



LAO PEOPLE'S DEMOCRATIC REPUBLIC

PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

MINISTRY OF PLANNING AND INVESTMENT
DEPARTMENT OF INTERNATIONAL COOPERATION

Background Document

Recent Socio-Economic Developments, Opportunities and Outlook

Draft for discussion

Round Table Implementation Meeting
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Executive Summary

The Round Table Implementation Meeting 2009 Background Document aims to provide participants with an overview of key development achievements, challenges and future directions for the Lao PDR. It is not an exhaustive report, rather it is intended to guide discussions, dialogue and the development of recommendations for further action.

The Executive Summary provides an overall snapshot of key development issues in the Lao PDR today. This year's focus has been influenced by a number of factors, chiefly the impacts of the global economic crisis and progress towards achieving the Millennium Development Goals. The RTIM will also be crucial in informing the development of the upcoming 7th National Socio-Economic Development Plan 2011-15, the Government of the Lao PDR's key planning document. The 7th NSEDP will build on the significant achievements of the 6th NSEDP in order to attain the Millennium Development Goals by 2015 and the graduation of the country from Least Developed Country (LDC) status by 2020. Further, the RTIM will also guide discussions in the lead-up to the 2010 Round Table Meeting.

Participants are strongly encouraged to read the document in its entirety in order to gain a more comprehensive understanding of the development context within the Lao PDR.

General situation

The past year has seen several significant achievements for the Lao PDR, including the development and implementation of several key strategic documents across a number of sectors.

The Government of the Lao PDR is firmly on track to reach its goals and objectives as a result of a number of significant achievements, including robust economic growth, commendable progress in public financial management, significant reduction in poverty and progress in achieving other MDG targets, improvements in social standards, expansion of socio-economic infrastructure, further development of the institutional and legal framework and important milestones in sectoral management.

A number of the 6th NSEDP social development targets are likely to be met. Of particular importance is the attainment of the Millennium Development Goals. Significant progress has been made in the areas of poverty, child and infant mortality, HIV prevalence, malaria and TB and key education indicators.

However a number of key challenges remain in order to ensure full achievement of all the MDGs by 2015, including undertaking broad-based and inclusive growth while ensuring quality investment, improving resource management capacity and enhancing the development of some social sector areas.

Macroeconomic developments

A stimulus package to mitigate the impact of the global economic crisis has been implemented over the past year. It is considered to be successful given the lessened impact of the crisis on the Lao PDR in comparison to neighboring countries.

The economy has continued to grow with the GDP achieving a rate of 7.7% in 2009, largely due to significant investments and improvements in the macroeconomic framework and the business climate. The public finance remains broadly stable, with budget revenue estimated to be at the level of 8,140 billion Kip including 7,052 billion Kip for domestic revenues. Further revenue generation is expected to be achieved through the Nam Theun 2 hydropower project and the implementation of a single value-added tax (VAT) starting from January 2010.

In addition, inflation is low and monetary policy has been within the planned targets that are necessary for boosting the economy without jeopardizing the macroeconomic equilibrium.

Key challenges remain to speed up implementation of reforms, projects and programmes, further strengthening macroeconomic stability, and promoting sustainable and pro-poor development. Additionally, the GoL considers that

broadening the production and growth base, enhancing labour force productivity, improving competitiveness, and moving forward with regional and global integration are among the policy actions that require further attention.

Capital-intensive projects in sectors such as mining and hydro-power continue to attract foreign direct investment, however as these have less contribution to job creation; more emphasis is required on the development of small- to medium-scale manufacturing, food and agricultural crop production and processing, trade and tourism that nurture both production, employment and income generation, and foster balanced investment across the country.

Private sector investment is playing an increasingly important role, and the GoL is making continuous efforts to provide incentives to promote investment and to enhance government capacity to implement policies, rules and regulation within the new investment law.

Sectoral and social developments

While it is estimated that the incidence of poverty has reduced 26.9% in 2007/08, a number of key issues remain to be addressed. Food insecurity and nutrition matters have been highlighted, with 37% of children under five remaining undernourished. Maternal and Child Mortality Rates remain high in rural and poorest areas, but accessing to clean water has been improved significantly to 74% in 2007. Substantial disease burden on children and communities is hindering socio-economic development. Poor water, sanitation conditions and hygiene are a primary cause of diarrheal disease, which greatly contributes to the high levels of child malnutrition. These issues also impact school net enrollment, with an estimated 10% of enrolled school-aged children not attending school.

Key principle achievements within the education sector include the development of the Education Sector Development Framework 2009-15 (ESDF) as well as the commencement of the additional year of lower secondary education. The sector has continued to improve access to all levels of education while at the same time improving the quality of services provided through capacity upgrading of teachers, school principals and pedagogical advisors together with provision of additional textbooks and teacher guides.

Extensive work has been undertaken in the health sector, particularly in relation to maternal, neonatal and child health as these have long-lasting impacts on the Lao PDR's economy and growth. A number of key policy and planning documents have been implemented, including the National Nutrition Policy which aims to make a significant contribution to preventing maternal and neonatal mortality. Work also continues on the distribution of mosquito-nets, the implementation of health awareness campaigns and vaccination.

Land administration and land management remain important for reducing poverty, promoting sustainable development and preserving the forests – a crucial source of food and income for many Lao citizens. Agriculture and forestry contribute significantly to GDP, overall economic development and to the country's food production and poverty reduction targets. As such the GoL is focusing on achieving diversification with the sector to ensure long-term, balanced sustainable development.

A significant trade reform agenda has been implemented, focusing on simplifying procedures, improving the investment environment and streamlining export-import documentation. However supply-side restraints need to be addressed to ensure competitiveness and growth.

Cross-cutting issues

Demography

The population growth rate is expected to decrease, largely due to declining fertility and mortality resulting from improvements in health, education and development in general. This is creating a new demographic pattern that will result in a period where the working age population can generate more labour income than is consumed by the population, which has a positive effect for economic growth. The GoL will need to take advantage of this period to

achieve development gains for the Lao PDR. It is therefore crucial that population dynamics are taken into account in the development planning process starting from the seventh NSEDP.

Gender

Gender equality is the key to achieving all development goals for the Lao PDR. It is therefore important that gender issues are reflected across all development sectors. This includes: ensuring that women and girls enjoy a set of basic human capacities as measured by indicators on education, health, nutrition; have equal opportunities to use and apply their basic capacities including non-agricultural wage employment and full participation in society; and have reduced vulnerability to violence and abuse.

Legislative framework and public administration

The GoL has participated in a range of international legal frameworks, including ratification of the Convention on Cluster Munitions, the International Covenant on Civil and Political Rights, and the Convention on the Rights of People with Disabilities, and is now a party to six of the nine core UN Human Rights treaties.

Nationally, a number of new laws have been approved and other laws modified in the past months. In addition the GoL continues to pursue an active reform agenda to improve public administration and services. Fourteen decrees were issued by the Prime Minister in 2009, and the One Door Service, aimed at improving access to public services continued to expand.

A revised Legal Sector Master Plan and the National Drug Control Master plan are providing a more comprehensive basis for the development of the Lao PDR legal system. Judiciary and prosecutions are being improved, human resource capacity enhanced and awareness-raising activities on the country's legal system undertaken.

Environment and Climate Change

During 2009, both climate change and environment have grown in importance on the national and international agendas. In Lao PDR the increase in natural disasters such as floods and storms significantly impede development with the human and financial costs threatening the achievement of the country's development goals and the aim to exit LDC status by 2020. A National Adaptation Programme of Action to Climate Change has been developed to address this issue and environmental issues are being integrated into government policies and programmes.

Nutrition and food security

Malnutrition remains a key issue in the Lao PDR, with 23% of the population and 37% of children under five remaining undernourished with virtually no improvements over the past decade. Immediate action is required if the related MDG is to be achieved. Investments in nutrition can provide significant benefits to the Lao PDR as they generate some of the highest social and economic returns. Key strategy documents such as the National Nutrition Policy are being developed to improve nutrition, and work undertaken within the agriculture sector is aimed at improving food security.

Unexploded ordnance

The UXO has seen significant progress on a number of fronts including the ratification of the Convention on Cluster Munitions, the continuing development of a database to enable better targeting of resources and provide a platform for an overall community awareness strategic plan, as well as extensive clearing surveying and awareness-raising activities.

