade and Services Sector	29
	- The Handicraft Development	30
	4.3.3 Guidelines for Regional Economic Development	30
	- The North	30
	- The Centre	30
	- The South	31
	4.3.4 Guidelines for Multi-Sectoral Economic Structures	32
	4.3.5 Guidelines for improving the Macroeconomic Management	33
	4.3.6 Guidelines for the Rural Development and Poverty Eradication	33
	4.3.7 Guidelines for the Human Resources Development	34
4.4	Guidelines for Investment and Resource Mobilisation	36
	4.4.1 Resources needed	37
	4.4.2 Resources Allocation	38
	4.4.3 Resources Mobilisation	38
4.5	Implementation Guiding Principles	40
	Conclusion	42
	Reference materials	44
	Appendices & Tables	45

1. INTRODUCTION

The Lao PDR is a small landlocked country bordered by Vietnam, Cambodia, Thailand, Myanmar and China. Two-thirds of the country is made up of rugged mountains and plateaus ranging from 200 to 2800 meters, thus making land communications between provinces and between towns in the same province difficult. The country is endowed with rich natural resources, although not yet exploited, the plateaus with temperate climate provide grasslands propitious to cattle rearing and to Mediterranean fruits growing and, with its geographic situation, it can also become the transit route for the South-East Asian region. The Mekong River runs through the entire length of the country and forms the border with Myanmar and Thailand; it provides fertile plains for agriculture and serves also as a major way of transportation and trade with other provincial capitals and with riparian neighbouring countries.

Forests cover nearly half of the Lao PDR (about 47 percent of the total land area). They are a vital economic resource, provide essential contributions to the consumption and income of the rural poor and conserve bio-diversity and soil and water values. The rural population – eighty percent of the Lao population – relies heavily on the forest for food, fuel, fiber and shelter. Despite the importance of the resources, deforestation and land degradation are becoming a serious concern to sustainable use of the country's natural resources (land, water and forests). Deforestation is caused mainly by the practice of shifting cultivation, expansion of agricultural land and unsound logging practices. About 10 percent of the country's land area is arable land but this area is, to a significant extent, contaminated with unexploded ordnance (UXO) which is a serious cause of concern and a major obstacle for developing rural infrastructure and agriculture.

The country has a population of about 5.2 million inhabitants¹, made up of three main ethnic groups, with different development level, and scattered over an area of 236,800 square kilometers, most of whom, particularly those living in remote areas, still operate in a non-monetized economy. Its scarce population density – about 21 people per square kilometer – and the lack of access for remote villages to towns and to main roads, inhibit the expansion of domestic markets.

Despite its abundant natural resources and efforts made by the Government with the economic reforms during the last decade, the Lao PDR remains poor. According to the recent Lao Expenditure and Consumption Survey (1997-98), about 39 per cent of Lao population still live below the established poverty line. Educational and health standard are lower than in most developing countries; there is a severe shortage of trained personnel and the physical and socio-economic infrastructure is inadequate. There are also severe budget and trade deficits; external debt burden and aid-dependency are increasing. Nevertheless, the Lao PDR has the advantage of enjoying a socio-political stability.

It is against this backdrop that the country is preparing to enter the New Millennium.

¹ Official estimate for 2000.

2. PERFORMANCE IN THE 1990s

The 1990 Paris Declaration had identified five priority areas in the Programme of Action for the Least Developed Countries for the 1990s in order to inspire national action by those countries in their struggle against poverty:

- (1) To conduct macro-economic policy, aimed at accelerating long term growth and development, taking account of market signals and showing concern for the situation of the most vulnerable groups of the population;
- (2) To develop human resources by making populations, both men and women, the actors and beneficiaries of development, by respecting human rights and social justice, and by applying effective population, health, education, training and employment policies;
- (3) To reverse the trend toward environmental degradation, to manage the environment with a view to the effective and durable utilisation of natural resources and to reinforce action to deal with disasters;
- (4) To promote an integrated policy of rural development aimed at increasing food production, enhancing rural income and expanding the non-agricultural sectors;
- (5) To develop a diversified productive sector, based on private initiative, effective public enterprises, regional co-operation, increased access to the international market and international action in the field of commodities.

For its part, the Lao PDR has implemented the Programme of Action for the 1990s through its 1993-2000 socio-economic development in two phases – 1993-1995 and 1996-2000 with different results. The first phase, started already from 1991, coincided with the implementation period of the New Economic Mechanism (NEM), introduced in 1986. The NEM initiated a programme of economic reform with the goal of stabilising the economy and increasing growth by shifting from a centrally planned economy to a market oriented one. In implementing this programme, efforts were focused on macro-economic stability and fiscal adjustment; private sector activities have been encouraged; measures were taken to reorganise public sector so that it will be better able to meet the demands of the market economy. State owned enterprises were privatised, legal and administrative measures have been undertaken to support economic reform and development, banking sector and prices were also liberalised and foreign investment has been promoted under liberal and generous policy regimes. Within the context of its socio-economic development plan for the decade, the Lao Government has also set up **8 national priority programmes**, which were adopted by the National Assembly in 1996 and consisted of:

- Food production;
- Commercial production;
- Stabilisation of shifting cultivation and resettlement of shifting cultivators;
- Rural development;
- Infrastructure development;
- Foreign economic relations;
- Human resources development;
- Services development (covering tourism, trade, banking and finance).

Consequently, during the first half of the 1990s, the reforms produced early economic benefits to the country; inflation was quickly brought down to single digit

level from 10 per cent in 1992 to 6.3 per cent in 1993, the exchange rate has been stable for four years (1991-1994), at around Kip 720-730 to the US Dollar, and there has been a built-up in foreign exchange reserves equivalent to two-month of imports, as a result of improved export performance and continuous inflow of external resources in the form of development assistance and direct foreign investment. The average annual growth rate of the economy was between 6-7 per cent in real terms. This commendable growth was accompanied by relative stability of domestic prices and currency. However, in mid-1995, unfavourable signs appeared with the inflation rate jumping to 20 per cent. Hence, all along the second phase (1996-2000), the country faced a deteriorating economic and monetary situation aggravated by the Asian financial crisis. Inflation was unusually soaring and reached 150.83 per cent in January 1999, the national currency eroded to an unprecedented level and devalued to set the exchange rate at Kip 9,700 for 1 US Dollar in August 1999.

Nevertheless, the Government has taken effective measures in order to encourage food and goods production, to stop inflation, bringing it down from 121 per cent in October 1999 to 6.6 per cent in August 2000, and to stabilizing the prices and the exchange rate, which is now at Kip 7,700-8,000 to 1 US Dollar; with the average growth rate staying high at 6.1 per cent² during the decade.

2.1 Agriculture and Forestry

The sector of agriculture and forestry is the backbone of the Lao economy, constituting more than 50 per cent of GDP, and employing 90 per cent of the work force. Virtually, all agricultural production is in private hands, a large share of which is produced at near subsistence levels, particularly in the more remote provinces where market access is severely inhibited due to a lack of transport infrastructure. In these provinces, a drop in crop yield caused by poor rainfall can have a devastating impact on living conditions of the people. That is why efforts have been focused on food production, with emphasis on rice and commercial production in 7 major plains in the central and southern part of the country, in order to attain food self-sufficiency and to have cash crops. To that end, the irrigation network has been developed. From 1995 to 1999, the command area of irrigation has been increased from 150,000 hectares to 258,000 hectares, and 26,000 hectares to 124,000 hectares for wet and dry seasons respectively. In 1999, the total rice cultivation area in the country was 717,577 hectares. Other food crops, such as maize, beans, starchy roots, fruit trees, as well as livestock and fishery (aquaculture), are expanding in several regions. Likewise, the output of non-rice crops such as coffee, sugar cane and tobacco are also expanding, particularly coffee, the harvest of which has increased from 8,576 tons in 1995 to 17,530 tons in 1999. As far as rice is concerned, in 2000, the production has reached 2.2 million tons of paddy-rice, resulting in self-sufficiency³. See Box at page 22.

2.2 Rural Development

The rural area comprises the main part of the territory and is inhabited by the majority of the population. Living conditions in rural area have remained largely

² Instead of 8-8.5 percent projected in the 1996-2000 Socio-Economic Development Plan

³ Sources: MAF.

unchanged for several generations. The majority of the rural population lives in unhygienic conditions, is illiterate and has low cultural awareness, particularly in the case of ethnic minorities. A survey conducted in 1995 by the World Bank in some selected provinces indicated that the Lao PDR had approximately 46 per cent and 53 per cent of the total and rural population respectively, living in poverty with a per capita income of less than US\$ 100 per annum. Since 1995, important sectoral and area development initiatives have been implemented bringing about material improvements in several aspects, such as road construction and maintenance, construction of schools and free health clinics, small water reservoirs, maintenance and development of small scale irrigation schemes etc. That means that rural development has been approached in an integrated way.

Within the framework of integrated rural development, two important issues have received special attention of the Government: the Unexploded Ordnance (UXO) problem and the Narcotic Drugs problem.

The UXO problem

During the 1964-1973 Vietnam War, Laos was subjected to both ground battles and aerial bombing. A total of 580,344 bombing mission were launched and more than two million tonnes of ordnance were dropped. Twenty years after the end of the war, UXO still affects 13 (out of 17) provinces of the country, contaminating up to 50 per cent of the country's total land area. UXO contamination threatens the livelihood and food security of the large sections of the country's population. It also inhibits the development of infrastructure and other services throughout the country. With the UNDP and UNICEF assistance, the Government has, in 1996, established a National Trust Fund and a National UXO Programme with the following components: Community awareness, Training and Capacity building, Survey and Clearance. With the support of the implementing agencies and the funding from several countries and International Organizations, Lao UXO has, since 1996, cleared 1,839ha. of land, sent its "Roving teams" (for risk reduction) to 5,848 villages, and its Community Awareness teams to 2,513 villages, and trained 1,271 technicians.

The Narcotic Drugs problem

Poppy cultivation has been a traditional livelihood for the ethnic minorities living in the remote mountainous areas of the 10 northern provinces of the country. In order to improve living conditions of those ethnic groups and reduce the growing and the use of opium, the Government has adopted, in 1994, a Master Plan on the Control and Supervision of Narcotic Drugs for 1994-2000. The main objectives of the Master Plan were:

- To gradually eradicate poppy cultivation on the base of integrated rural development;
- To prohibit commercial production of Cannabis;
- To educate and give treatment to drug addicts in order to reintegrate them into the society and to prevent and reduce the need of narcotic drugs;
- To repress illegal trafficking and preparation of narcotic drugs;
- To supervise, under International Supervision, activities of narcotic drugs, psychotropic drugs and chemical bases which are utilized in drugs production;
- To prevent criminality related to narcotic drugs;

- To enlist International support and cooperation for the narcotic drugs supervision.

The implementation of the Master Plan has given some positive results; opium production and illegal trafficking of heroin and cannabis have been reducing, and law enforcement has been more effective.

2.3 Human resources development (HRD)

The Lao Government considers human resources development as the key to the country's development. The effective and sustainable use of physical investments depends on the availability of skills, both quantitatively and qualitatively. Human resource development is a primary need for the country; it is also an important consideration for the country's development partners. During the past decade significant achievements have been made in this field.

2.3.1 Education

In the Education Sector, schools and various educational institutions have been expanded; private education has been promoted and efforts have been made for expanding schools to remote areas, and teacher's training has been improved and reorganized in all systems. Adult education and basic vocational training for mountainous people have been also promoted with due attention.

Illiteracy has been declining and the literacy rate in the target groups of 15-40 year-old increased to from 70.8 percent in 1996 to 84 percent in 1999. Between 1990 and 1997, the number of students completing primary education has doubled, while net primary enrollment rates increased from 64 percent to 77 percent⁴.

Higher Education has been developed with the establishment of the National University in 1996, unifying high level educational Institutes. The Government has paid attention to the implementation of the policy on "Basic education for all". Decree on compulsory primary education and Law on Compulsory Primary Education and Law on Education have been enacted in 1996 and 2000 respectively.

2.3.2 Health

The country's state of health services is poor. Infant under-1 and under-5 mortality rates (82 and 106 per thousand live births respectively) and maternal mortality rate (530 per 100,000 live births), are high. Malaria ranks as the most serious public health hazard, with an estimated 1.4 million cases of incidence in this field and 14,000 deaths annually.

Some modest progress has been achieved. Primary health care awareness and practices have been widely disseminated among the population with 730 free clinics in the whole country; prevention and cure have progressively improved in quality.

⁴ Source: Ministry of Education

The immunization network, in the framework of the Expanded Programme on Immunization (EPI), launched in 1982, has been set up throughout the country; in 1999, 56 percent of the children have been immunized against diphtheria, tetanus, pertussis, measles and tuberculosis; and polio has been eradicated.

A network for mother and child health care, with birth spacing, nutrition and health education, has been established and expanded to the grassroots level. Most of the provincial capitals have water supply systems. Safe drinking water has been provided for 58.4 percent of the population. Training facilities for development of medical staff have also been expanded⁵.