Aid effectiveness

The GoL and development partners continue to work collaboratively to implement the Vientiane Declaration Country Action Plan (VDCAP). A number of key actions are recommended to improve the implementation of the VDCAP. Of these, the most important single determinant is the continuation of high-level political leadership across both the GoL and development partners. Additionally full integration of the VDCAP within GoL and development partners programmes is required to ensure its success.

A significant achievement for aid effectiveness was the Prime Minister's Decree no. 75 on Official Development Assistance Management, outlining the roles and responsibilities of ministries and administrative agencies in the management and implementation of ODA. Additionally a Standard Operating Procedures manual to align and improve project development and implementation is currently being finalized, and a similar Standard Financial Management Manual is also being developed.

Development of the Seventh NSEDP

Several steps have already been undertaken as part of the development of the 7th NSEDP, including a mid-term review of the 6th NSEDP, the Prime Minister's Instructions on the formulation of the Plan and the MPI's Planning Guidelines. The findings of the MDGs' assessment and lessons learned are also taken into account as well as the analysis of the international context and its current and potential implications to better weigh choices and strategies. Demographic factors and population dynamics will be incorporated into the parameters forming the analytical foundation of the seventh Plan.

As per the Prime Minister's Instructions, five objectives have been identified for the 7th NSEDP:

1. Develop fundamental materials and technology, and provide necessary conditions to improve the living standards and livelihoods of the people, reduce poverty and strive to achieve the Millennium Development Goals (MDGs) by 2015, lead the country out of LDC status by 2020, and ensure that development is moving towards the direction of socialism.
2. Ensure economic stability, sustainability, and growth at the rapid pace, develop self-reliant and align with the direction of industrialization and modernization.
3. Ensure that development is aligned, harmonized and sustained - economic development must be closely linked with social development and environmental protection.
4. Enhance efficiency, effectiveness, swiftness and transparency of public management and social protection; guide public management, governance and administration to the direction of the rule of law; ensure political stability, fairness and in order; encourage the public to exercise their rights; and utilize potential capacities of all economic sectors to the fullest in order to mobilize more assistance for socio-economic development.
5. Continue to expand the cooperation and develop necessary capacity for regional and global integration.

The 7th NSEDP is being formulated in accordance with these objectives and in full collaboration with all stakeholders. through a comprehensive participatory approach.

Introduction

The Lao PDR is currently implementing the ten-year socio-economic development vision 2001-2010 approved by the Seventh Party Congress in 2001 and subsequently reaffirmed by the directions set by the Eighth Party Congress in 2006.

The main planning instrument to implement this long-term vision is the 6th National Socio-Economic Development Plan (NSEDP) 2006-2010. To date, the NSEDP has achieved significant progress, creating a real breakthrough towards the achievement of long term targets, namely the attainment of the Millennium Development Goals by 2015 and the graduation of the country from Least Developed Country (LDC) status by 2020.

The Government of the Lao PDR is firmly on track to reach its goals and objectives due to a number of significant achievements, including robust economic growth, commendable progress in public financial management, significant reduction in poverty and progress in achieving other MDG targets, improvements in social standards, expansion of socio-economic infrastructure, further development of the institutional and legal framework and important milestones in sectoral management.

These achievements would not be possible without the strong political will and the genuine desire of the Lao People, united through the Party and the Government, as well as the continuing generous financial and technical contributions provided by Development Partners.

While significant gains have been made in some areas, further attention is required in the area of poverty alleviation. As noted by several GoL assessment reports including the mid-term review of NSEDP and the 2008 MDG report, Lao PDR will need to enhance efforts to diversify its economy and sustain growth, reduce vulnerability to external factors, and ensure better distribution of growth dividend among regions and people to reduce disparities and imbalances.

The 2009 RTIM is taking place within this challenging context. This is becoming even more challenging given the uncertainty of the compelling global economic downturn for which no quick end seems to be in sight, as well as possible additional burdens from other global diseases and the natural disasters affecting several parts of the country.

The GoL has been dealing with the global economic crisis through a number of measures taken since the last quarter of 2008, which form a stimulus package to mitigate the impact of the crisis on the economy and the people. However further action will need to be taken through the seventh NSEDP 2011-2015, currently under development in consultation with national and international stakeholders.

The seventh NSEDP will build on existing achievements and take the country a step further on the path of holistic and sustainable development. It will be submitted for further deliberation and endorsement by the Party Congress and the Cabinet in 2010 before its submission early 2011 to the National Assembly for final approval.

Mobilizing domestic and international financial support is essential to ensure success in implementing the 7th NSEDP. Therefore it is important that the 2009 RTIM prepares the groundwork through comprehensive and constructive discussions for the main Round Table Meeting that will take place by mid-2010 to examine in detail the objectives, priorities and targets set out in the Plan and mobilize resources for its implementation and management.

This background document is intended to provide the backdrop for progress, challenges and future directions pertaining to development issues requiring ongoing support from the GoL and DPs. It draws on the outcomes and recommendations of last year's RTIM as well as advice provided by government agencies and the Sector Working Groups. The background document is presented in five sections:

1. Overall macroeconomic and social outlook;
2. Sector developments and challenges;
3. Cross-cutting issues;
4. Developments in the aid effectiveness agenda; and
5. Seventh NSEDP Framework and Strategic Directions

I. Overall Macroeconomic and Social Outlook

The 6th NSEDP is now at the beginning of its fifth and last year of implementation, and a number of important steps have been achieved over the past four years. In spite of the global economic crisis that erupted twelve months ago, the country remains on track to pursue the attainment of the outcomes and objectives set out in the Plan.

The economy, building on previous achievements, continued to grow substantially over the past year thanks to significant investments, and improvements in the macroeconomic framework and the business climate. The public finance remains broadly stable, inflation is low and monetary policy has been within the planned targets necessary for boosting the economy without jeopardizing the macroeconomic equilibrium.

Noticeable milestones have been achieved in building physical infrastructure in the transport, agriculture, energy, telecommunications and social sectors, providing thus more conducive environment for investment, production, trade, public service delivery and human development.

A number of the NSEDP social development targets are likely to be met. Of particular importance is the attainment of the Millennium Development Goals. Significant progress has been made in the areas of poverty, child and infant mortality, HIV prevalence, malaria and TB and key education indicators. However further attention and resources are required to ensure full achievement of all the MDGs by 2015.

One key challenge moving forward with the implementation of the Plan is to further foster efforts and synergies, mobilize required resources and speed up implementation of reforms, projects and programmes to achieve projected outcomes, while at the same time balancing public spending and bank credit with macroeconomic stability.

A detailed analysis of the current situation, trends and key challenges is provided in the following sections. These sections highlight most critical issues, including the real economy, public finance, banking sector and social developments.

1. Main indicators of the real economy and effects of and response to the global crisis

Despite the global economic downturn which has affected some sectors, the real economy has been performing fairly well over the past 12 months, partly due to the fact that the impact of the economic crisis has been lower than expected. Exports and investments were the most affected sectors and could be subject to further impact in the near future if the crisis endures.