2.3.3 Personnel development activity

Public servants play a decisive role in the gains and losses of the reform programme. Therefore personnel development is a key issue, and the government has been focusing on personnel training and development by various methods, in order to upgrade their quality and skills with special emphasis on ethnic minority as well as women. Short-term training and upgrading courses have been organized in the field of administration and management for leading cadres throughout the nation once a year (with specific attention to village headmen and district governors). Technical management personnel have received upgrading in politics, management, English language and professional capacity enhancement in order to increase their competence.

2.3.4 Labour and Social Welfare

The new Labour Law has been amended, thus ensuring gradually the regularisation of employment, and restricting disorganised import of foreign labour force. At the same time, vocational training centres have been improved, in 2000 the first vocational training centres for the North has been established in Oudomxay province, and an employment service unit has been established to assist graduates to find jobs. Pension, social security and welfare have been improved and expanded to private enterprises by the Prime Minister Decree no. 207/PM, of 23.12.1999.

Within the framework of Social Welfare, attention has been paid also on the repatriation and reintegration of Lao refugees. See Box at page 23.

2.4 Industry and Handicraft

In 1990, the industrial sector accounted for around 16.6 percent of GDP (having increased from 11.2 percent in 1988). With the 1986 economic reform, both domestic and foreign investors have invested substantially in industrial activities, namely in the field of power, mining, small and medium scale processing industries. The dominant area for development in the sector is hydropower. Several large and medium scale hydropower dams in central and southern Laos have been completed, resulting in a total electricity generation capacity of 627-Megawatt (MW). Several other small-scale hydropower dams have also been constructed in some northern and southern provinces. Now, about 35 percent of the population have access to electricity.

⁵ Sources: Ministry of Health.

Processing and small scale industry of various types such as cement plant, wood processing plants, furniture processing plants, construction materials, garments factories, rice mills, biological fertiliser plants, wood oil extraction plants (for perfume) and cigarettes factories, have developed rapidly in the main urban areas of different regions. On the whole, industry contributed to nearly 22.0 percent of GDP in 1999. Manufacturing contributed 75 percent of industrial output, construction 16 percent, mining and electricity 8 percent⁶.

Handicraft has also been developed and grouped together to facilitate business deals. With a view to promoting Lao Handicraft products, the Lao Silk Fabric Fair was organised in Vientiane in 1999.

Overall, manufacturing is still characterised by small-scale business, processing and assembly plants predominantly concentrated in and around Vientiane. The significance of the 'new' export-oriented sub-sectors is still very limited compared with other countries in the Region. For this reason, employment in the formal, monetised manufacturing sector (small, medium-sized and large enterprises) accounts for less than 5 per cent of total employment. Efficiency and international competitive capabilities vary strongly amongst different manufacturing sub-sectors and different enterprises.

There are a number of constraints, common to all enterprises, such as a small domestic market, lack of availability of raw materials within the country, lack of appropriate financing facilities, high transportation costs both within the country and for exports, insufficient training facilities and lack of business support services. Cumbersome import and export procedures as well as scarce foreign exchange add to the problems faced by the manufacturing sector.

There are, however, a number of opportunities, which will have to be exploited, such as the fact that the Lao PDR is part of a huge regional market, the opening up of new markets thanks to the normalisation of trade relations with some countries outside the Region, the considerable scope for improving both the quality and the quantity of the domestic raw material base for different kinds of manufacture and the possibilities of niche markets and niche products.

2.5 Infrastructure development

Concerning the development of infrastructure, government priorities are focused on construction and maintenance of roads, especially national highways and roads linking Laos to neighbouring countries, with particular emphasis on access roads to the rural areas.

In 1990, the road network in the whole country was about 14,000 km. Since then, it has been extended to about 24,000 km (2000), of which 3,900-km are paved, 6,900 km are macadamised, and about 13,200 km are stoned. More than 2,000 km of these roads have been rehabilitated or substantially improved⁷. In Vientiane Prefecture, roads have been improved and new roads have been constructed, and most of them are completed. The first bridge over the Mekong River, called "Friendship Bridge", constructed with the Australian assistance, was completed 1994. The second bridge over the Mekong River in Paksé, in Southern Laos, constructed with the Japanese assistance, was completed and opened to

⁶ Sources: Ministry of Industry and Handicraft.

⁷ Source: Government report to the National Assembly, September 2000.

traffic in 2000. Construction of 51 bridges on Road 13- South has been also completed. (See Box at page 24)

In the field of Air transport, Luang Prabang Airport terminal, and the new Vientiane International Airport terminal, constructed with foreign assistance, have been completed and are now functioning. Construction and upgrading of other provincial airports are still going on. In the area of telecommunications, microwave and optical fibre with high velocity system was installed in main urban areas, thus facilitating and increasing domestic and external communications. The urban telephone network has been expanded to 54,555 numbers (1999) and the rural telecommunications network is on halfway to completion. Postal services have been continually improved.

2.6 Services

In the field of trade, efforts have been made to improve and expand the domestic market, which is constrained by limited purchasing power and the absence of adequate transportation infrastructure. Construction in recent years of new roads, especially rural roads, has facilitated the expansion of the wholesale and retail distribution network to the rural areas. External trade has also developed along various directions and forms.

The Lao banking system has been restructured. A programme to bring the State – owned Commercial Banks (SOCB) to international standards have been underway for several years, but generally, the Commercial Banks are still weak.

The public finances have been streamlined since 1988. The general budget was unified in 1992, the tax system has undergone substantial innovation, the expenditures control system has been centralised and discipline on expenditure has been enhanced. The National Assembly adopted the New Tax Law on 14 October 1995, and further minor adjustments were made to the tax system in 1998. The tax base has widened. In 1997 / 98, revenue fell below expectations. But the increased revenues anticipated from the new system have not been fully realised. The main reason is that it took longer than anticipated to get the administrative machinery for the new system to be operational. As a result, the fiscal deficit in 1997 / 98 increased to 22 percent of GDP.

The tourism sector has been developed further through the establishment of nature and cultural tourism sites in different areas, Tourism routes and tourism cycle linked between provinces have been developed. Attractive tourism packages are designed so that tourists can halt in Laos for a few days on their ways to visit other neighbouring countries and regulations to facilitate entries to the country for tourists have been eased. The Lao Tourism Year has been inaugurated in November 1999. In 1999, the number of tourists visiting Laos – including border tourists – has reached 500,000 persons⁸.

General evaluation

From a general overview, the country's economic growth in the last decade has been continuous, although with a growth rate lower than the one projected for 1996-2000 (6.2 per cent instead of 8-8.5 per cent). Our economy has been expanding, the production force has

⁸ Source from the National Tourism Authority.

now begun to grow, the economic, cultural and social infrastructure basis is taking shape. Nowadays, the living standards of the people have been gradually improved.

Recent trends, however, have dampened the optimism prevailing until the outbreak of the Asian financial crisis. This event has played havoc with the Government's plans, created macro-economic instability through the seriously damaged public finances, and although relatively important growth rates have been maintained, the impact of social crisis, through inflation and the depreciation of the kip, the reduction in current expenditures and the cancellation of some investment projects has been deleterious especially for the poor population and those living on fixed salaries such as the public servants.

3. Assessment of factors that have facilitated or constrained the country's development

a) Peace and social stability

Generally speaking the country enjoyed relative peace and socio-political stability during the last decade. Thanks to the government's prudent policy, the Lao multi-ethnic people are living together in peaceful co-existence, unity and solidarity. What is more, the Lao PDR is enjoying good relationship and co-operation with all its immediate neighbours, which has contributed to the country's socio-economic development and, thus improved material and cultural living conditions of the population, increased their confidence in the Government policy and strengthened political stability and social cohesion.

b) Economic infrastructure

A substantial share of public investment has been directed to improving the physical economic infrastructure such as the communication network. This has contributed to progressive reduction in the isolation of rural areas and expansion of domestic market. But, in some cases, public investments have been carried out without serious feasibility study, causing delay for several road construction projects; construction technique did not meet required norms or standard; road utilisation, management, maintenance and repair are still very weak; there was no strict control of the works by the relevant authority.

c) Policy reforms

With the NEM, the government has demonstrated its commitment to the reform programme, which has brought about a successful reorientation of the economy. Nevertheless, this success remained vulnerable. The State apparatus has not functioned with sufficient effectiveness and confusion between administrative management and business management still occurs. Institutional strengthening fails to keep up with the socio-economic changes. The roles and responsibilities of each level of functionaries are unclear, rules, regulations and laws have not been strictly applied, and working methods remain weak. These issues require a deep examination and solution during the coming years.

d) Conducive Environment for Private Sector Development

One of the significant elements of the economic reform has been the promotion of private sector, starting with the privatisation of State – owned enterprises (SOE). Between

1989 and 1997, more than 130 SOEs have been privatised⁹. To encourage private sector participation in the development of the country's economic infrastructure, the government has enacted a number of laws: the Contract Law (1990), Business Law (1994), Labour Law (1994), Bankruptcy Law (1994), Promotion of Domestic Investment Law (1995), Decree on the Resolution of Economic Disputes (1994), Civil Procedure Law (1990), Law on the Promotion and Management of Foreign Investment (1994), Accounting Law (1990), Property Law (1990), and Real Estate Law (1997). The main objectives of these laws and regulations are the protection of rights and interests of individuals and private persons.

Despite Government efforts to encourage their participation, the role of the private sector is still limited. The potential role of the private sector in developing transports, telecommunications and the energy sector must be tapped by supportive measures and reforms in the relevant legal framework.

e) Domestic Resource Mobilization

As in most LDCs, the share of financing from domestic sources is still small in Laos, compared to foreign funding. Between 1991 and 1995, the Government had invested a total of Kip 534 billion (US\$ 1= Kip 720). Out of this amount, only 21 percent were from domestic sources while 79 percent were in the form of foreign assistance and loans. In order to increase revenue, and given that taxation constitutes the main source of revenue, the Government has taken measures to improve the domestic tax system in an attempt to move away from heavy reliance on trade taxes.

These measures include:

- rationalising income tax rates ;
- reducing turnover taxes ;
- imposing excise duties on items that would go from the 15 percent to the 10 percent turnover rate ;
- increasing excise duties on petroleum products ;
- introducing a stamp duty ; and
- increasing land tax on commercial and residential urban areas.

The tax base, however, remains narrow with taxes on foreign trade being the largest revenue contributor. Import duties are the largest revenue earner in that category, followed by timber royalties and non-tax revenues (leasing, interest) and turnover tax. Market oriented production, which is expanding, is also an important contributor to revenue. However, belated and uneven implementation of these measures has not produced the expected results.

f) Governance.

The Lao government is convinced that public administration reform and improved governance are part of the environment indispensable for the implementation of the NEM, the structural transformation of the national economy, capacity building and people-centered sustainable development. It is also a prerequisite for a fully functioning market economy. In particular, public administration reform and improved governance must be seen

⁹ Source from IMF's Country reports 1998.

as an integral part of capacity building at all levels of Government for the planning and the implementation of the public investment programmes.

The public administration reform is now under way. The governance and public sector reform programme encompasses:

- a fundamental restructuring of government by redefining the relationship between, and the respective roles of the functionaries at various levels of government (national, provincial, district and villages as well as municipalities), enhancing government–private sector relationships and bringing government closer to the people through greater participation ;
- the strengthening of management at each level ;
- local government reform and strengthening of institutions at the local level ;
- public sector personnel management reform to ensure the development of a highly professional, competent, service – oriented, accountable and transparent civil service ;
- financial management reform keeping in view an optimal cost – effective utilization of scarce financial resources of the government ;
- a legal reform concerning, among other things, the rules pertaining to sound governance and public administration.

However, the implementation of this reform programme needs foreign co-operation through technical assistance.

g) Women

Women form more than 50 percent of the country’s population. The Constitution grants them equal rights with men. But, in practice, there are disparities and weaknesses affecting the advancement of women. Some of these are:

- Living conditions for women , especially ethnic women, are still harsh ;
- Insufficient funding for female HRD ;
- Women still do all household works and have no time to develop themselves ;
- Low level of education with female literacy at 42 percent;
- Administrative committees have not realized the potential of women;
- Lack of HRD planning for women and for female civil servants in particular ;
- Women lack self – confidence ;
- Lack of male encouragement ;
- Lack of support structure; no day care, etc.. . .

The Lao Women’s Union (LWU), created in 1955 to emancipate women, has, amongst its objectives, the development of women of all ethnic groups and at all levels of the society by training them in political ideology, organisational, cultural and vocational skills. It has also been working to improve women’s quality of life through a better mother and childcare practice and the preservation and expansion of Lao fine arts, as created by women.

The LWU has also a programme to train Lao women leaders and managers and enhance the role of women in the society. Today, women have a more active role in the economic activity of the country. In agriculture, textile industry, education, health and household works, women constitute the majority. Women have also taken a more prominent role in the management of the country. There are now female members of the Party Central

Committee, members of the National Assembly, Vice-Ministers, and Ambassador and in various leading provincial and district positions. However, women held only 36 percent of the total public service positions and mostly at the entry level.

h) Environment

The impact of the economic development on the environment is becoming a serious concern for the Government. So, the Government has got it inscribed in Article 17 of the Constitution, which stipulates that “ All organisations and citizens must protect the environment and natural resources: land, underground, forests, and fauna, water sources and atmosphere”. On 3 April 1999, the Law on the Protection of Environment has been adopted. The objectives of this Law are: protection, management control and restoration of the environment, protection, exploitation and utilisation of natural resources, protection and fight against disasters, and management of pollution. But its implementation is not yet very strict.

i) Human Resources constraints

The major weakness in the Lao economy today is the paucity of experienced and skilled manpower, which results in bottlenecks, under- utilisation of services and continued low productivity. It also brings about an increased flow of foreign workers into the country, thus affecting unskilled national workers who are becoming more and more jobless. The absence of qualified managers is being felt both in the private and public sector. The State budget does not command enough revenues yet, but has to rely on external funding to a large extent. This led to difficulties in planning and financing human resources development over the long term. The National Review Conference on the Human Resource Development (NRCHRD), held in August 1996, has identified the following sectors as main areas for HRD:

- Training and development of civil servants ;
- Quality of education ;
- Building the labour force ;
- Culture and information ;
- Public health ;
- Mass organisations: the Youth, Women, Trade Union, and National Front.

More attention needs to be paid to HRD, the training must be better and more co-ordinated, training sessions should be continuous, and mobilisation and management of funds need to be more efficient and equitable. A donor Roundtable Meeting organised by the Government in May 1998 on the Government's Human Resource Development Programme focusing on Capacity building for Public Management and Community Development has not yielded the expected support.

In the Public investment programme (PIP) 1991 – 1995, 14.3 percent of public investment was planned for social programmes (education, public health and social welfare). Actual realisation was 10 percent. For the 1996 – 2000 period this percentage has been increased to 24.5 percent, which shows the government's commitment to the eradication of poverty, development of rural areas and equitable distribution of income¹⁰.

¹⁰ Percentages in this paragraph were calculated from the 1996-2000 Socio-economic development Plan.

j) Agriculture and the rural sector

As far as the Lao PDR is concerned, low productivity in agriculture, particularly rice production, is not the result of population pressure or lack of land, but of the reliance by farmers or rural population on archaic technique of cultivation and the dependence on climatic conditions. So, in order to increase gross agricultural product, the Government has laid down guidelines focusing on firm and definitive solution to food production prior to the year 2000 by crop intensification and diversification, and, to some extent, on the expansion of rice cultivation; the use of improved rice varieties, of machinery, fertilisers, manure and pesticide.

Simultaneously, the cultivation of other food crops has been promoted as well as all types of family and commercial animal husbandry and fishery, as appropriate. A number of necessary measures recommended are: seeds, pesticide, animal breeds, and increased animal feed production, veterinary network development, construction of various systems of irrigation schemes through joint investment between the State, the private sector and the farmers (participatory approach), and use of land, particularly land and forest distribution, progressing towards the stabilisation of shifting cultivation and resettlement of shifting farmers. As far as rural development is concerned, it must be considered as a strategic activity aiming at reducing the difference between urban and rural areas and restricting the rural –urban migration.

k) Industrialisation and technological development

The country, which is at an initial stage of industrialisation, has progressed firmly and continuously during the 1990s, accompanied by a flow of resources and new technology.

The main objectives are to meet the country's requirements, reduce the importation of unnecessary goods and encourage export-oriented production.

Nevertheless, industrial development has not sufficiently kept up with the indigenous endowments and economic structures. Industrial production is not yet linked to the domestic agricultural and forestry raw materials. Guidelines and policies for agro-industrial research, experimentation and promotion have not yet induced firm growth and the development of replicable production models.

The handicraft sector has been recognised as an integral manufacturing sector. Craft development has a vast opportunity to meet the country's development needs since crafts require in most cases local raw materials and could lead to export promotion.

l) HIV / AIDS Control

The increase in AIDS / HIV cases is of growing concern for the Government. Although official figures are low, (91 cases of AIDS and 717 of HIV in 2000), real figures may be higher. A Special Fund and a National Committee to combat AIDS have been set up. Information about the danger from and protection against AIDS have been disseminated

through the media, the schools curriculum and the Mass organisations, particularly the Lao Women Union, Youth Organisation and Non-Governmental Organisations.

External opportunities and constraints

a) Official Development Assistance (ODA)

During the period 1992-1996, the country received external assistance, both bilateral and multilateral, in the form of grants and loans totalling approximately US\$ 913.6 million (11.1 percent of GDP in 1994), of which US\$ 461.9 million were in the form of grants, and US\$ 451.7 million in the form of loans.¹¹

External assistance pledges for the period 1997 – 2000 amounted to US\$ 1,199.7 million (17.8 percent of GDP in 1998), of which US\$ 639.9 million were in the form of grants and US\$ 559.8 million in the form of loans. About 35 percent of the total amount of assistance received were in the form of technical assistance, particularly from multilateral donors, 60 percent for capital assistance and 5 percent for humanitarian assistance.

All this assistance has been used for development purposes, particularly for the reconstruction and rehabilitation of infrastructure development: 23 percent for the transport sector, 15 percent for Agriculture and Forestry and Fishery sector, and 17 percent for Social and HRD.

In the Public Investment Programme (PIP) for 1991-95 and for 1996 –2000, 80 percent have been funded by foreign source. That illustrates the country's degree of aid-dependency.

External assistance contributed significantly to the country's economic growth in the 1990s, but the lack of efficiency in the management of public expenditure had led to wastage of fund.

Therefore, the institutional capacity for planning, coordination, implementation and monitoring of projects funded through external development assistance needs to be improved and reinforced.

b) External debt burden

In 1994/1995, Lao PDR's external debt was estimated at US\$ 579 million. In order to ensure a continuous economic growth, there was a need to increase foreign borrowing, and with recent loans from International Financial Institutions, the total debt reached US\$ 1,025.5 million in 1998-1999.

Concerning the non-convertible currency debt, the Government is in the process of negotiating with the Federation of Russia on debt rescheduling and the use of an appropriate exchange rate for this type of debt.

In order to ensure fiscal sustainability, there is a need to control and monitor foreign borrowings, for instance, by carefully identifying borrowing requirements and fixing a ceiling.

¹¹ Source from the Country studies presented to ESCAP Regional Seminar, 9-11 December 1997, Bangkok.

Debt service ratio has tripled, from 3.3 to 9.9 percent, between 1994 and 1998. Nevertheless, despite the existing foreign earnings constraints, debt reimbursement will remain a high priority for the Government.

c) The export sector

The country's traditional exports comprise agricultural commodities, logs and sawn timber, wood and wood products, livestock and hydro-electricity. But, since 1999/2000, cash crops, particularly coffee, have become important export products. With new foreign investment in the 1990s which helped the expansion of export – oriented manufacturing (e.g. garments), Lao exports have, to some extent, become more diversified. Likewise, trade liberalization in both Laos and its trading partners has encouraged non-traditional exports. Besides, significant informal cross-border trade has been going on for long between Laos and its neighbouring Countries – particularly with Thailand, China and Vietnam – which cannot be prevented due to difficult terrain, poor infrastructure and poor law enforcement capacity.

Laos' major trading partners are Thailand and Vietnam. In 1997, Thailand absorbed about 22 percent of Lao exports and contributed 51.9 percent of imports. Vietnam is the largest export market for Lao products, taking 47.1 percent of all exports in 1998¹². Its imports are composed of consumption goods such as fuel, gas, electrical appliances, investment goods such as machinery and equipment, and intermediate goods, especially raw materials for its garment industry. Despite efforts made to develop and diversify its export products, the Lao PDR still has deficit in its trade balance. From 1994 to 1998, the average annual deficit was about US\$ 290 million and has been brought down to US\$ 217 million (or about 12 percent of GDP) in 1999-2000.

The problems and constraints are:

- Narrow export base dependent on low value- added agricultural exports ;
- The predominance of informal cross-border trade which makes it difficult to identify the actual trade performance and the loss of tax revenue from this activity ;
- Lack of competitiveness of Laos' products in foreign market, due to low quality standard.
- Lack of sales promotion and incentives for export ;
- Ineffective law enforcement as a result of an underdeveloped legal framework

d) Foreign Direct Investment (FDI)

As far as foreign direct investment is concerned, the government has come up with a policy of encouraging foreign investment by adopting the Law on Foreign Investment in 1988, modified by the Law on the Promotion and Management of Foreign Investment in 1994.

Under the 1994 Law, all sectors of the economy are open to foreign investment, and various incentives are provided. Areas where foreign investments are encouraged include energy, production and processing of agricultural and forestry products, export-oriented industries using local raw materials and efficient import substituting industries. Foreign

¹² Cf. Tables 1 & 2, in Appendices.

investors can invest in the country either in a joint venture with domestic entrepreneurs (in which case the foreign component must be at least 30 percent of the value of the project) or as a wholly owned foreign enterprise.

In fact, foreign investment is concentrated in the hydropower sector. But inflow of investment into other manufacturing and hotels and tourism has recorded a marked increase.

However, foreign investment has been declining since 1997 both in value and in terms of number of projects undertaken as a result of the regional financial crisis. Nevertheless, the drive to attract foreign investment has been quite successful, and from 1992 to the first three months of 2000, there were 688 foreign investment projects with a total investment of US\$ 6,849.7 million, and FDI inflows of US\$ 1,075.46 million.

e) The Regional Co-operation Dimension

Expansion of external economic co-operation is of vital interest for the country. So, the Lao PDR has increased co-operation with SE Asian and friendly countries as well as international organisations in order to tap its natural advantages and development potentials.

Likewise, the Lao PDR has widened its participation in Regional and Sub-regional fora. The most important achievement in this field has been its full membership of ASEAN and ASEAN Free Trade Area (AFTA) in July 1997. As a member of ASEAN, the country will further integrate itself into the regional economy and will benefit from the larger market.

The founding Members of ASEAN will also be a source of assistance in terms of financing, technical assistance and providing training for skill development.

Besides, Laos' active involvement in other regional and sub-regional arrangements, e.g. the Great Mekong Sub-region (GMS), the Mekong River Commission (MRC), the Comprehensive Forum for the Development of Indochina (CFDI), the ASEAN-Mekong Basin Development Co-operation, has acted as a positive catalyst for major investments in the field of energy, transport and communication and in the building of East – West corridors.

The country's membership of ASEAN also is expected to have positive influence on other issues in the global context, for instance its accession to the World Trade Organisation (WTO) for which it is currently preparing. The accession to the WTO entails not only positive impact but also some short-term difficulties that may stall the development of the country, as it has to compete on equal terms with other developing countries. Positive impacts expected are: improved market access, especially for clothing and textiles; reduction or elimination of tariff and non-tariff barriers in the market of industrialised countries; preferential treatment; advanced and accelerated implementation of most favoured nations status (MFN); improved product coverage for GSP; and elimination of tariff escalation and tariff peaks.

Vulnerability to shocks

Laos is vulnerable to natural disasters, as its economy is still heavily dependent on the agriculture, the performance of which lies virtually at the mercy of nature. For example, serious drought in 1991 and 1993 resulted in a drop in rice production.

In 1995 and 1996, the country was adversely affected by serious flooding, which caused a great loss in terms of cultivated crops, basic infrastructure as well as people's assets (e.g. houses, poultry and livestock, fruit trees, industrial plantations, etc.).¹³

The country's level of disaster preparedness and prevention is weak. Inadequate infrastructure for water storage, poor drainage capacity during flooding and inability to conserve seasonal rains for use in time of drought contribute to this weakness. The country is also vulnerable to economic and financial shocks. Macroeconomic imbalances, resulting in currency fluctuation and rapid rise in inflation rate after 1997, and the Asian financial crisis of 1997 have led to the deterioration of the country's economic situation.

¹³ "207,740 tons of paddy-rice valued at more than 30.6 billion Kip; damage to 65 irrigation schemes valued at 722.5 million Kip; damage to road infrastructure valued at 1.5 billion Kip, schools, hospitals, pagodas and electrical system". Official source.

EXAMPLES OF BEST PRACTICES

Rice self-sufficiency*

Rice is the basic staple food in the Lao PDR and represents about 40 percent of agricultural GDP. Until recently, the country had to import substantial quantity of rice every year for its domestic consumption. With its abundant arable land per capita relative to its major neighbours (Thailand, China, Vietnam), Lao PDR has the potential to become a substantial net exporter of food and should not be dependant on food imports. Yet, due to various factors, such as the prevailing subsistence-oriented, low productivity, low input farming systems, weak rural infrastructure, lack of national system of research and extension, lack of skilled manpower, and underdeveloped rural savings and credit systems, rice production was insufficient to meet the population's needs.