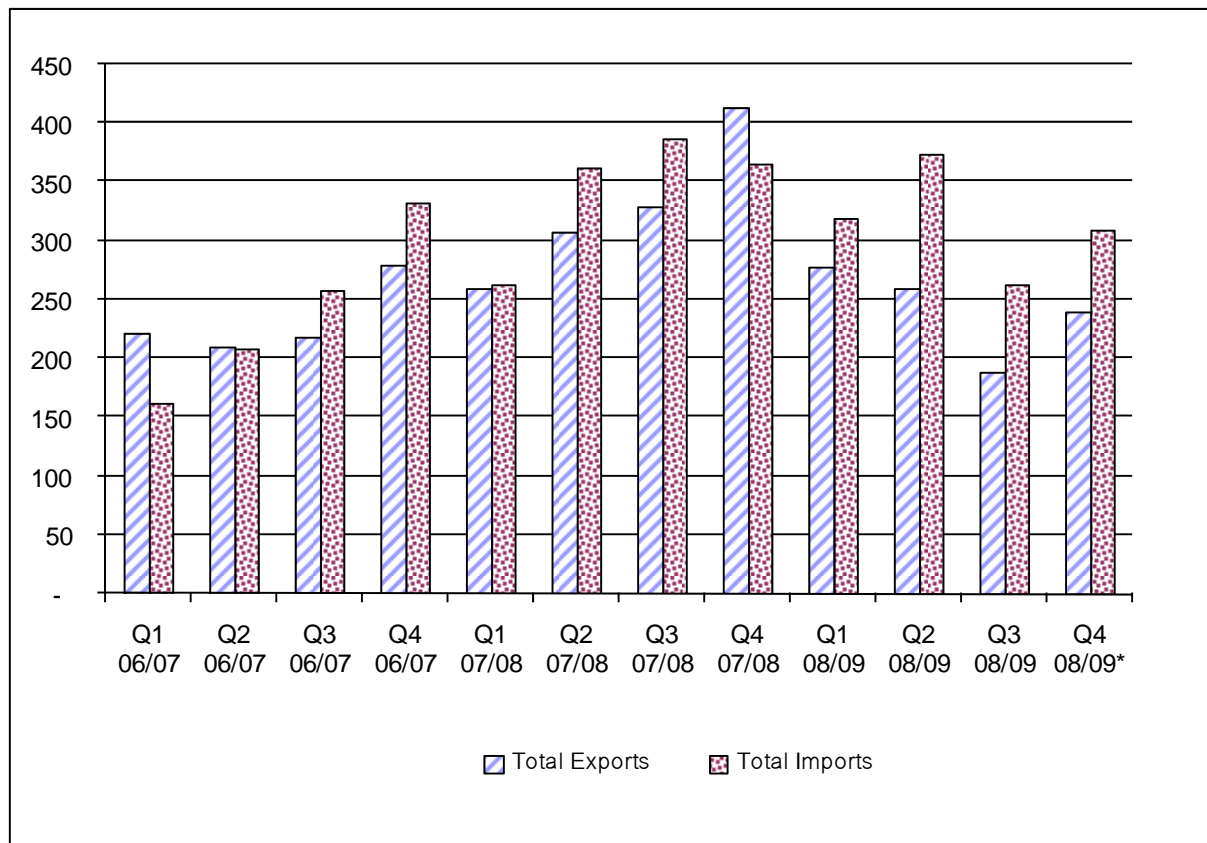
Exports started to decline at the end of last year after registering steady performance over the past four-year period. Although exports during the first half of FY 2008-09 decreased by 28% in volume and 9.8% in value terms, it is estimated that they reduced moderately over the whole FY.

Imports, generated mainly by mining and hydropower projects, have witnessed similar trends but overall they remained high in comparison to exports despite the drop in international prices (fuel and food) and noticeable

reduction in mining activities. Monetary expansion, strong Kip and greater demand of foreign product consumption are other factors that explain the increasing trends in imports. Overall, there is a significant gap between exports and imports resulting in widening the trade balance deficit.

Fluctuations in the external trade (exports/imports) over the past three years are illustrated in the following graph.

Graph 1: Exports and Imports (Million USD)



Source: Ministry of Industry and Commerce
*NERI estimate

The graph illustrates the vulnerable nature of the country's exports. One challenge in this respect is how to further promote export-oriented activities, taking advantage of the Lao PDR's rich natural resources, while reducing the vulnerability of exports to external shocks. Another issue is that imports (equipment, material, technology) for investment projects tend to grow proportionally to exports which may create pressure on the balance of payments. The 7th NSEDP will address these issues. The GoL considers that broadening the production and growth base, enhancing labour force productivity, improving competitiveness, and moving forward with regional and global integration are among the policy actions that need to gain further attention.

Investments

Public Investment

Within the Public Investment Programme (PIP), which is a consistent framework for project selection and resource allocation, the GoL has been implementing a number of projects in priority areas such as transport, agriculture, health, education and rural development.

For the FY 2008-2009 there were 2870 projects implemented totaling 3,256 billion Kip (USD 383 million), of which 1,111 billion (USD 131 million) from domestic funds and 2,145 billion (USD 252 million) from ODA investment projects¹. This represents 98% of planned amounts that were approved by the National Assembly. It should be noted that these figures reflect those projects outlined in the Government Annual Budget, however it does not reflect all ODA projects, especially those related to technical assistance.

Foreign Direct Investment

A steady increase in foreign private capital has been recorded over the past years, including approved investments totalling approximately USD 1.2 billion in 2008 (152 projects). This performance is considered satisfactory given the conditions created by the global economic crisis. FDI prospects in the medium-term remain promising on assumption that the global economic crisis will lessen and growth will resume in industrialized and emerging countries, and given the strong interest shown by investors as illustrated by new project approvals during 2009 (USD 4.3 billion for 208 projects).

The resource sector continues to attract the bulk of FDI in the form of mega projects. In addition to the high imports of equipment and technology they generate, these projects, while they impacted favourably on growth, public revenue and to some extent foreign currency reserves had less contribution to job creation as they are by nature capital intensive. Other concerns are related to FDI effects on livelihoods, proper use of land and environment conservation.

In light of lessons learned, there is a strong need in the future – within the 7th NSEDP and beyond – to place greater emphasis on investments in small- to medium-scale manufacturing, food and agricultural crop production and processing, trade and tourism that nurture both production, employment and income generation, and foster balanced investment across the country.

There is a need therefore for a better selection of private sector projects and a well-informed approach that would weigh potentials, advantages and implications at macro and micro levels prior to concluding investment plans. The GoL is also making continuous efforts to provide incentives to promote domestic investments and to enhance government capacity to implement policies and enforce rules and regulations within the new investment law.

Economic Growth

Building on achievements over the past years and supported by capital inflows and expansion of banking credit, GDP has continued to be robust - preliminary estimates suggest an increase of 7.7% in 2009, slightly less than the 8% target. Overall, the major source of growth remains with the industrial sector (including extractive industries, construction, food and non-food processing) which has grown by 12.5% (with a planned target growth of 13.4%). Services have recorded a 7.7% increase (9.9% planned) and Agriculture (including food production, other crops, forestry and fisheries) has grown by 3.1%, very close to planned target.

For the year 2010, it is expected that further measures underway to improve business climate and boost investment will allow economic outputs to grow by another 8%². Over the 5-year period of the 6th plan, the GDP rate will record an annual average of 7.7%, slightly above the 7.5% projected in the 6th Plan and significantly higher than the 6.2% reached in the previous Plan.

The structure of the economy is also evolving in line with the Plan's policy and targets to diversify and sustain the production pattern, as the economy is gradually industrializing and modernizing.

¹ Source: MPI, Department of Planning

² As a preliminary estimation, this growth projection has not yet been approved by the National Assembly

Table 1 *GDP Growth*

GDP Growth	Percentage Increase and Sector Share						
	2007-2008	2008-2009	2009-2010	5 th NSEDP		6 th NSEDP (planned)	
	% increase	% increase	% increase	% increase	Sectoral share	% increase	Sectoral share
Total GDP	7.9	7.7	8	6.2	100	7.5-8	100
Agriculture	3.1	3.1	3.0	3.4	45.4	3-3.4	36
Industry	13.4	12.5	13.4	11.3	28.2	13-14	36.4
Services	9.9	7.7	7.2	6.7	26.4	7.5-8	27.6

Source: MPI, DOP

2. Public Finance

In general terms, the fiscal position has been mildly affected by the global crisis but remains largely stable. The effects of the crisis have been less than expected given its intensity and likely ramifications. The measures taken by the GoL since the beginning of the global turmoil and increased official assistance including budget support have significantly helped to reduce the crisis adverse impact.

Overall, for FY 2008-09, *total revenue* is estimated to be at the level of 8,140 billion Kip including 7,052 billion for domestic revenues.

ODA, as reported by implementing agencies, is estimated to be at a level of nearly USD 560 million in actual terms for FY 2008-09 - a substantial increase from last year (USD 413 million). Preliminary estimates point to a total of at least USD 460 million for FY 2009-10. However these figures need to be considered with caution as the elevated amounts might have resulted from changes in the data gathering methodology for commitments and disbursements. This is currently being verified.

As per previous years, only a portion of ODA is recorded into the national budget as a number of ODA-supported projects and programmes operate outside the budget framework. This is an issue that needs to be seriously addressed in line with the Vientiane Declaration Country Action Plan (VDCAP).

As budget revenue remained close to the target, there has been no noticeable impact on public spending. Recurrent and capital *expenditures* were kept within the framework approved by the National Assembly, and there were no cutbacks in resources devoted to social sectors.