Conscious of the situation, which, if the trend continued, could become a potential threat to social stability, the Government had emphasized on the implementation of some of its *priority programmes*, namely, Food production, Reduction of shifting cultivation, Rural development, and Infrastructure development with a view to boosting rice production. To this end, substantial funds were invested in the agricultural production system and infrastructure, and in agricultural research.

In the case of both lowland and upland farming systems, the government is putting increased efforts and investments in diversifying the existing agricultural production systems. This contributes directly to shifting gradually out of the present rice-dominated production system.

General technical recommendations from relevant authorities with regard to increasing rice productivity and producing alternative cash crops are widely adopted by farmers. In addition, the government has also improved its agricultural credit policies** and service systems to reach better the farmers in order to address more efficiently rural poverty. However, much is still to be done in this field, because loans are not yet accessible for the majority of poorer farmers in need of credit. Nevertheless, past efforts of the Government to address rural poverty and food security are beginning to generate promising results, as shown in the Table below.

	Rice production (in thousand tons)				
	<u>1976</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>
Rice	660.9	053.1	1491.5	1417.8	2201.7
Season rice	455.4	705.0	1081.1	1071.3	1552.8
Irrigated rice	3.5	11.1	41.0	50.4	390.2
Upland rice	202.0	337.0	369.4	296.1	258.8

* The Food Security Programme has been partly supported by some donor countries and International Organizations.

** Credit is channeled through the Agricultural Promotion Bank (APB) at below-market interest rates and financed by the BOL with assistance from donor countries.

Repatriation and reintegration of Lao refugees

After the proclamation of the Lao PDR on 2 December 1975, it was estimated that about 1/10 of the Lao population had left the country for seeking asylum abroad. Most of them had found it in America (the United States, Canada, Argentina), Western Europe (France, Germany, Belgium, the Netherlands, Switzerland and Great Britain) and Australia. An important part of them, the so-called "Screen-out", had to stay in refugees camps in the countries of first asylum, mainly in Thailand, for more than two decades, with the hope that one day they will be accepted by some countries. With regards to those people, the Government of the Lao PDR had clearly affirmed that if they wished to return to the homeland, they would be welcome without fear of reprisal and discrimination.

From 1980 on, the Lao Government, together with the Governments of the first countries of asylum and the UNHCR had worked out a programme on voluntary repatriation and had it implemented within the framework of the **Comprehensive Plan of Action (CPA)** for the repatriation in Indochina. The UNHCR had been entrusted with the task of making the Lao Government's humanitarian policy known to Lao refugees abroad. Tripartite meetings had been held several times with the first countries of asylum and the UNHCR, during the period 1989-99, in order to speed up the repatriation process. From 1980 to 1999, a total number of 29,068 Lao refugees* were repatriated and completely resettled in 16 provinces and one special region with the assistance of the International Community**. In December 1999, the repatriation programme was achieved.

As far as reintegration was concerned, returnees had two options: individual and group settlement. Individuals and number of families often went back to their villages of origin or to a place where they had relatives. As for large groups, mostly the ethnic minority groups, they preferred to live together in the sites prepared by Lao Authorities and UNHCR. Normally the choice of resettlement sites was taken within the framework of development projects aiming also at improving the livelihood of the local population.

* Of which, 25,117 from Thailand, 3,759 from China, and 192 from other countries.

** Donor countries: Japan, Australia, USA; International Agencies: UNHCR, EU; NGO: Consortium, ZOA, Concern.

Foreign assistance in the Transport and Communications Sector

Lao PDR's transport system, in 1990, is rudimentary, dilapidated and unreliable except for some recent sections. This has made internal and border crossing transport extremely difficult. The country has no natural transport arteries and relies almost exclusively on road transport, except for about 1,190 km of sections of the Mekong River, which are navigable, depending on the season and other factors. The country has also an international airport, but no railway. Roads serve about 90 percent of all freight and passenger traffic and the national economy therefore depends crucially on the road system's performance. However, only about 1,000 km of national roads (out of 14,000 km) are usable year-round, and another 2,000 km can be used part of the year. Specially equipped vehicles can only use the remainder.

The Government realized that this state of the transport system was a key impediment to economic growth, with particularly negative and disruptive effects on the economic and social opportunities for the widely dispersed rural population. Therefore, substantial resources have been allocated to the sector.

The majority of transport capital and current expenditure is at present funded through a combination of ODA from bilateral and multilateral donors and domestic resources raised from taxes.

Foreign assistance has amounted to about US\$500 million between 1983 and 1995/96. Among multilateral institutions, ADB has been the largest contributor, with road projects in urban and rural sectors totaling over US\$250 million. ADB is also considering the possible financing of a new Mekong Bridge near Savannakhet. The next is IDA with planned or committed projects in the order of US\$150 million. UNDP has provided technical assistance funding totaling US\$2.7 million in conjunction with some ADB projects. UNCDF is funding improvement to Road 1A between Xiang Ngeun and Paklay in Luang Prabang province. OPEC has funded local roads as part of rural development projects administered by other ministries.

Among bilateral donors, Sweden has provided about US\$35 million for the upgrading of Road 13. The Nordic Development Fund participated in funding bridges on Road 13. Australia provided US\$32 million for construction of the Mittaphab (Friendship) Bridge and another US\$14 million for bridges on Road 13. Germany is financing improvement to Road 6, in Huaphanh province, with a US\$10 million grant, and another US\$1.2 million, with ILO acting as an executing agency, for the development of feeder roads with labor-intensive methods. Japan has donated funds for the purchase of equipment for Road 8, and bridges on Road 13, as well as for feasibility study and construction of another bridge over the Mekong at Pakse. Japan has also provided funds for construction of a new terminal, control tower and equipment at Vientiane International Airport. Japan assistance in the sector is totaling US\$95 million, of which US\$50 million for Pakse Bridge. France has supplied equipment for air navigation amounting to US\$2.1 million.

4. PROGRAMME OF ACTION, 2001-2010.

4.1 Introduction

The Lao PDR's Programme of Action is included in the **National Socio-Economic Development Strategy to the year 2020**, which has been adopted by the National Assembly in 1996, and provided development orientations and processes by taking into account the potentials, realities and specific conditions of the country. This development strategy established the policy framework for getting the country out of the state of underdevelopment by the year 2020, i.e. eradication of poverty which is still widespread in the country, preservation of natural resources and protection of national environment. It is to be carried out in two stages as follows:

Stage 1: 2001-2010: Establishing and improving the economic base for ensuring a sustained growth;

Stage 2: 2011-2020: Economic and Social Development, which will enable the country to quit the status of a Least Developed Country.

However, a few weeks after the adoption of the Strategy, the Asian financial crisis was triggered, playing havoc with Government's plans.

As a matter of fact, variety of factors related to the crisis and stemming from it have slowed down the economic growth relative to the targets set in the pre-crisis environment. There has been a sudden and drastic decline in government revenues and foreign investment inflows and exports. The national currency, the **Kip**, depreciated ten-fold against the US dollar, while inflation reached 3-digit figures.

Nevertheless, in order to safeguard some of its on-going vital investments, the Government responded to the crisis with some strong internal monetary measures by resorting to monetary incentives and pursuing investment in some basic infrastructures, especially in the agricultural sector.

This option enabled the Government to maintain economic growth at a relatively acceptable level (4 percent in 1998, 7.3 percent in 1999, and 5.9 percent in the first 9 months of 2000).

This decisive action has, since 1999, restored macro-economic stability, especially with respect to inflation and exchange rate, but was unable to achieve the pre-crisis socio-economic development, among other things, the rules pertaining to sound governance and public administration.

Nevertheless, the Government's main challenge, now, is to maintain this hard-won macro-economic stability, and to improve its economic performance in the post-crisis environment, which is an integral part of its efforts to achieve the 2020 goal.

The programme of action, which includes the **Eight priority programmes**, coincides with Stage 1.

This Section presents the programme for the next **ten years** but focuses mainly on the **First period** (2001-2005). For the **Second period** (2006-2010)- of which there is no implementing plan yet – it is supposed to be the extension of the first one.

This Section is divided into four parts. The first part provides the national vision, mission and overall objectives. The second part provides an insight of the framework through which policies are made and implemented. The third part gives some outlines of the investments and resources mobilisation and the fourth part indicates the guiding principles for the implementation of the Plan.

4.2 Development vision, mission and overall objectives

4.2.1 Development vision

The Lao PDR's aim is to quit once and for all the status of a LDC by the year 2020 through a sustainable and equitable development¹⁴.

The economic and social sectors would be continuously developed and enjoy a sustained stability based on the market economy mechanism under the State control, ensuring people's independence and democracy. The market economy would be expanded to the grass-root; the necessary basic infrastructure network would be developed throughout the country.

Industry and Services would include the major share of the national economy, ensuring good quality employment for the people and equal and equitable distribution of incomes throughout the society. The base of industry and services would develop firmly so as to progress towards the industrialisation and modernisation, simultaneously with a sustainable ecosystem, and towards the establishment and utilisation of high-level data processing system.

The economy would develop concurrently with the political, social, cultural, educational, environmental and international co-operation development.

The people's living conditions would be basically peaceful and stable; and permanent food security would be ensured.

The fundamental rights of Lao citizens and foreigners living in the Lao PDR would be guaranteed on the basis of the laws and regulations. Social justice would be ensured to the multi-ethnic people, giving them the opportunity to develop themselves and the society.

4.2.2 Development mission

The Lao Government's fundamental commitment to a sustained growth with equity calls for a direct attack on poverty. Quitting the LDC status, for the Lao PDR, essentially means eradicating mass poverty, and also eliminating inequalities and improving the people's living standards. This implies two major strategies: **high economic growth with**

¹⁴ Or "sustained growth and distribution with equity", i.e. creation and building up of the prerequisites for a people-centred and sustainable development.

equity and access to social services and to markets for everybody, particularly those in the rural areas. The Government considers the promotion of income generating activities and improved access to social services as the best way to start reducing poverty.

A sustained growth with equity and a people-centred, sustainable development strategy are its main instruments for reaching this goal. In this connection, the Government is actively preparing a **National Poverty Alleviation Strategy (NPAS)**, which will be focusing on **fighting poverty through human resources development, rural development and people's participation**.

All of the **8 priority programmes** have the common objective of fighting poverty directly or indirectly. However, priority programmes which are expected to address poverty immediately and, thus, constitute the main vector of the NPAAP would evolve around the following strategic areas: Food production; Commercial production; Stabilization of shifting cultivation; Rural development, Human resources development and Infrastructure development.

4.2.3 Overall objectives

The main objectives for the period 2001-2010 are:

- To ensure that the country continues to enjoy political stability and social orderliness.
- To overcome the effects of the recent financial crisis and preserve the macro-economic stability.
- To improve and build basic conditions for a sustained and stable economic growth, in order to progress towards the elimination of the underdeveloped characters of the economic base by 2020.
- To continue to build sectoral and regional economic structures, in order to develop simultaneously each region of the country.
- To improve gradually the living standards of the multi-ethnic people.
- To continue to encourage food production and commercial production, to establish food security in order to ensure rice and food supply to the whole country and to enhance export of agricultural commodities.
- To spur rural development, in order to progressively reduce mass poverty. By the year 2005, mass poverty should be reduced to half of the present number. Slash-and-burn cultivation should be basically resolved; opium poppy and cannabis growing issues should be definitely addressed by encouraging growers to take up new occupation and sedentary productive activities.
- To continue developing the socio-economic infrastructure in order to facilitate the expansion of other sectors, and increasing exports in order to balance them with imports.
- To pay more attention to the cultural and social issues, and the human resources

development by improving the quality of education and upgrading manpower's skills, in all branches and at all levels, so as to be able to cope with the next step of development tended towards industrialisation and modernisation.

➤ To endeavour to eradicate deficiency diseases such as iodine deficiency, tetanus, and

reduce serious diseases such as malaria, dysentery and dengue fever, as well as to prevent AIDS/HIV pandemic.

➤ To provide clean water for everybody by the year 2009.

➤ To continue implementing ongoing priority projects, and study the implementation of

new projects deemed necessary.

➤ To make efforts for achieving an average GDP growth of not less than 7 percent per

annum, with focus on industrialisation and modernisation so as to bring about the desired structural change in the economy, in which contributions of the sectors will be as follows: agriculture 36.6 percent (presently 51.3 percent), industry 31.5 percent (presently 26.6 percent) and services 31.9 percent (presently 26.1 percent). In order to achieve this objective, investment/GDP ratio of 25 percent per annum must be obtained.

4.3 Framework for the implementation of the strategic objectives

The Programme of Action 2001-2010 will be implemented in two phases by 2 **Five-year Plans: 2001-2005** and **2006-2010**, each of them is to be divided into annual implementing plans.