Table 2 *Budget revenue and expenditure (in billion Kip and %)*

Items	2007-2008 (actual)		2008-2009 (estimation)		2009-2010 (projection)	
	Amounts	% of GDP	Amounts	% of GDP	Amounts	% of GDP
Total Revenue and Grants	7,312	15.21	8,140	16.15	10,653	19.69
Domestic Revenue	6,617	13.76	7,052	14	8,115	15
Total expenditure	9,721	20.22	10,679	21.19	12,470	23.05
Current Expenditure	6,079	12.64	7,350	14.58	7,345	13.57
Overall Cash Balance (deficit) ³	2,409	5.01	2,539	5.03	1,817	3.36
Financing:	3,032	6.31	2,338	4.63	1,817	3.36
Domestic financing (net)	692	1.43	733	1.45-	209	0.38
Foreign financing (net)	2,340	4.86	1605	3.18	1,608	2.97
Differences	(40)	0.08	(37)	0.07	0	
Memo item: GDP (nominal terms)	48,081		50,392		54,100	

Source: MOF-Fiscal Policy Department

As a result, the *overall budget deficit* is estimated at a level of 5% of GDP, which is within acceptable norms given global economic circumstances. The deficit was largely financed by ODA in grants and concessional loans.

Fiscal sustainability remains a top priority. The GoL is taking this factor into account while implementing measures to mitigate the impact of the global crisis. In the near future it is expected that revenues generated by Nam Theun 2 hydropower project and the implementation of a single value-added tax (VAT) starting from January 2010 will have a positive impact on the GoL fiscal position. Other medium-term measures within the ongoing public financial reform are also producing significant results that will further strengthen the fiscal position. With respect to public spending, the GoL recognizes the pressure put on the 2008-09 budget resulting from rising development needs, increase in civil servant remuneration, the SEA games and events for the Vientiane Capital 450-Year Anniversary. Nonetheless, the next FY will retrieve a more strengthened fiscal position as domestic revenues are expected to increase and budget deficit to reduce to 3.36% of GDP. Arrangements for NT2 revenue sharing will free additional funds to priority sectors: education, health, transport, environment, energy and mining and conservation sectors.

Budget targets for FY 2009-2010

- Aggregate revenue expected to be 10,653 billion Kip accounting for 19.69% of GDP; (in which domestic revenue is 8,115 billion Kip, or about 15% of GDP).
- Aggregate expenditure expected to be 12,470 billion Kip, about 23.05% of GDP.
- Overall budget deficit to reach 1,817 billion, about 3.36% of GDP.

Current and future fiscal policies and measures

The following represents a package of measures that are being implemented alongside economic reforms and monetary policy measures.

Revenue

- Raised taxes on luxury products
- VAT application starting from 1/1/2010
- Reducing revenue leakages and maximizing receipts from resource sector
- Mobilizing external funding in grants and concessional terms

³ Including grants

- Cautious domestic funding
- Centralizing management of local and central revenues
- Sound policy to strengthen SOEs' financial management and competitiveness
- Revising tax law, decree on minerals and royalties, decree on state properties
- Identifying proper mechanisms for management, approval, and inspection of domestic and foreign investment and the imports of materials, vehicles, fuels and others
- Computerizing tax declaration at international checkpoints in order to provide prompt and transparent service

Expenditure

- Better prioritization of public expenditures including investments
- Improving coordination mechanisms and streamlining responsibilities among central and local governments
- Enhancing budgeting procedures, budget management, accounting and financial reporting from across central and local levels to make them more systematic and uniform
- Developing a Medium-Term Financial Framework (MTFF) 2011-2015
- Enforcing financial disciplines and encouraging cautious spending practices

3. Other macroeconomic indicators

Inflation

After the sharp increase (10%) registered in mid-2008 due to the global surge in food and fuel prices, the *Consumer Price Index* (CPI) has started to decline steadily, reaching a near zero level in April 2009 and became slightly negative in transport and food items due to declining of world price of crude oil.

Financial sector

The crisis had no significant effects on the banking/financial system as this sector is not integrated into the global financial market. Money supply (M2) increased by 8.76% (up to May 2009) in comparison to September 2008.

Reforms have been underway with significant achievements in banks' restructuring and performance. Several measures have been taken to strengthen legal and regulatory frameworks. Laws on banking and credit organisations are being implemented to meet the needs of the economy and ensure secured financial transactions. Transparent and easy licensing procedures have been put in place to encourage establishing domestic and foreign banks. Banks are pursuing the implementation of internationally accepted standards and are expanding the provision of credit to profitable projects.

Foreign currency reserves

They have slightly reduced but remain at satisfactory level despite decline in exports and perhaps lower level of foreign capital inflow. Reserves were USD 583.9 million in May 2009 (equivalent to 5.5 months of imports), which represents a decrease of USD 96 million if compared to level of September 2008.

Exchange rate

The Kip remained broadly stable against main currencies including US dollar and Thai baht. The stability of the Kip has strengthened the public confidence in the national currency and enhanced the de-dollarization of the economy. While the exchange rate policy has been helpful in this regard it is nevertheless important to ensure competitive exchanges rates in order to attract investment flows and meet growth requirements, as well as coupling this with an appropriate monetary policy.

4. Social Development/Millennium Development Goals

Lao PDR has made notable strides in reducing poverty (on national average) and significant progress has been accomplished in a number of other MDGs targets. However, some concerns remain in addressing issues such as child malnutrition, maternal mortality, universal access to reproductive health, access to safe water, improved sanitation and land and forest degradation.

The following sections provide a snapshot of major issues and thoughts that could be considered to speed up implementation.

Poverty alleviation

The robust economic growth achieved in recent years is encouraging and this growth has translated into positive socioeconomic trends as evidenced by some MDGs including the poverty reduction target being on track.

The latest poverty data suggests that the incidence of poverty has declined from 33.5% of the population in 2002/03 to some 26.9% in 2007/08. In rural areas with road access, poverty is about 27.9%, in rural areas without roads about 42.6%, and in urban areas 19.5% of the population is poor. The 47 priority districts identified for special attention for poverty alleviation have shown some reduction in poverty with unconfirmed preliminary figures suggesting a reduction from 49% in 2002-03 to 42% in 2007-08.

The reduction of the overall poverty in the country is a major achievement that illustrates the efforts to reduce poverty in recent years. However, at the same time preliminary analysis of the same poverty data suggests that underlying food poverty may have risen in recent years, reversing the declining trend of earlier years. This data reinforces the fact that there is an urgent need to mobilize much greater efforts to fight food insecurity and malnutrition.

In fact, despite impressive gains in economic growth, 23% of the population and 37% of children under five still remain undernourished, with little improvement over the past decade. Over the past year the GoL has taken action to respond to this issue through the issuance of the first National Nutrition Policy and the forthcoming National Nutrition Strategy and National Plan of Action on Nutrition. With these documents in place, Lao PDR is now in a position to mobilize swift and targeted action to ending child under-nutrition in Lao PDR and achieving MDG 1.

Job creation

As indicated above, planned growth rates are being realised. But this growth relies heavily on capital-intensive investments, with less emphasis on more labour-intensive sectors which are paramount for achieving better results in poverty alleviation.

In the past decade, development patterns have had little impact on the structure of the workforce - annually less than one per cent of the workforce has shifted out of agriculture and its related activities. Larger job-creation outside agriculture is a priority. Therefore, focusing on employment creating sectors in manufacturing and services is essential.

Inequality and Regional Disparities

Of great concern to poverty reduction is the rise in inequality and regional disparities in recent years. In terms of income inequality, in the last five years the Gini coefficient has risen by 3.8 percent, illustrating the widening income gap among people and areas. While there is a nation-wide reduction in poverty, the northern region still lags behind other regions. Areas along the major rivers have a lower incidence of poverty compared to other areas. This could be explained by high integration to the market and fertile agricultural land. The increasing regional disparities and gender inequities challenge development efforts across the board and must be addressed if the MDG targets are to be met.

Planning for poverty requires an updated mechanism for identification of poor families. In this regard, a newly prepared list of poor households needs to be finalised, based on the new set of criteria and definition contained in the Prime Minister's Decree No. 285 issued on 13 October this year. In any case, household-level targeting is critical for bridging gaps that have remained despite the implementation of area development programmes.

Improving Education Outcomes

While the numbers of school enrolments at primary level remains high, almost 10% of enrolled school-aged children do not attend. Therefore the gross enrolment ratio (theoretically exceeding 100%), could be considered misleading, suggesting a more accurate measure is to examine school completion rates, which are significantly smaller and are indicative of the issues that remain to be addressed. Further, there are regional variations in school participation rates, with participation in larger cities and plain areas higher than rates in mountainous regions.

Factors that impact on the attendance and completion rates include the high number of incomplete schools which do not offer the full five grades of primary education, and the lack of adequate educational facilities ranging from school buildings, teachers, teaching materials, safe water and girls toilets in schools. Quality of teaching and learning also needs to be improved. The distance from home to school, language, and safety of young girls, all continue to remain a priority, as does the need to convince parents to send the children to school especially girls. This requires continued investments, with the first step being to increase resources allocated to education to a level of 15% of public investment.

The Education Sector Development Framework (ESDF) provides the action plan for addressing and implementing priority actions in the education sector.

Improving Health Outcomes

Maternal and Child Mortality Rates remain high in Lao PDR. This stems primarily from limited access to adequate medical services, especially in remote rural areas. Development of health facilities that meet minimum standards in terms of human resources, infrastructure, supplies and management is essential. Improvements in the rural road network would also greatly improve maternal and child health indicators. A significant scale up in the number of skilled birth attendants across the country would significantly reduce mortality rates. Health problems additionally arise from the lack of access to clean drinking water and sanitation especially in rural areas and small towns.

Despite impressive gains in economic growth, virtually no improvement was made over the past decade in terms of nutrition status of the Lao PDR. Accordingly, the national target for malnutrition is off-track, and it is increasingly clear that MDG 1 as well as various other MDGs will not be achieved without immediate, decisive, and integrated action. In these circumstances GoL adopted the National Nutrition Policy (NNP) on the 2nd of December 2008. Based on the NNP, the National Nutrition Strategy (NNS) and National Plan of Action on Nutrition (NPAN) have been formulated and will be signed off in November 2009.

The health sector deploys commendable efforts to manage and control diseases across the country. However the prevention of new HIV infection remains a priority and therefore care and support services, including antiretroviral treatment, need to be scaled up. Combating malaria and TB on a sustained basis requires new drugs to fight multi-drug-resistant strains. The availability of insecticide-treated bed nets also needs to be expanded through both Government distribution and social marketing.

The high cost of health care is a constraining factor to accessing improved health services and private health insurance is presently out of reach for most people in Lao PDR. Also government resources for the provision of health services are limited, currently at USD 9 per capita (including ODA) and there is a need to increase this to at least USD 16 per capita. In order to increase use of health services and provide the reproductive health care that is needed to improve maternal and neonatal health in particular, investment in training and capacity strengthening for health personnel, especially skilled birth attendants, is required. Consequently, recurrent budget expenditures for the

health sector need to be increased, and sufficient revenue should be directed to the health sector in general. Thus, the development of health financing policy and strategic plan will be the major agenda of the next year.

Accessing Improved Drinking Water and Sanitation

While the proportion of the population with access to a safe water improved from 28% in 1990 to 74% in 2007 according to MDG Progress Report Lao PDR 2008, those residing in smaller towns and rural villages are still underserved. Sanitation facility access is likewise. Considering poor water and sanitation conditions and hygiene environment cause diarrhea and water-borne diseases, increased investments as well as comprehensive action in water and sanitation improvement are essential for achieving MDG 7.

Majority of schools in Lao PDR do not have adequate water and sanitation. A safe and healthy environment is an essential dimension of the 'Ministry's Schools of Quality' approach, and the investment in construction of school water supplies and latrines, as well as strengthened hygiene education, is essential.

Stronger advocacy and joint efforts for a prioritization of this sector are needed as the challenging situation is also affecting the achievement of the health and nutrition related MDGs. Increased investments are essential for the water and sanitation sector to ensure that yearly targets for achieving the MDGs are met. Joint efforts are required for the development of the National Strategy for Rural Water Supply and Environmental Health to set the national framework for common action in this sector.

Gender Equity for Improved Development

While the relative position of women in the Lao society is better than many other developing countries, women lag behind in areas such as education and labour market. These gaps, if bridged, can help find greater equality for women in Lao PDR, in addition to women becoming equal partners in contributing to the development process and therefore also accelerating progress in achieving the MDGs.

In line with CEDAW 2009 Periodic Review and Concluding Observations, the GOL will pursue sustained policies aimed at the promotion of women's full and equal participation in decision making areas of public, political and professional life.

Environment and Sustainable Development

Land administration and land management remain important for reducing poverty and promoting sustainable development. The GoL acknowledges that good governance in land sector is key to inclusive growth and human development and is committed to exploring new options in optimally managing the land resources, increasing overall benefits and balancing opportunities and risks. Enhanced coordination of policies and programs in land administration and land management at all levels is a central tenet to equitable poverty reduction and sustainable development.

Preserving the country's deteriorating forests and regenerating forests to increase coverage from the current 42% to 65% by 2015 is a key issue. Greater efforts should be made in making distinction between primary forest and production forests in the forest coverage target. Overall forest administration requires scaling up and better practices. Similarly, access to and user rights over the forest are critical as food security and livelihoods come partially from the forest for many households.

Soil erosion resulting from deforestation has resulted in lower crop productivity and a decline in revenues. Small farmers are the worst affected because of their limited capacity to access soil improvement technology.

The GoL has been acting on a number of recommendations provided by development partners to help address these issues.

II. Sectoral Developments and Challenges

Economic sectors

Agriculture

The GoL has set four main targets to promote and support the development of agricultural and forestry sector including: (a) quantitative and qualitative increases in food production to better meet demands; (b) transformed production methods from self-sufficiency to commodity production with links to value-added industrialized processing and services; (c) increased jobs and income generation for farmer households, including promoting livelihood and production alternatives for local people to replace shifting cultivation methods; and (d) continuing efforts in forest management, forest plantation for commercial purposes, environmental protection, soil protection and water source conservation. Further to these goals the GoL is also focusing on natural regeneration in conjunction with forest plantation to increase forest cover.

Key Achievements

Agriculture and forestry contribute significantly to GDP, overall economic development and, in particular, to the country's food production and poverty reduction targets. Agriculture production has recorded satisfactory performance in the last few years – in a great extent due to gradually increasing investments in the agriculture and rural development sector. It is important to note that the Lao PDR continued to meet its rice production and self-sufficiency requirements. In 2008, total rice production reportedly reached record level of 2.9 million tones. It is estimated that total rice production will reach 3.2 million metric tons in 2009, thereby meeting the targets set for the year. Continued investment in diversifying agricultural systems, the production of cash crops, meat, fish, vegetables and fruits have also increased, (e.g. maize, different varieties of beans, coffee, sugar cane, cotton, tobacco). However, the productivity of rice and other staple food crops in most of the mountainous rural areas remains significantly low.

With regards to commodity production, the 2008/09 Annual Plan sets targets to promote agriculture and forestry production as well a target of USD 250 million for the processing of export commodities. Total values of marketable commodities from crop, livestock, forest products and Non-Timber Forest Products (NTFP), if exported, are estimated at about 90% (USD 228 million) of the target. Of this, USD 153 million came from crops, USD 25 million from livestock and USD 50 million from forest products and NTFPs.

The GoL has supported and encouraged contract farming systems, linking it the development of technical skills for rural people as well as improving marketing skills. In addition, the GoL has implemented several supporting policies and measures such as: mobilizing investments from economic sectors; encouraging small scale enterprises; and promoting one stop services. This has created a new environment for investment and enhanced regional cooperation especially in the field of agriculture. As of late September 2009, over 140 local and international firms had invested in 195,000 hectares land for rubber plantations.

Efforts to reduce shifting cultivation practices and achieve stabilization targets are now concentrated in 47 poorest districts in the country with tangible progress. In 2009, it was found that upland production was pursued in about 104,585 ha, of which 29,000 ha were used in permanent production systems; 75,000 ha in rotational systems and 4,970 ha in shifting systems. Key measures have been initiated through the Land Use Planning and Land Allocation (LUP/LA) program and implemented in conjunction with the promotion of livelihood alternatives leading to permanent production systems such as paddy production, industrial commodity, fruit trees, livestock production, integrated agriculture production, industrial forest trees, NTFPs, micro-credit for farmers and handicrafts.

Key challenges

Despite significant progress made in meeting the objectives and goals of the Agriculture and Forestry Programme of Action, there are a number of constraints and challenges that remain to be addressed.

The Agriculture and Forestry sector remains impacted by natural calamity, pests and diseases. The severe floods of 2008 and 2009 damaged a large number of irrigation schemes and destroyed approximately 42,000 ha of agriculture land.