The outlines of the 2001-2005 Plan or the **Fifth National Socio-Economic Development Plan**, and for the period 2006-2010, are as follows:

4.3.1 Macro-economic and social policies and targets

The Government's macro-economic policies aim at promoting future economic growth. By building up basic infrastructure the Government will continue to support the vital role of agriculture in the national economy, paying at the same time due attention to the diversification of the country's production. To this end, the Government is currently preparing a **Masterplan for production** to be used as a guide in these matters.

▸ Economic Sector

On the basis of the envisioned GDP growth of not less than 7 percent per annum, on an average, sectoral growth rates as well as sectoral shares in the GDP have been projected for the period 2001-2010. These are below:

<i>Sector</i>	<i>Average annual growth rate (Percent)</i>	<i>Share of GDP (Percent)</i>		
		<i>2000</i>	<i>2005</i>	<i>2010</i>
Agriculture-Forestry	4-5	51.3	47.0	36.6
Industry-Handicraft	10-11	22.6	26.0	31.5
Services	8-9	26.1	27.0	31.9

The annual average inflation rate would be further reduced to single digit level, and efforts shall be made for maintaining the stability of the exchange rate (presently 1 US\$ = Kip 8,000).

Revenue generation shall increase to reach 18 percent of GDP in the year 2005, and the budget deficit would be maintained at 5 percent of GDP.

The trade deficit would be reduced from the present level of 12 percent of GDP to less than 10 percent of GDP by the year 2005 and the balance of payments deficit to the level of 6 percent of GDP.

Exports would increase by about 10 percent per year (US\$ 323 million in 2000), and imports would increase by about 8 percent per year (US\$ 540 million in 2000).

Foreign investment is expected to reach about US\$ 1.5 billion during the period 2001-2005.

Public savings, as percentage of GDP, are targeted to increased from 3-4 percent at present to 12 percent in 2005, thus ensuring that investment from domestic resources reach 10 percent of GDP by the terminal year of the five- year plan.

At the beginning of FY 2000-2001, the current expenditures will be 35 percent of the total expenditures and is projected to reach 50 percent in FY 2004-2005.

In order to cover these expenditures, the Government will have to increase revenue through intensified efforts at domestic resource mobilization. Since the Lao PDR is a low-income country and has a large number of commitment across different sectors that need to be addressed, its own resources, probably, will not be able to provide more than 30 percent of the total expenditures. **Thus, the Government will need external resources – about 70 percent - to supplement domestic resources for the implementation of the Plan.**

▸ *Social Sector*

By the year 2005, the country's population is estimated at 5.9 million, and at 6.8 million in 2010, of which about 54.2 percent will be under 20 year-old, and about 25.9 percent will be between 20-40 year-old. This reveals an important potential for the development of the nation, provided that there is active human resources development.

But, the country is facing several problems relating to population which is increasing at an annual average rate of 2.5 percent. This continuing growth rate requires sufficient foodstuffs, public services such as education and health care systems and others to absorb the surplus.

Being aware of the important linkage between population growth and economic development, the Government has adopted, in 1999, the National Population and Development Policy, by incorporating population issues into national development planning. The Policy's objectives are:

1. To enable the people, namely the couple to reasonably and responsibly determine the number and spacing of children, taking into account their own social and economic conditions, with a view to improving the quality of life and ensuring that the country's population growth is compatible with socio-economic development level.
2. To promote a balanced distribution of population between rural and urban areas and between the different regions of the country, while guaranteeing the free movement of people within the country.
3. To promote the development of the nation's human resources and their full utilization, in order to improve the living standards of all sections of the population.

On the basis of the above mentioned objectives, various targets, namely in respect to Health and Fertility as well as to the Mother-and-Child issue have been set out. The changes in the major social indicators are shown below:

<i>Indicators:</i>	<i>1995</i>	<i>2000</i>	<i>2010</i>
	<i>(Actual)</i>	<i>(Actual)</i>	
<i>(Projection)</i>			
1. Population growth rate (%):	2.6	2.8	2.2
2. Infant mortality (Per 1000 live births)	104	82	40
3. Under-5 mortality (Per 1000 live births)	170	106	60
4. Maternal mortality at childbirth (Per 100,000)	656 (1993)	530	250
5. Fertility rate	5.6	4.5	3.5
6. Birth spacing practices (% of pop.)	3.0 (1994)	25	55
7. Access to clean water (% of household)	39	56	100
8. Access to Sanitary Latrines (percent)	32	38	65
9. Participation rate of workforce (percent)	70		80
10. Population below the poverty line (percent)	46 (1992)	39 (1998)	20

Here, efforts must be made in order to reduce the number of the population below the poverty line to half of the present number, e.g. to 19.5 percent, by 2005.

4.3.2 General Guidelines for the Development of the Economic Sectors

The main components of the Government approach to achieve continued economic growth with equity by creating and enhancing the conditions of its expansion and promoting a basis for sustainable social progress, are the agriculture-forestry, education, health and road infrastructure programmes.

Since these four sectors are the most immediate priorities for poverty alleviation, the Government will continue to devote most of its efforts and resources to them, in conjunction with the development of the Industry and Services sectors.

◆ The Agriculture-Forestry Sector still constitutes the backbone of the national economy and must be developed in an integrated manner, i.e. cultivation of rice, food crops and commercial crops, fishery (aquaculture) and animal husbandry linked concurrently with food processing. Each region/each province must be able to determine their agriculture and forestry development potentials so as to have, from the beginning, well-oriented development plan. The agriculture and forestry production base must be strengthened and oriented towards high efficiency and sustainability.

Programmes/projects to be implemented in the context of this sector are:

- Food (cereal crops) production, including animal husbandry and fishery (aquaculture), which aim, not only at ensuring food security for domestic consumption, but also at having some surplus for possible export. In 2000, food production reached 2.6 million tons, including 2.2 million tons of paddy-rice; the projected production for 2005 is about 2.8 million tons of paddy-rice, and for 2010, about 5.46 million tons, including about 3 million tons of paddy-rice (with a surplus of 400,000 tons of rice).

As far as animal production is concerned, efforts should be made to raise 44,000 cattle, 45,000 buffaloes and 150,000 piglets for export by 2005.

- Commercial or cash crops production (agricultural products other than food), such as coffee, tobacco, wood products, non-timber forestry products, etc., would be boosted not only for domestic consumption, but also for export. Especially, coffee production should increase from 17,530 tons in 1999, to 51,000 tons by 2010.

- Reforestation and preservation of water source's forests, and management of national protected forests will receive special attention. Deforestation caused by both shifting cultivation and unsound logging practices, is leading to increased erosion and threatens the country's natural bio-diversity and catchment areas, and, thus, is a serious cause for concern to the Government and donors. Logging activities are very difficult to monitor or plan rationally, owing to weak institutional capacity at provincial and district levels.

The Government's goal, in this area, is the sustainable management of resources through encouraging trees replanting with fast-growing species, reducing unsound logging practices and promoting the domestic wood processing industry to increase value added products for exports. Efforts should be made in order to increase the country's forest cover from 47 percent presently, to 50 percent by 2010. During the period 2001- 2005, about 134,000 ha. of land will be afforested.

- Irrigation construction, which is the most important agricultural infrastructure base for food production and commercial production, will be undertaken. Small-scale irrigation will be improved and expanded for more efficiency, and bases for medium and large-scale irrigation construction will be established, in order to expand cultivation areas. By 2005, the irrigated area for dry season rice cultivation will cover about 150,000 ha.

- Agricultural-forestry research and experimentation will also receive increased attention, with focus on the improvement and development of technical units working on survey and design and on research and experimentation, and of national and provincial seeds production centers, with a view to supplying the Macro and Micro Organizations with necessary data, and supplying the Food and Commercial production with new plant seeds, animal breeds, Technique and Technology, and on the investigation and development of agricultural lands according to the need of each province.

The Government's goal, in this area, is the sustainable management of resources through encouraging trees replanting with fast-growing species, reducing unsound logging practices and promoting the domestic wood processing industry to increase value added products for exports. Efforts should be made in order to increase the country's forest cover

from 47 percent presently, to 50 percent by 2010. During the period 2001- 2005, about 134,000 ha. of land will be afforested.

◆ The development of industry must be focused on the most potential sectors such as electricity industry, agro-processing industry, commodity production industry, mining and ore-processing industry.

As far as the electricity production is concerned, concurrently with the development of medium and large-scale power plants, more attention will be given to the development of small-scale power plants for supplying electricity to rural areas to be used for domestic production and for improving the people's living standards. By 2005, electricity production will reach 5,570 million kWh.

In this sector, projects to be implemented will be: construction of some large and medium scale hydro-power dams, for domestic consumption and for export; construction of power transmission lines connecting with neighbouring country's networks; production of construction materials; 50 prospecting and mining projects (iron, coal, gypsum, gold, gems, oil, etc.); in this connection, a 1/200,000 scale geological/mineralogical map of the northern part of the country will be drawn up; food processing; textiles and handicraft production; chemical industry; establishment of industrial areas in Vientiane Prefecture, Savannakhet and Champasak; turning the central and southern parts of the country into an electricity industry development area and raw material sources.

◆ Trade and Services must be developed with a view to wide opening domestic market and increasing on-site exports.

Simultaneously, given the country's geographic location – in the middle of the sub-region –, efforts must be focused on investing in international transit corridors to diversify access to seaports and promote the country's potential role as a land bridge, the expansion of transit services, and the establishment of duty-free zones, etc. Likewise, investing in roads to facilitate the trade of border provinces with neighbouring countries is also needed.

At the same time, conditions must be created so as to turn the country into a new tourist place with special features capable of attracting foreign tourists and generating high incomes for the country.

In this sector, projects and tasks to be conceived, designed and developed for implementation would have to evolved around the following: meeting obligations of and benefiting from AFTA membership; application for WTO membership ; improvement of laws and regulations relating to the field of trade; market forecast; management and protection of consumers; management of imports; management and promotion of exports; establishment of special economic zones or free-trade zones in the northern, central and southern parts of the country; promotion and protection of domestic production; market development and commercial publicity; development of tourism sites and improvement of the tourism service system; support to the banking system through the building of a market infrastructure; strengthening of the Bank of the Lao PDR (BOL); improving the efficiency of the Commercial Banks (CB); creating necessary regulations and mechanisms in view of establishing a Stock market in an appropriate time.

- ◆ Handicraft development is a potent factor for industrial development. The main problem facing the promotion of crafts lies in the quality of the products and the marketing effort becomes meaningful only when the products can meet the market demand. Particular attention must be given to not jeopardise sound preservation of the cultural heritage.

Clear development guidelines for craft development must be prepared.

4.3.3 Guidelines for Regional Economic Development

Given the geographic and ethnic diversity of the country, in its development plan strategy, the Government must take into consideration the regional economic structure by using effectively exploitation of natural potentials, labour force and other potentials of each region.

Two aspects of regional development must be carried out simultaneously: on one hand, active development must focus on areas and regions with potentials, in order to save resources for assisting other areas and regions; on the other hand, efforts must be spent for promoting production in regions with difficult conditions in order to eradicate poverty, by linking closely this regional development with the people's poverty eradication programmes.

For development purpose, the country is divided into three main regions having unique features and, therefore, specific development needs of their own. These are briefly described below:

➤ ***The North*** encompasses 7 provinces, with 30 percent (1.5 million) of the country's population, and 40 percent of the country's land area. On the whole, the people's education level is low; the major part of the lands is mountainous; forests have been destroyed a lot, thus affecting greatly the environment and the ecosystem. The people's living conditions are still very harsh; it is the most underdeveloped part of the country. Some key-areas to be addressed for redress and development are:

- Infrastructure development, especially the communication network;
- Preservation of forest resources and reforestation;
- Food security;
- Settlement of shifting cultivation for rice growing purpose and stopping up of opium poppy and cannabis growing;
- Commercial production, such as cash crops, animal husbandry which represents the region's potential;
- Arrangement of sedentary life for villagers and poverty eradication;
- Development of tourism services, particularly scenery and eco-tourism;
- Establishment of a special economic area in Oudomxay province and a duty-free trade area in Boten, Luang Namtha province.

➤ ***The Centre*** encompasses 7 provinces, with 46 percent (2.3 million) of the country's population and 40 percent of the country's land area. It is the most developed part of the country, having vast potentials for further development, particularly in the field of agriculture and hydro-electricity.

The key-areas to be addressed for development in this region are:

- Development of infrastructure, especially the transversal communication network;
- Development of hydro-electricity; agriculture and forestry production; production of construction materials and utility and export goods;
- Development of transit services, especially trade, tourism, transit transport and other services;
- Establishment of a special economic area in Savannakhet.

➤ *The South* encompasses 4 provinces, with 24 percent (1.2 million) of the country's population and 18 percent of the country's land area. It is a very important strategic area, bordered by three countries (Vietnam, Cambodia and Thailand), which has enormous potentials for forestry development. There are large plains favourable to rice cultivation, cattle rearing, fishery, cash crop, especially coffee and fruit trees, and non timber forestry products. Besides, there are also favourable conditions for development of hydro-electricity and mining (gold and coal).