Other challenges include: the need for modernization, diversification, technology and intensification; enhancing stakeholder participation in production, processing, and trade of agricultural commodities; developing balanced, cross-border markets; improving agricultural and natural resource management; and strengthening institutional capacity building. Addressing these challenges requires the strengthening of partnership between Ministry of Agriculture and Forestry (MAF) and its development partners.

Future directions

Recognizing the need to improve collaboration and resource capacity with development partners, MAF has been making efforts to improve ODA effectiveness. Agriculture and Forestry targets to be outline in the 7th NSEDP include:

1. Ensure the growth of food supply by 3.4 percent a year – equivalent to 500-550 Kg/person/year of grain rice produced or 4.1 million ton of rice produced with an average productivity of 5-6 Ton/ha in areas where infrastructure is available and 3.5-4 Ton/ha in other areas.
2. Increase annual fish production by 5 percent.
3. Increase the production of agriculture and forestry product to supply industry and service sectors, with a target of achieving USD \$1.5 billion exported target of agriculture and forestry product (equivalent to 1/3 of total export value). In this regard, high-value cash crop products; rice, maize, beans and etc, industrial wood, livestock and agro process product will be emphasized.
4. Eliminating remaining 4,970 hectares of shifting cultivation through land relocation and creation of permanent farming and jobs for target area.
5. Sustaining forest management through three categorized forest systems (conservative, protective and productive forest). Increase the current forest coverage from 42% to 53% (approximately 12 million hectares) by 2010, through rehabilitation of deteriorated 2.5 million hectares of forest and planting of 150 thousand hectares.

Industry and Trade

Achievements and Challenges

Despite the slowdown in exports noted earlier, growth remained robust in the manufacturing and trade sector. The trade reform agenda has been implemented, focusing mainly on the simplification of enterprise registration procedure and the streamlining of import-export documents. Lao PDR has also made significant progress with respect to meeting its regional, bilateral and multilateral commitments.

While the diversification of exports is gradually improving, in the short-term the export of commodities such as copper and corn which are subject to world price volatility will continue to play an important role in the national export performance.

While the ban on export of log and sawn timber and the restructuring of the national wood processing industry has resulted in a decline in timber exports, there has been an increase in value-adding to the local raw material by

upgrading the technology and labor skill in the wood processing industry. The development of such industry requires more investment, skilled labor and a more market oriented production.

Industrial and trade development need to be linked. The Lao PDR, once integrated to the regional or world trading system, needs to develop production capacity in order to address supply-side constraints. At the same time to benefit from the economies of scale the export competitiveness of the Lao PDR must be strengthened. An optimum and more efficient use of natural resources has been put forward, as the country's potential in manufacturing and trade lie in staple or resource-based industry.

Additionally, trade needs to be linked to pro-poor development, which will require a more holistic approach to industrial and trade development. The role of the private sector to economic development is of paramount importance and is a cross-cutting issue that encompasses the work of a wide range of line ministries and agencies. The coordination among these agencies needs to be enhanced and projects put in place to implement the strategies for the development and promotion of small and medium-sized enterprises.

Future Directions

In the present context, the manufacturing and trade sector will continue to play its role in the transformation of the national economy, especially through the development of the agro-processing industry and other resource-based industry for local consumption and export purposes. Supply-side constraints together with export diversification and competitiveness are to be tackled in a more systematic manner.

Market access under various bilateral and regional trading arrangements will be made available to the business community. The country will implement its commitments and continue to advance the economic integration process including the negotiation for the WTO accession. Trade reform agenda will continue to be implemented with the assistance of development partners.

The Ministry of Industry and Commerce (MIC) will closely work with line ministries and agencies to improve investment climate especially in the implementation of the new law on investment promotion and related legislation. The streamlining of licensing, registration and import-export procedure will be reviewed. Trade facilitation strategy and action plan will be adopted. Trade and investment promotion will be facilitated by the establishment and development of special economic zones and industrial zones.

The Lao National Chamber of Commerce and Industry together with its provincial subsidiaries including business associations will be strengthened according to new business related legislation. The Lao Business Forum will serve as a forum for the dialogue between the government and the business sector. The sub-sector working group on trade and private sector development will serve as a discussion and coordination platform between the concerned government agencies and the donor community.

Social sectors

Education

Key achievement and opportunities

The major achievement during the period was the finalization of the Education Sector Development Framework 2009-15 (ESDF) and its endorsement by the Prime Minister of Lao PDR in April 2009. The ESDF was also endorsed by Development Partners.. The ESDF is the mechanism to operationalise the National Education System Reform Strategy (NESRS) and will form the basis of the sector inputs to development of the 7th National Socio-Economic Development Plan (NSEDPP).

Structural Reform and Policy Development

In order for the sector to continue to be responsive to new challenges, both organizational restructuring and policy development have been the foundation for reform. The most visible evidence of reform is the commencement of the additional year of lower secondary education. From September 2009, lower secondary will consist of four years with a technical stream at upper secondary education also being piloted in selected schools. Policy advice has been strengthened through the creation of a specialist centre: the Strategic Research and Educational Analysis Centre. A multi-donor funded technical assistance also assisted the reform agenda through an analysis of governance and institutional issues, human resource management, social development and inclusive education. Within the Department of Planning and Cooperation, the Division of Planning has been expanded to include Human Resource Development and the Project Implementation and Management Division has a more active role in monitoring ODA flows, with an ODA database currently under development.

To support the implementation of the ESDF, both a preparation capacity development plan and a Performance Assessment Framework (PAF) were developed. The MOE has also agreed on the mechanism for implementation of the ESDF PAF. During formulation of the ESDF, a major weakness in sector development was identified: a weak link between planning and budgeting. To improve this linkage, at both central and provincial level, a number of Development Partners are providing technical assistance and funding to strengthen capacity within planning and financing departments. Improvements in making better links between planning and budgeting, capital and recurrent budgets and between central and provincial budgets are foreseen in the 2010/11 work plan for the sector. This work plan is expected to be ready by February 2010, as agreed under the PRSO. By the first quarter of 2010, the 2011-2015 sectoral plan for the 7th NSEDP will also be prepared.

The ESDF is now to be used as the single framework for all sector policy development and Development Partner funded support projects. It was also the basis for a successful application for accession to the Education for All Fast-Track Initiative (EFA-FTI). In addition to the ESDF, an Inclusive Education Policy has been formulated through a highly consultative process with development partners and has been submitted to the National Education Reform Commission for review. This will facilitate improved access to education for children in isolated rural communities, especially from different ethnic groups, as well as disadvantaged and marginalized urban children who live in difficult circumstances. A National Holistic Early Childhood Development policy is in its final draft and submission to the National Assembly is expected in early 2010. An outcome of this is the priority given to establishment of the one-year pre-primary classes attached to existing primary schools. Implementation guidelines for achieving Schools of Quality standards at primary school level have also been developed. The School Health policy has been finalised within MOE and will be presented soon to a multi-ministry meeting for approval, after which it will be submitted for Prime Ministerial approval by January 2010. The Ministry also has specific responsibilities under the new National Nutrition Policy.

Implementation of the Master Plan of Technical and Vocational Education (a detailed plan for the sub-sector but consistent with the broader ESDF) has begun with the support of Development Partners and preparations for a labor-market survey have been completed thus enabling a stronger link to be made between graduate supply from general, technical, vocational and higher education levels with the needs of the Lao labor market. In preparation for future grant funding, a situational analysis of the higher education sub-sector has recently been completed with a master plan being drafted for future expansion.

Progress Towards MDGS

As reflected in the MDG Progress Report released earlier this year, steady progress has been made towards the achievement of MDGs 2 and 3, yet considerable challenges remain.

As shown in table 1 below, for MDG 2, primary net enrolment rates have increased from 80 percent in 2001 to 91.6 percent today, compared to the target of 98 percent by 2015. A particular priority for the sector now is to take steps to 'reach the unreached' – that is, the almost 10 percent of children who are out of school. Completion rates at 68.4

percent remain a concern, and accelerated efforts will be needed, particularly with regard to completion of incomplete schools, in order to reach the target of 95 percent by 2015.

Indicator	1991	2001	2005	2009	2015 Target
Net enrolment rate in primary school (*)	58	80	84	91.6	98
Proportion of pupils starting grade 1 who reach grade 5 (*)	48	62	62	68.4	95
Literacy rate in the age group 15-24 years	71 (**) (1995)	79 (***)	84 (**)		99

Progress on MDG2

Sources: (*) Ministry of Education; (**) Population Census, 1995, 2005; (***) Lao National Literacy Survey

For MDG3, gender parity in enrolments has increased steadily across all levels, though disparities widen at each stage of the educational ladder, reflecting the still great hurdles girls face to complete a full cycle of education to tertiary level. The fastest rate of progress towards parity has been made at the higher levels, where disparities are greatest.

	1991	1995	2002	2005	2006	2009	2015 Target
- Primary	77		84		86	88.4	100
- Lower secondary	66		74		78	80.4	100
- Upper secondary	56		68		74	77.8	100
- Tertiary	49		57		62	71.6	100

Ratio of girls to boys (Number of girls per 100 boys) enrolled by sub-sector

Source: Ministry of Education

Service Delivery

Expansion of service delivery in basic education will be significantly boosted if the program proposal currently being formulated for funding support from the EFA FTI is successful. Potential EFA-FTI funding would be managed as part of a pooled funding mechanism with financing already secured from other Development Partners. Expansion and quality improvements will also be facilitated through the increasing flow of funds into the sector from the Nam Theun 2 revenues. In line with the priorities of the ESDF and the 6th NSEDP, this program will support expanded and improved service delivery, based on the Ministry's Schools of Quality holistic approach, in the 47 most educationally disadvantaged districts of the country. This program will support the introduction, in these 47 districts, of two of the key new policies of the ESDF: (i) Provision of block grants based on a unit-cost basis for pre-primary and primary schools; and (ii) a strengthened role for the Village Education Development Committee in developing and managing School Improvement Plans as well scaling up the implementation of PM's decree on the Muong Pheuang and Sanakham model.-Demand Driven Approach. This introduction will enable lessons to be learned before expansion to the whole country of these ESDF policies to funding basic education. Other Development Partners continue to support expansion and improvement of basic education across other districts of the country in a concerted effort to assist GOL to achieve EFA by 2015. The first intake into the new fourth year of lower secondary education occurred in September 2009 and this will have flow-on effects to improved quality of entrants into post-basic education. Access to technical and vocational education has improved through the construction of six integrated vocational and technical schools (3 completed and 3 under construction). As part of the planned expansion of higher education, a

new University opened in Savannakhet province in September 2009 and discussions are underway with authorities in two other provinces (Xiengkouang and Udomxay) for the possible establishment of universities in these provinces. Currently, higher education is provided at NUOL and 3 provincial universities.

The sector has continued to improve access to all levels of education while at the same time improving the quality of services provided through capacity upgrading of teachers, school principals and pedagogical advisors together with provision of additional textbooks and teacher guides. The GOL also acknowledged the special difficulties of teacher provision in remote areas through the allocation of an additional quota of civil service positions. Instructors for the new integrated vocational and technical schools have received training both in- and out-of country. Improved quality assurance mechanisms are in place as a result of the establishment of the National Standards and Quality Assurance Centre.

Management and Administration

The restructuring process within the MOE has improved the efficiency of planning and management through facilitating better and faster inputs into policy development. The ESDF provides an overall sector plan and the agreed Performance Assessment Framework will enable improved management of overall sector performance. To improve coordination of ESDF implementation, three ESWG Focal Groups have been established: Basic Education, Post-Basic Education and Finance and Performance Planning, together with an ESDF Coordination Committee. A capacity development framework has been finalized which informed the development of an ESDF preparation plan for capacity building needed for successful sector performance.

Budget Allocations

The sector budget allocations for 2008/09 are shown below:

USD millions	2008/09		
	Recurrent	Investment	Total
DPs	0	52.2	52.2
GOL Central	15.07	4.6	19.68
GOL Provincial	74.44	4.34	78.79
Totals	89.51	61.18	150.70
Recurrent as % total	59.40%	40.06	100%

Source: MOE.

Problems and constraints

During the National Conference of Education Administrators (NCEA) in June 2008, the following issues were identified:

1. The number of graduates from Universities and technical and vocational schools and colleges is out of balance with the demands of the labor market;
2. The deployment of teachers to remote areas is insufficient (particularly for pre-school education) and quality of education is generally low, with delayed upgrading of teachers in remote areas;
3. There is a lack of teaching and learning materials;
4. Primary repetition rates remain very high, adult education is not relevant to life needs and illiteracy eradication is slow;
5. Incentives for students and teachers in ethnic and remote areas is still lacking, salaries are often paid late, and high ability graduates do not want to become teachers; and
6. Investment by GOL in the sector is insufficient.

Key issues for 2010 and the 7th NSEDP

In 2010, the ESWG will pay particular attention to the six issues identified during the NCEA this year, principally through the implementation of the ESDF and continued dialogue with Ministry of Planning and Investment and Ministry of Finance on progress towards increasing the budget allocation level to 18% .as mandated in the Amended Education Law.

The ESDF is the key vehicle for promoting the aid effectiveness agenda in the sector, and the ESWG will continue to make progress on its CAP commitments, with particular attention paid to new aspects of the revised CAP once it is finalized.

The ESDF will also form the basis of the sector's input into the 7th NSEDP to be finalized in 2010, with a strong focus on achieving MDGs 2 and 3 by 2015, and in line with the recommendations of the Concluding Observations of the 44th Committee on the Convention of Elimination of Discrimination Against Women (CEDAW) on Lao PDR's 6th and 7th Reports.

A key challenge for 2010 will be the roll-out of the ESDF out to provinces and districts, particularly to build the necessary capacity for its new policy implementation, including at village level through the new responsibilities mandated to Village Education Development Committees. A further challenge will be to effectively disburse the significant additional funding support that will come to the sector through a joint program proposal partly financed by FTI.

Embedding new institutional arrangements to support ESDF implementation and program-based approaches as outlined above will also be a high priority. Planned reviews of the Focal Groups and Provincial Coordination Meeting mechanism will provide valuable lessons learned for continued improved coordination.

To underpin the mandate of the ESDF, the sector faces a substantial program of legislator reform, including an Inter-ministerial Decree with the Ministry of Finance to introduce block grants

Operationalisation of the Performance Assessment Framework to harmonize and improve sector performance review processes and strengthen links with planning and budgeting will also be a key focus.

The Ministry has also emphasized the need to address the key educational challenge faced by Lao PDR: to 'reach the unreached' – that is, the still large number of children who are out of school. To achieve the MDGs and EFA, innovative approaches will need to be developed to reach this underserved group, to try to ensure that all children, girls and boys, from all ethnic groups and in even the remotest areas have equitable access to a quality education.

Health

The MOH has intensified the immunization program for mother and child, which it shows that the vaccination coverage achieves at 71%. The public health education and promotion especially nutrition has been emphasized at the grassroots level. Moreover, the health workers continue to receive both theoretical and practical trainings together with ethics. The National Strategy for Human Resource for Health to 2020 is in the process of finalization. In addition, the health service network continually expands to cover more toward the rural and remote areas. Currently, there are 813 health centers and 5,785 village drug kits. Furthermore, 77% of population access to safe water source and 50% of population access to family latrine. The prevalence of population infected with HIV is less than 0.1%. The success treatment with direct observed treatments (DOTS) is at 92%. 1.5 millions of impregnated treated bednets

(ITNs) have been distributed to people living in the infected areas. The surveillance system has been strengthened, in which could minimize the impact of avian influenza and A/H1N1 influenza outbreaks.

Progress in MNCH and Nutrition: The MOH decided to introduce an integrated package of essential services including nutrition for mother and children that were proved their effectiveness in mortality and morbidity reduction and to reintroduce midwives as skilled birth attendants who are expected to make a great contribution to prevent maternal and neonatal mortality. Then, the MOH approved three important documents; the Strategy and Planning Framework for the Integrated Package of Maternal, Neonatal and Child Health (MNCH) Services 2009-2015 and Skilled Birth Attendance Development Plan 2008-2012, and National Nutrition Policy. The MOH has started preparatory work for implementation of these strategic plans and policy, and some core training courses of the Package have already started. Actual implementation of the MNCH Package at provincial and district level will be launched in this September. The MNCH strategy is officially launched in September 2009 together with the introduction of the new pentavalent vaccine (Diphtheria, Pertusis, Tetanus, Hepatitis B & Human influenza B).