The area is also endowed with beautiful scenery and historic and cultural sites, such as the Mekong Falls at Khone Pha Pheng and Wat Phou Temple in Champasak, and therefore, is propitious to tourism. But, its problems lie in its poor infrastructure, particularly transport and communications.

Key-areas to be addressed for development are:

- Development of infrastructure, turning the area into a transit route;
- Development of food production;
- Expansion of commercial crops and fruit trees, promotion of cattle rearing, and manufacture of export products based on agriculture, mainly coffee, cardamom and rice;
- Development of agro-processing industry and mining;
- Development of trade, tourism, handicraft and common services;
- Establishment of a special economic area in Champasak province.

Indeed, currently, the Government is implementing its decentralisation policy which aims at **building up the Province as the strategic unit, the District as the planning and budgeting unit, and the Village as the implementing unit**¹⁵. So, it is most necessary, for the relevant Authorities, to clearly determine potential regions or areas to be developed, in order to have a co-ordinated development, a synergy between village and district, between district and province, and between provinces, thus resulting in a combined and cohesive strength throughout the country.

In order to ensure that regional development is carried out in accordance with the national development plan, focus must be placed on the working out of a strategic plan pertaining to the development of each region and also a Masterplan for the development of some focal economic sites of the country.

The strategy, here, is to reduce development gap between provinces, to promote their inter-connection and their cross-border exchanges with neighbouring countries.

¹⁵ Cf. Decree of the Prime Minister No.01/PM, 11 March 2000. See explanation in Appendices.

4.3.4 Guidelines for Multi-Sectoral Economic Structures

In the next five years, the multi-sectoral economic structures will continue to be used under diversified forms of ownership and production organisation, into the national development along the market economic mechanism, under the State's management, control and adjustment. The general objective is to render the existing multi-sectoral economic structures into the national economic base, to function in accordance with the National Socio-Economic Development Plan.

In this context, attention must be paid to improving and strengthening of the public and mixed sectors, so that they may become the national economic foundation. By the year 2005, these sectors should be able to represent 30-40 percent of GDP.

In the public sector, focus will be placed on Government's priority projects, which are necessary for serving the society. Some of these will be in the areas of: power, mining, communications, water supply, and other social infrastructures. If the State is unable to run one of these fields by itself, it can enter into joint venture with or give concession to private investors

The forthcoming PIP, like the previous one, will continue allocating an important share to the Transport and Communications Sector, although its relative portion is diminishing in the overall PIP in favour of the social sectors.

The Communications system will be improved and developed in a focused, gradual and rational manner, connecting gradually the communications network with important areas throughout the country, and facilitating exchanges with foreign countries.

Transport of goods and passengers by road, by air and by water will be improved and expanded with higher quality and efficiency. National roads connecting with neighbouring countries, as well as rural roads will receive priority. In this sector, some key-areas to be addressed are:

- Construction of other Bridges over the Mekong River, in Savannakhet province (the Agreement has been signed with Thailand in March 2001), Luang Prabang and Thakhek.
- Completion of Road 13 from Boten (Nord) to Veune Kham (South).
- Improvement and Construction of transversal roads for the East-West transit services.
- Construction and improvement of port facilities and bank protection along the Mekong River.
- Survey and Design of a new International Airport.

The Road Maintenance Fund, approved in May 2000, will become a powerful instrument to ensure the sustainability of the planning and budgeting of the country's main infrastructure investments in national, provincial and local roads.

As far as Post and Telecom are concerned, the existing Telecom systems must be used effectively, and further expanded to rural areas so as to facilitate domestic and external communications. By 2010, 30 percent of the Lao villages should have telephone; total telephone numbers must reach 450,000 units, or on an average of 7,5 telephones for 100

persons, and in towns, 20 telephones for 100 persons (4 telephones for 100 persons by 2005).

The mixed and private sectors will be encouraged to increase and improve the quality of their production, by using modern techniques and technology, so that their products may compete with each other, and with foreign products.

Family farming in the rural areas will be strongly encouraged to produce for self-sufficiency and to supply local market. This will increase their incomes and contribute to the gradual eradication of poverty and backwardness.

As already mentioned, craft development is crucial, and will be encouraged coherently.

4.3.5 Guidelines for improving the Macro-economic Management

Concurrently with the use of the market economic mechanism, the State's capacity in macro-economic management must be upgraded, so that the economic development follows the established plan.

On the one hand, the market mechanism must run smoothly on a legal basis, integrating local market into a national market, linked with other areas and provinces, facilitating free movement of goods, and creating the necessary conditions for connecting the domestic markets with Regional market as well as with the rest of the world. On the other hand, the State must improve and progressively complete its legal system and macro-economic policies to be used as efficient instruments for its management of the society. Improvement must also be brought to the Planning, Finance and Banking, Trade, Domestic and Foreign Investment Organisations, so that they may become the main actors for the Government in the macro-economic management and adjustment. Improvement must also be brought to planning tasks, and the periodic macro-economic planning needs to be more efficient and really implemented, in order to ensure the macro-economic stability and the steadiness and sustainability of the development.

In order to make the macro-economic management highly efficient, the economic data collection system must be improved towards uniformity, international standard and through in-depth and scientific analysis. It must be accurate and timely, on which the Macro-Economic Management Authorities can base their decision -making while adjusting their policies and measures.

4.3.6 Guidelines for the Rural Development and poverty eradication

In the next five years, the rural development tasks have to be expanded and linked closely with poverty eradication in rural areas, resettlement¹⁶, reduction of slash-and-burn cultivation and opium poppy cultivation, and UXO clearance. The rural development objective is to clearly improve and upgrade the living standard of the people, to find solution

¹⁶ The term "resettlement", in the context of the stabilization of the shifting cultivation programme (Cf. 8 priority programmes), used in this paragraph does not convey the exact meaning of the Lao word "**Chatsan asib khongthi**". The government intention is not to move the settlements per se, but to create permanent conditions for livelihood for "unsettled" families. Except in the case of hydropower development projects where villages lie in areas to be inundated, there is no "forced" resettlement going on.

to poverty of rural people in remote areas. The rural development must be carried out in a focalised manner.

To that end, each province must continue to determine more clearly its focalised development areas, with emphasis on potential in terms of natural resources and climate of each area, such as: site areas for poverty targeted eradication; resettlement; border areas and mountainous areas with ethnic minorities; rice, food crops and cash crops cultivation; animal husbandry, etc. Once the focal sites are determined, detailed projects must be developed, by entrusting the provinces, the districts and the villages with clear responsibility, in order to mobilise funds and technicians for each particular focal site area's priority.

At the same time, guiding institutions must be improved and strengthened, in order to be able to co-ordinate in an uniform manner, the other sectors' activities in the performance of the aforesaid tasks, making each focal site area's development successful.

In this field, the Government will be focusing on the training of its staff, particularly provincial and local staffs, in order to upgrade their administrative capacity, e.g. their ability to use various resources and funds with efficiency; on improving and increasing the number of capable staff for relevant guiding Institutions.

Rural development must be carried out in an integrated manner, e.g. having a production base (food and various products), a favourable rural infrastructure foundation (roads, electricity, water supply, communications...), social services (schools, free clinics, arts, libraries, parks...), and people who know how to make use of their traditional resources and skills.

In this respect, craft development will increase production outputs for the agro-processing industry, domestic consumption and exports and thus constitute a major base for income generating activities in rural areas through the promotion of non-farm activities, the creation of a production capacity for other sectors and other non-farm activities such as production for building materials and food processing.

For the next five years, efforts must be made by central and provincial Authorities to establish some experimental focal sites to be used as model for rural development throughout the country. The results obtained by these focal sites during the 2005-2010 period will be implemented in the plain, plateau and mountainous areas.

Town municipality will be established at the high-density population areas so as to bring towns and rural areas closer together.

4.3.7 Guidelines for the Human Resources Development

It is recommended that increased attention be paid on human resources development tasks, both at the central and provincial levels, in order to get more tangible results than before, so that the socio-cultural development goes concurrently with the economic development.

First of all, focus must be placed on development of the education system's quality, and to further consider education as human resources development's main tasks, and to develop it both quantitatively and qualitatively.

In this connection, efforts will be continuing in:

- School enrolment, so that net enrolment rates reach 86 percent at the primary level for children of 6-10 year-old, 52 percent at the lower secondary level and 24 percent at the upper secondary level;
- Illiteracy eradication, so as to reach the literacy rate of 85 percent and 80 percent for the target group of 15-40 year-old and for people over 15 year-old respectively¹⁷, and to have the Decree on Compulsory Primary Education implemented effectively;
- Improvement and expansion of vocational and technical schools to various provinces of the country;
- Increasing enrolment rate at the Higher level Education and the University to 410 students for 100,000 citizens, and upgrading gradually the teaching, education and research level of the National University;
- Promoting the expansion of private education at all levels;
- Upgrading the capacity of the existing vocational training centres and studying the construction of new ones in provinces that need them; and
- Capacity building and upgrading in labour management.

At the same time, efforts must be made in order to improve people's health and hygiene, by expanding and improving health services, so as to have, at the village level, a free/ clinic with a nurse and a midwife, and, at the district level, a well-fitted hospital; increase the people's average life expectancy, from 59 years in 2000, to 67 years in 2005; develop further mother and childcare facilities; continue the EPI, both for children and adults, with special focus on remote rural areas; educate mothers and their spouses in rural areas about birth spacing by giving them material assistance; assist large families so that they could raise their children and send them to school like other families.

Investment by the private sector in this field should be encouraged, mainly in the rural areas, by opening pharmacies and clinics, under the strict State control. Attention must be also focused on the field of information, culture, labour and social welfare. In this connection, TV stations and TV programmes must be improved and opened towards the provinces, and broadcasting time must be extended; each province should have its Radio broadcasting station.

Mass media must be developed, ensuring the availability of necessary newspapers, magazines, news bulletins and others, in order to meet the socio-economic development's requirements of the new era; preservation of national culture should be promoted; labour and social welfare tasks should be improved by establishing an appropriate Agency, in order to take care of senior citizens, disabled, orphans and pensioners' welfare, and provide emergency assistance to natural disaster's victims.

¹⁷ Presently 65% and 80% respectively

4.4 Guidelines for investments and resource mobilisation

In view of implementing the 2001-2005 National Socio-Economic Development Plan, the Lao Government is currently carrying out a PIP exercise, which reflects the country's investment priority for the next 3-year period, concomitant with a Medium-term Expenditure Framework (MTEF) (FY 2000-2003), of which the annual budgets are an integral part. These two documents are shown in the Tables below:

Actual and Planned Amounts for PIP by Sectors in absolute value, and by Percentages (in Billion kip)										
Sectors	1998/1999 (actual)		1999/2000 (actual)		2000/2001 (planned)		2001/2002 (planned)		2002/2003 (planned)	
	Value	%	Value	%	Value	%	Value	%	Value	%
Economic sectors	717	79	1,189	69.9	1,389	69.3	1,587	63.5	1,694	60.5
1.Agriculture	120	13.2	212.6	12.5	470.2	23.4	475.0	19.0	504.0	18.0
2.Industry	33	3.6	16.6	1.0	91	4.5	150.0	6.0	210.0	7.5
3.Transport	564	62.1	959.9	56.4	733.7	37.5	875.0	35.0	896.0	32.0
4.Other economic sectors	-	-	-	-	73.8	3.6	87.0	3.5	84.0	3.0
Social sectors	99.6	11	313.9	18.5	560.8	25.2	700.0	28.0	854.0	30.5
5.Education	46.3	5.4	89.4	5.2	142.2	7.1	200.0	8.0	252.0	9.0
6.Public Health	30.1	3.3	109.2	6.4	69.5	3.5	150.0	6.0	196.0	7.0
7.Culture /info	10.6	1.2	53.1	3.1	52.0	2.6	75.0	3.0	98.0	3.5
8.Social Welfare	12.6	1.4	62.2	3.6	73.74	3.7	125.0	5.0	168.0	6.0
9.Other social sectors	-	-	-	-	165.5	8.2	245.2	6.0	140.0	5.0
Rural Development	40.7	4.5	43.8	2.6	92.86	4.6	188.0	7.5	224.0	8.0
Other (offices, provision)	50.4	5.5	153.1	9.0	18.6	0.9	25.0	1.0	28.0	1.0
TOTAL	908	100	1,701	100	2,005	100	2,500	100	2,800	100
					TOTAL 2001-2003 : 7,305					
Source: SPC / PIP										

Medium – Term (3 years) Expenditure Framework Scenario for Government Sector (GDP/Ratio, unless specified otherwise)						
Macro-economic Variables	Actual			Projections (Baseline Scenario)		
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
1. Real GDP Growth (percent)	4.5	6.7	5.9	6.9	7.2	7.3
2. Real GDP per capita (percent)		2.54	4.0	4.98	5.47	5.47
3. Total revenues, incl. all grants	15.2	16.0	15.9	16.2	16.9	17.5
4. Total revenues (excl. grants), of which Tax revenues	10.5	10.5	12.2	13.6	13.9	15.4
Direct taxes	7.7	8.4	7.2	9.5	10.0	11.5
Indirect taxes (customs, etc.)	1.6	1.9	2.2	2.6	3.0	3.3
Non tax revenues	4.1	6.5	6.8	7.1	7.5	7.8
Non tax revenues	2.2	2.5	2.9	3.2	3.6	3.9
5. Official grants	4.6	4.9	4.0	3.2	2.8	2.5
6. Expenditures:						
Wages and allowances	2.8	2.9	3.8	4.4	5.0	5.5
Current expenditures	6.7	6.9	7.5	8.6	10.0	11.0
Capital expenditures	16.0	14.0	13.0	12.5	12.0	12.0
7. Fiscal Deficit excl. grants	12.6	9.97	8.53	8.15	7.9	7.97
8. Growth in broad money (percent)	113.28	136.76	61.14	34.86	24.46	24.74

9. Total Saving	28.21	29.76	28.09	32.08	31.77	31.68
Public saving (incl. grants)	7.87	8.87	8.41	7.57	6.93	6.51
10. Gross Domestic Investment	18.0	26.8	23.6	25.1	26.7	27.0
of which Private investment	11.3	16.5	11.3	13.1	14.1	15.0
Public investment	6.7	10.3	12.3	12.0	12.6	12.0
11. Growth of exports	-	(-14.45)	19.0	8.7	8.0	8.1
12. Growth of imports	-	(-23.3)	8.65	8.65	4.8	8.0
13. Current Account Deficit						
(excl. transfers)	11.53	12.58	11.81	13.44	14.33	14.07
(incl. transfers)	5.37	6.09	6.52	9.15	10.55	10.75
14. External Debt	204.46	166.00	132.64	107.42	98.22	92.54
15. External Debt Service	5.11	4.38	3.70	2.69	2.39	2.00
16. Inflation	61.3	141.4	60	<50	<10	<10
17. Foreign Reserves						
(month/import)	3.4	3.6	3.7	3.7	3.8	4.1
Source: SPC, MOF and BOL						

Both documents, based on the macro-targets set for the next 5 fiscal-year (2001-2005), are essential components of the Government's approach to development planning, and are closely connected, because the Government's investment priorities and their formulation must be consistent with the Government's fiscal framework and ODA priorities.

For ensuring the implementation of the above-mentioned strategies and targets, efforts must be made to mobilise funds about 25-30 percent of GDP from various sources for the annual development, for which, investment from the State's budget (Public investment) will represent about 12-14 percent of GDP.

4.4.1 Resources needed

Based on the above-mentioned ratios, total funds needed for the period 2001-2003, is estimated at approximately **Kip 16,000 billion**, or approximately US\$ 2 billion¹⁸ (for 2001-2005: Kip 32,500 billion, or US\$ 4 billion), in which, the PIP is estimated at approximately Kip 7,305 billion, or US\$ 913 million (2001-2005: Kip 14,400 billion, or US\$ 1,8 billion). Of this amount, Kip 8,400 billion or approximately US\$ 1 billion have to be mobilized through domestic and foreign investors, bank credit or other sources.

As far as the 14,400 billion kip for the 2001-2005 period are concerned, it is estimated that about Kip 6,800 billion (47 percent) will be domestic funds, and Kip 7,600 billion (53 per cent), or equivalent to US\$ 950 million, foreign funds. Total funds needed are shown in the Table below:

¹⁸ At the present exchange rate of 1 US\$ = Kip 8000.

Total Estimated Investment Needs for 2000-2003			
(in million US\$)			
	TOTAL	Domestic	Foreign
On-going PIP	913	165	748
Special Programmes	125.5	12.55	112.95
Technical Assistance	42.5	--	42.5
Poverty Alleviation Initiatives	465	23.3	441.7
Total Estimation	1,546	200.55	1,345.15
Secured amount	551	110.2	440.35
Amount to be secured:	995	90.35	904.75

The PIP is the most important component of ODA, but it does not account for all technical Assistance or Special programmes, nor does it include the specific poverty alleviation programmes which will stem from the various sectoral action plans designed in accordance with the outlined priorities of the Government's strategic approach to poverty alleviation.

For this reason, the Government proposes to its partners in development a comprehensive approach to investment requirements, spread over a period of time, which includes a realistic assessment of the investment needs, accompanied with a general commitment by both the Government and its partners in development to respond to them in the best possible way.

4.4.2 Resource allocation

In comparison with the last five-year period, public investments will increase about 5 times. 60-65 percent of these funds, or about Kip 8,500-9,000 billion, will be distributed to the economic and basic production infrastructure sector (an increase of 4.6 times), 25-30 percent, or about Kip 3,500-4,000 billion, to the cultural and social sector (an increase of 5.2 times), and about 8-10 percent to other sectors.

4.4.3 Resource mobilisation

Concurrently with public funds, the quest for funds from the private sector is of utmost significance, because these funds will represent more than 50 percent of the total investment. In this connection, in the next five years, efforts must be made to attract foreign investors to bring tangible capital into the country (at least US\$ 1.5 billion).

Besides, attention must also be paid to mobilising funds from national individuals, in order to encourage production and expand services for serving the society.

In order to ensure funding for the above mentioned development, the important thing is to establish active savings by implementing effectively the National Savings Policy, educating people on awareness and habit about savings, mobilising savings account among people, promoting the establishment of Development Fund at different levels, while the

Public Sector must optimise management of revenue increases, and in particular of the foreign currencies reserves.

In order to provide savings with necessary fund for development, focus must be placed on strongly encouraging production in the following fields:

- Rice, crops and food production;
- Common use goods production, so as to meet domestic consumption;
- Goods production for export.

Revenue is an important issue for the budget. The Government's main budgetary sources, such as customs/tax and land tax were not on target. Budget contributions are irregular and sometimes incidental (slowness in calculation of the tax base and of its improvement, and occasional rescheduling of tax payments). This structure of budget revenues is one reason accounting for the Government's insufficient revenue collection.

In other word, the fiscal challenges over the next 5 to 10 years, with respect to the level and the structure of public expenditures, are real.

The main issue, today, is a serious imbalance between current and capital expenditures. While the latter are being largely funded by donor assistance, the Government is making efforts to raise sufficient revenues for current expenditures. But, the Government's needs for capital investments are high, so are the needs for current expenditures for ensuring the maintenance and operation of capital investments, for improving human resources development and building capacity, as well as improving the material situation of Government workers. These needs are far beyond the country's possibilities.

It is in bridging the gap between the tremendous resource needs and the only progressively increasing national resource base that the Government sees the real challenge for the next decade for the LDC in general, and the Lao PDR in particular. The Government of the Lao PDR is thus hopeful that its development partners will be able to help him resolve some of these difficult expenditure issues.

◆ Indeed, ODA, which now represents about 18 percent of GDP, plays an important role in the Lao national economy. Traditionally, capital expenditures are financed through ODA. It currently finances about four fifth of the country's public investment budget. Therefore, improvement in aid management and co-ordination is a high priority. With donor assistance, the Government has begun to re-examine process and procedure for aid co-ordination, and is undertaking reforms in project cycle management. The Government is now preparing a **Decree on Government Roles and Responsibilities in the Planning and Management of ODA**. The Government has also begun to systematise processes for the recruitment and administration of international personnel working on development co-operation. For effective monitoring of aided projects the Government is also engaged in a project to improve their databases.

◆ With regard to private investments, their rates, both foreign and domestic, have fallen consistently in recent years. There is no doubt that macro-economic instability due to unbridled high inflation, rapidly changing exchange rates, and uncertainties

about the availability and cost of foreign exchange has contributed to the Government's recent difficulties in attracting investment. But, sometimes, the long time consuming procedures for project approval also create the lethargic atmosphere regarding FDI, especially the small ones that the Government increasingly wishes to attract.

A large part of foreign investment has been of very capital-intensive nature, and has been aiming at exploiting the country's abundant natural resources, especially for forestry-based products and hydro-electricity development. The next largest field of foreign investments has been the local services industries, particularly, transportation, telecommunications and tourism, followed by investments in manufacturing, especially in export production and efficient import substitution industries. Since, it is in these labour-intensive areas that the potential for job creation and skill enhancement is the greatest, the Government will do its best to attract investments in these areas.

The Government is aware that the benefits to be derived from FDI depend very much on an encouraging and entrepreneur-friendly policy environment, and will take necessary steps accordingly. In order to increase the confidence of foreign investors, the Lao Government continues to conclude official agreements on the promotion and protection of investments with other countries¹⁹, as well as to complete and update relevant implementing regulations.

4.5 Implementation Guiding Principles

The Government of the Lao PDR has outlined the following basic principles and instructions for the implementation of the Development Plan.

◆ After the adoption of the Plan, the State Planning Committee has the duty to disseminate, advise and entrust sectors and localities concerned with each field to work out detailed targets and projects to be implemented according to their share and responsibility.

◆ Ministries and equal ranking Agencies and provinces have the duty to implement the aforesaid Plan, through appropriate division of respective targets into annual implementing schedule.

Sectors and localities must, from the start, jointly proceed with necessary delegation of responsibility and coordinating mechanism, particularly in respect of projects entrusted by the Ministry to the Province for implementation. The Province, in turn, must delegate the responsibility to each district for implementation.

For cross-sectoral projects or for projects involving areas of several provinces, the State Planning Committee, as Focal Coordinator, will be entrusted with the tasks to determine the development framework and the implementation modalities of the projects.

¹⁹ For the time being, the Lao PDR has signed already 19 of such agreements and expect to conclude soon 6 others, especially with countries of ASEAN and the Pacific area.

◆ As far as the macro-economic management is concerned, the relevant Agencies²⁰ have to consult each other and work together, in order to determine the macro-economics' detailed framework for the current year, its implementing methods and measures, and its co-ordinating mechanism and its reporting system. They must also prepare emergency measures in order to fight against negative impacts from the regional economic and financial crisis.

◆ As far as Decentralisation is concerned, it must be strengthened in order to establish a political base linked with the integrated rural development and the poverty eradication. This is a strategic and decisive measure for the success in the implementation of the poverty eradication programme and the solution of other social problems in the country. Efforts must be made in order to detail the Five-Year Plan into operational programmes for the villages and families with clear responsibilities allocated to each level, e.g. families, villages, districts, provinces and Government. Through this planning process, it would be possible to know the number of poor families in each village and to establish an annual poverty eradication programme and entrusted it to the village Authorities and people with the task of finding the way out for the poor families.

As for the Government, the province and district Authorities, they must have also their assistance programmes for poverty eradication in each village or group of villages of the Focal sites. Through these programmes, districts and provinces will have their effective ways to solve many social problems, namely schools for students having completed general education, employment, social hazards, etc.

In order to implement these programmes successfully, attention must be paid on training a sufficient number of staff for the districts and villages, with focus on statistical, planning and financial staff, as well as development workers in agriculture, animal husbandry and forestry, to be assigned in the districts and group of villages.

In this field, assistance from the International Community is needed for the training and capacity building.

◆ As far as the State management is concerned, attention must be focused on the improvement of the existing laws and regulations and the creation of new ones in line with the new social life's reality, so as to be used as basis and fundamental principles for the State Administration, the Socio-economic Management and the Economic Co-operation with foreign countries.

The most important issue is to create a law on the Authorities' role and duties, particularly at the local level, such as increased responsibility and right on decision-making jointly with the implementation of the principle of unanimity. At the same time, attention must be paid also to educate people with laws and regulations, to inflict severe penalties on law infringements as prescribed by the law with a view to increasing gradually the people's awareness of law enforcement.

²⁰ Namely, the State Planning Committee, the Ministry of Finance, the Ministry of Trade, the Bank of the Lao PDR, the Foreign Investment Management and Cooperation Committee and the Domestic Investment Management Committee.

◆ As far as the investment management is concerned, emphasis must, first of all, be placed on efficiency, taking quality and productivity as indicators. The PIP must review completed projects, in order to use them profitably and learn lessons from them.

For new projects, comparison is to be made with, and priority must be given to those that are economically cost-effective. Public investment regulations must be strictly applied; efforts should be made to settle past years' debts, without which no additional loans will be sanctioned. Investments from enterprises and from individuals, national or foreign, must be linked to the use of domestic raw materials and labour, while ensuring benefits, secure financial status and active compliance with tax obligations.

◆ The Ministry of Information and Culture, jointly with the SPC and local Authorities are entrusted with the mission to disseminate the Development Plan to the public at large, so that they can express their views and their advise and contribute to its improvement and its implementation.

Conclusion

In the next five years, the Government of the Lao PDR will keep focusing on the construction of economic infrastructures and on the social sector development, including human resources development, in order to translate into action its commitment to improve the quality and the structure of investment in respect of the above mentioned priorities. It will be striving for sustainable development and poverty reduction; fighting the economic crisis; and promoting food crops cultivation and commercial production, as well as rural development.

Furthermore, public investments will be closely monitored and kept within the absorptive capacity of the country; all stakeholders will have to co-ordinate their activities in a more balanced and integrated manner. That means that, in the future, only projects approved by the National Assembly will be considered for funding; in other words, there will be no projects undertaken outside the PIP, neither at the central nor at the provincial level.

The Government will also work towards re-balancing between current and capital expenditures, including at the provincial level, ensuring that the various agencies related to the budgetary process co-ordinate much more the current and capital components, so as to ensure a proper ratio for each expenditure category. The purpose is to avoid the risk of deteriorating assets due to insufficient maintenance, or of compromising their usefulness by insufficient operational resources.

In this regard, the Lao Government would like to encourage donor agencies to consider complementing their assistance to public investment with follow-up programmes of maintenance and services (e.g. the training of teachers in new schools). For its part, the Government will endeavour strengthening its own capacity to improve its partnership with the donor community. The purpose of the **Round-Table Process**, launched in January 2000, - *a long-term in-depth policy and strategy dialogue process* - is to achieve, in an optimal way and based on a mutual understanding, an efficient co-ordination between the national development priorities and the need for adequate resource mobilisation to implement them.

The Government of the Lao PDR is convinced that the strengthening of the partnership in development will realise the long-term benefits expected and which will contribute significantly to the Government's goal of exiting once and for all the Lao PDR from the status of a Least Developed Countries by 2020.

* * *

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APPENDICES

TABLE 1

EXPORTS

1. COMPOSITION OF EXPORTS 1991-1999 (US\$ millions)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Wood products				96.1	88.3	124.6	89.7	115.4	
Logs				41.8	28.7	34.3	16.7	10.5	
Timber				48.5	51.5	78.7	67.4	87.4	
Others (including Semi-finished and Finished products).				5.8	8.1	11.6	5.6	17.5	
Coffee				3.1	21.3	25.6	19.2	48.0	
Agriculture				12.1	13.7	17.8	18.1	8.4	
Manufactures (excludes garments and wood Products)				36.3	43.3	27.9	15.2	10.1	
Garments				58.2	76.7	64.1	90.5	70.2	
Motorcycles				46.2	17.7	12.5	17.1	17.8	
Electricity				24.8	24.1	29.7	20.8	60.7	
Gold re-exports				18.8	21.9	15.2	41.5	1.3	
Fuel purchased by foreign Carriers				0.4	0.4	0.4	0.5	0.6	
Others				0.0	3.6	3.6	4.2		
Total Exports				300.4	311.2	320.7	316.9	336.7	
Total Exports/GDP (%)				19.5	17.4	17.5	18.2	26.7	
Growth rate exports (%)				24.9	3.6	3.7	-4.4	6.3	
Growth rate of exports excluding re-exports (%)				25.0	4.4	6.3	-10.1		

2. DESTINATION OF EXPORTS (US\$ millions)

Thailand (see below)	74.8	77.2	83.1	96.7	70.1
Vietnam	23.1	81.2	87.7	157.6	135.2
France	12.6	10.3	11.1	8.	20.0
United Kingdom	0.0	0.9	0.9	6.6	14.9
United States	10.7	5.0	5.3	2.7	7.0
Russia	7.4	1.0	1.1	0.5	0.0
China	25.5	8.1	8.8	0.8	0.3
Germany	9.0	11.8	12.7	4.8	16.2
Taiwan	10.1	4.6	5.0	1.3	0.5
Japan	8.8	4.9	5.3	1.7	6.7
Finland	2.0	1.6	1.7	0.8	1.5
Netherlands	3.6	5.0	5.4	0.0	0.1
Italy	1.9	0.7	0.8	1.0	4.7
South Korea	1.9	0.0	0.0	0.5	0.7
Belgium	0.4	1.2	1.3	2.0	17.9
Norway	0.1	0.6	0.7	1.8	3.2
Singapore	0.2	0.1	0.1	0.8	0.3
Others	48.4	86.2	81.6	32.9	17.9
Total	240.5	300.4	312.8	320.7	316.9

(Exports to Thailand may be significantly overstated because they include transit goods to third countries)

Sources: Data from the Lao Ministry of Commerce and Tourism published by IMF

TABLE 2**IMPORTS****1. COMPOSITION OF IMPORTS 1991-1999 (US\$ millions)**

	1991	1992 1999	1993	1994	1995	1996	1997	1998
Investment Goods				146.1	189.3	277.0	226.8	226.7
Machinery and equipment				32.0	43.8	71.3	52.0	44.4
Vehicles				25.0	36.0	71.7	53.8	39.4
Fuel				21.4	30.8	32.8	38.2	61.8
Construction/electrical equipment				67.7	78.8	101.2	82.8	81.1
Consumption Goods				276.5	283.8	308.0	267.7	234.1
Materials for garment industry				51.3	66.3	70.0	73.7	66.8
Motorcycle parts for assembly				34.6	13.3	12.0	24.9	17.0
Gold and silver (including gold for re-export)				46.8	29.5	18.8	50.4	0.7
Electricity				2.4	3.1	2.6	3.2	5.8
Fuel purchased abroad by Lao carriers				2.0	3.5	1.2	1.3	1.7
Total imports (CIF)				564.1	588.8	689.6	647.9	552.8
Total imports/GDP (percent)				36.6	32.9	37.5	37.3	43.8
Growth rate total imports (percent)				30.6	4.8	17.1	-6.0	-14.7

2. ORIGIN OF IMPORTS (US\$ millions)

Thailand (see below)	164.8	270.3	287.8	310.0	336.6	
Japan	56.1	45.8	48.8	52.5	10.4	
Singapore	19.7	22.5	23.9	25.8	25.1	
China	18.1	20.2	21.5	23.2	4.9	
France	6.6	5.9	6.2	6.7	1.7	
Taiwan	4.8	4.6	4.9	5.3	4.3	
United States	4.4	1.4	1.5	1.6	0.6	
Hong Kong	4.3	7.0	7.5	8.1	9.5	
Russia	2.7	2.6	2.8	3.0	0.0	
Cambodia	3.0	2.6	2.8	3.0	0.0	
South Korea	2.3	2.3	2.3	2.5	3.3	
Australia	3.4	0.4	0.4	0.5	0.3	
Denmark	0.5	0.4	0.4	0.5	1.3	
Macao	0.4	0.4	0.4	0.5	1.3	
Pakistan	0.8	0.7	0.8	0.8	0.0	
Others	120.8	162.3	160.9	228.6	249.5	
Total		431.9	561.1	588.8	689.6	647.9

(Imports from Thailand may be significantly overstated because they include transit goods from third countries).

Source: Data from the Lao Ministry of Commerce and Tourism published by IMF.

TABLE 3**SOME STATISTICAL DATA
(Period 1990-1999)**

1. GDP and Per Capita GDP in million US \$ and changes in GDP, Per Capita GDP, GDP Growth Rates and Per Capita GDP Growth Rates (in real terms).

	1990	1995	1999
GDP	864.4	1,959.3	1,720.0
Per Capita GDP	211.0	400.0	350.0
GDP Growth Rate	6.6%	7.1%	7.3%
Per Capita GDP Growth Rate	4.0%	4.3%	3.9%

2. Structure of GDP in 1990, 1995 and 1999.

	1990	1995	2000
Agriculture	60.7%	54.3%	51.3%
Industry	14.4%	18.8%	22.6%
Services	24.1%	24.5%	26.1%

3. Balance of Payment Position (Value in US\$ million)

	1990	1995	1999
Exports	64.6	313.0	323.0
Imports	195.5	589.0	540.0
Transfers	57.5	131.0	99.0
Other Private Flows	10.9	-39.0	-97.0

4. Yearwise production of major agricultural commodities for the 1990-1999 period
(in thousand metric tons)

	1990	1995	1999
Rice	1,491.5	1,417.8	2,102.8
Maize	66.6	50.4	96.1
Starchy roots	218.3	99.2	80.6
Commercial crops	197.4	121.6	239.4
Source : Lao Authorities			

5. Yearwise investment (in US\$ million) showing the shares of government/public sectors agencies, and private sector, and in each case, percentage of foreign resources.

	1991	1995	1999
Total	424.4	1,301.7	313.9
Public sector	86.8	227.5	174.8
Private sector	337.6	804.2	139.1
Percentage of foreign resources	82.2	75.6	72.2
Source : State Planning Committee			

6. Yearwise total investment (i.e, by both public and private sectors) in million US\$, in the following sectors:

	1991	1995	1998	1999
Agriculture +Irrigation	24.7	39.3	37.9	71.7
Industry + Mining + Energy + Construction	1,478.4	808.0	41.7	53.9
Transport + Communication	42.6	117.8	130.4	62.2
Education	15.6	49.7	9.7	2.7
Health	7.3	22.6	7.9	2.1
Culture		2.7	1.3	1.3
Social Welfare		2.7	4.6	1.5
Public Housing		8.2	8.3	
Rural Development		8.2	2.5	
Source : State Planning Committee				

7. Revenue generation (Billion Kip)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
1999/00						
Total revenue	143.6	165.7	217.3	228.3	367.0	1,680.0
2,279.0						
- Tax	114.5	134.9	175.9	189.6	290.0	1,001.9
1,608.0						
-Non-tax	29.1	30.8	41.4	38.7	77.0	678.1
671.0						

Source: Ministry of Finance

8. Exchange rate of local currency (Kip) with the US Dollar

	1990	1991/95	1996	Dec.1997	Dec.1998	Aug.1999	Oct.2000
-							
Kip/Dollar	695	720-730	935	2015	4182	9700	8000

Source: Bank of the Lao PDR

9. Interest Rates (percent change, end of period).

	1994	1995	1996	1997	1998	1999	2000
One year deposit	12	16-19	16-19	17.5	19-25	16-24	16-24
Short term loans	24	22-28	24-27	20-27	30-36	30-34	26-30

Source: Bank of the Lao PDR

10. Public Sector Wages/Salary estimate in US Dollar

	1990	1995	2000
(a) Lowest	35.0	48.0	12.5
(b) Highest	138.0	164.0	50.0

Source: Government Officials

11. Power Generation Capacity

1990:	844.0 million kWh
2000:	642 MW, of which 627 MW (98 percent) from hydropower, and 15 MW (2 percent) from other sources.
2010:	1086.8 MW.

Source: Ministry of Industry and Handicraft, Department of Electricity.

Explanation of the Decentralization Policy (cf. page 30)

“Building up provinces as strategic units, districts as planning and budgeting units and villages as implementing units”.

Building the Provinces (Prefecture and Special Zone) into strategic units means that these stakeholders have to formulate their own socio-economic 5-year and annual plans as well as devise and implement their corresponding budgets. They are given the responsibility of macro-management at local level in the field of national defense, security, economic development and socio-cultural promotion.

Provinces’ responsibilities regarding macro-management include, inter alia: international cooperation, management of the State’s affairs, approval and management of most small-scale business investments, with a capital of no more than one billion Kip, from both internal and foreign investors, responsibility for revenue collection, control of the budget expenditure, and the issuing of locality-specific regulations to facilitate the control of the budget.

The decentralization policy establishes that the provinces, Prefecture and Special Zone are in charge of collecting revenues which have to go towards covering the expenditures associated with the provinces’ 5-year and annual plans and with their macro-management. The expenditures are divided up between administrative expenditures, capital expenditures and subsidies for the central and districts’ budgets.

Building districts to become the planning and budgeting units is to build sufficient capacity to enable them to be responsible for formulating, implementing and evaluating their planning and budgeting processes. Based on their own characteristics and potential, districts are asked to formulate their own five-year and annual socio-economic development plans, within the scope of their responsibilities as defined by the State.

Building villages to be the implementing units is to enable them to formulate development and revenue collection plans based on commodity production and services provision plans of each family unit or production groups involved in the local market economy. Before formulating a plan, villages have to collect data and observe the living conditions of each family and categorize them into wealthy, self-sufficient and poor families. The resulting plans provide the framework for all the families to work together to improve the economic situation, for assistance to the poorest families and thus should ensure the socio-economic development and well-being of the villages. To ensure the efficiency of this new endeavour, villages are required to put in place an evaluation system to monitor the implementation of these plans on a regular basis.

Districts share with the villages the responsibility to collect in the villages the following revenues: land taxes (to the amount set by the district), resources taxes, fees from fluvial transport, animal registration, TV and from the leasing of public assets. These revenues are used for the socio-economic development of the villages and will contribute, for example, to build access roads and anti-flood dams, develop irrigation and water supply and to support socio-cultural expenditures incurred by the village committee, medical staff, teachers, security force, school, free clinic.

This is a decisive step towards involving the grassroots level, which the government considers as the real strength of the nation, in the formulation of development plans and plans for revenue collection in order to better manage and improve their socio-economic situation and well-being.