The most outstanding achievements and progress among others in the health sector since the 1st SWG (P) meeting last November are:

1. Operation of Health Planning and Financing Technical Working Group (HP&F-TWG);
2. Development of Annual Workplans (AWPs) of all SWGs/TWGs/Secretariat;
3. Launching of Human Resources for Health Technical Working Group (HRH-TWG);
4. Development of the "National Health Information System Strategic Plan (HISSP) 2009-2015;"
Accomplishment of developing the "Strategy and Planning Framework for Integrated Maternal, Neonatal and Child Health Services 2009-2015,"
5. including development and implementation of Skilled Birth Attendance (SBA) Development Plan and the National Nutrition Policy (NNP);
6. Progressive consultation and discussion on a national health financing strategy;
7. Development of the Sector Common Workplan / Monitoring Framework (SCWMF); and
8. Demonstration of prompt and appropriate response to emerging diseases such as the A/H1N1 influenza.

Main directions for 2009-2010

The primary focus of the health sector next year is the further intensification of the successful joint formulation of the 7th National 5-year Health Development Plan between MoH and DPs. It can be realized through the effective utilization of the Sector-wide Coordination (SWC) Mechanism and the planning tool of the SCWMF. Furthermore, continuous focus will be given to the consolidated implementation of the 8 Priority Measures referenced below.

The Health Development Plan 2009-2010 continues to strengthen health system and expand the improve quality of services toward people by aiming to establish at least 1-2 healthy model villages per district. The immunization coverage needs to achieve at least 85% and the maternal tetanus elimination campaign must be completed in 2010. The ITNs distribution needs to cover at 95% of people living in the risk area (3.6 million). The population access to safe water and family latrine are at least 79% and 59% respectively.

Key challenges include:

- Strengthening health system through developing HR capacity as well as health financing.
- Access to road, transportation, clean water and other socio-economic infrastructure and services need to be resolved in cooperation with non-health sectors.
- Social and cultural barriers which influence populations' health behavior.

Outlines of the Health Strategy for the 7th NSEDP

The 7th five-year *Health Development Plan (HDP 2011-2015)* which pursues the goals and targets defined by the 8th Party Congress Resolutions and the NSEDP, and builds on the findings of the evaluation of the 6th plan has a special role in Health Renovation. The objectives are to create basic health infrastructure, extend the health system in synergy with the rapid industrialization and modernization of the country, and contribute to poverty eradication and improving the people's quality of life.

Targets defined in the HDP 2011-2015 are:

- Infant mortality rate (MIR): 45/1,000 live birth
- Children under 5 mortality rate: 70/1,000 live birth
- Maternal mortality rate (MR.): 260/100,000 live birth
- Life expectancy: 64 years
- Access to safe water: 80%
- Access to family latrine: 60%

Priority Areas:

1. Strongly promote and expand Model Healthy Villages (HESS, WES, ICE)
2. Reduce maternal and neonatal mortality and aggressively increase child survival rates
3. Strongly promote good nutrition combined with disasters and epidemics preparedness
4. Improve Human Resource Development and increase service quality
5. Sustainable health financing and efficient mobilization and utilization of external resources
6. Traditional medicine, food and drug quality and safety

III. Cross-cutting issues

Demography

Population dynamics, i.e. its size, structure, composition and distribution provide an important framework for national planning. It has large implications for socio-economic development as the country's population represents its most important resource and determines the speed and strength of national development.

The total population of Lao PDR has grown by about 55.6% in 20 years from 3.6 million (1985) to 4.6 million (1995) and to 5.6 million in 2005 (Census) and is projected to reach 6.9 million in 2015 (MPI). The population growth rate is expected to continue to decline, largely due to declining fertility and mortality resulting from improvements in health, education and development in general. The total fertility rate (TAR) has fallen from 5.6 in 1995 to 4.5 in 2005 (Census) consequent upon women pursuing higher levels of education, marrying later, and increasingly joining the labour market. TAR however varies between provinces, with fertility remaining high in certain provinces and within groups in all provinces.

Currently Lao PDR has a very young population, with 50 per cent of the population aged below 20 years (Census 2005). Achieving MDGs is likely to induce further decline in fertility. Because of this decline in fertility, Lao PDR is expected to have a period called "demographic dividend" which creates an important opportunity to achieve greater development. In 1995, 43 per cent of the population was below 15 years old while 51 per cent were in the working ages (15-64 years). In 2005, the comparable data were 39 per cent and 57 per cent respectively and it is estimated that in 2015 it will be 33 per cent and 63 per cent.

The decline of the dependency ratio which looks at the relationship between the population aged 0-14 and those above 65, to the population 15-64 indicates a growing share of working population relative to dependents. This trend will continue during the next planning period, creating a period called the "first demographic dividend" during which the working age population can generate labour income that exceeds total consumption of the population, which has

a positive effect for economic growth. Lao PDR is now already in the midst of a first demographic dividend period which is estimated to last for about 30 more years until the ageing of the population starts. However, the dividend is not automatic and is transitory.

Seizing this golden opportunity from the dividend, just as that previously enjoyed by several Asian countries, would depend greatly on Government investments in social and physical infrastructure including improving the quality of human resources. A better educated and healthy population leads to higher productivity. Such a labour force of both men and women must be engaged in gainful employment and contribute to expanding the economic cake for all the population. Similarly, the labour market environment and institutions will also have to be better developed so that it can function more effectively and efficiently in job creation and absorption. Through galvanizing the productivity of the working-age population which is more productive, economic growth will be increased, helping to close the development gap with other countries.

The share of the population 0-15 years is declining, however, it must be noted that there will still be a large increase of population of this age-group in absolute terms in the next few decades. The Government will therefore have to continue to provide substantial resources for the health, education and skills development needs of this population group, especially those underserved and vulnerable.

With declining fertility and increasing life expectancy, it is expected that the number and proportion of the elderly population will begin to rise. Life expectancy at birth has shown an increase from 50 to 59 years for male and 52 to 63 years for female between 1995 and 2005 and is projected to increase to 67 and 70 years respectively by 2015. Although not currently an ageing society, Lao PDR should anticipate the ageing of its population and begin to put in place policies and structures to cater for the needs of this population. Development of social safety net such as health insurance and pension, savings and re-training programmed should be appropriately considered in the context of the age-composition shift. For instance, a policy to promote savings from a higher share of working age population can accumulate wealth for financing the old age consumption as well as for a steady growth.

The population is presently more rural. However, the share of the urban population is increasing as seen in consecutive censuses. Population is increasing not only in Vientiane Capital but also in mid-sized cities and this will have attendant issues of urban management, access to services, employment and housing. Looking at the current trend, migration of young rural population to cities and to overseas in search of better job and opportunity is likely to continue. At the same time, continued economic growth will make the Lao PDR increasingly attractive to in-migration. The Government has to ensure skills development, accessible quality employment opportunities, safe and accessible channel of remittances and improved protection system and social and health services for both out- and in-migrants. The 7th development plan will have to take into account these issues in a comprehensive way.

Governance and legal sector

The Strategic Plan for Governance has guided the continuing development of the governance framework during 2009. The work in this sector is spread over thematic areas: "Public Service Improvement, People's Participation, Rule of Law and Sound Financial Management". Complementing and reinforcing actions to strengthen Governance, the GoL has been implementing several measures to enhance the legal sector framework and the judiciary. Tangible results and key milestones have been achieved as illustrated in the following sections.

Strengthening Public Administration and the Civil Service

Several key initiatives have taken place to improve public services during 2009. The GoL has continued to strengthen the administrative framework and state management modalities and structures. The sixth session of the National Assembly approved and/or amended new laws, including laws on investment, mining, electricity, contracts, water supply, fisheries, inheritance, plant quarantine, media and publications. The Prime Minister's Office provided several decrees to guide the functions of various government offices.

Significant progress has been achieved by providing a framework to facilitate people's participation through local institutions, with the Decree on Not-for-Profit Associations. The approval of the decree, which will become operational at the end of October 2009, marks a significant step toward a more enabling environment for civil society in Lao PDR. The decree provides for registration and monitoring of national level associations by the Public Administration and Civil Service Authority (PICAS), in conjunction with line ministries. It also provides for provincial and district level registration through the governors' offices. The decree provides a clear and predictable legal framework by which associations may be recognized as legal entities, enabling them to interact with government and international partners. Consequently, the ability for civil society organizations to access funds and to contribute meaningfully to the development process will be enhanced, and the efforts of the country to achieve the MDGs through creating more local solutions to poverty should be better supported. The Decree on Associations is the first piece in the legal framework for national civil society, and will be followed by others (such as a decree on Foundations which is currently under preparation) while Government is also revising the decree on Ingo's.

Some steps to improve availability of information for citizens have also taken place. In addition to the community radios which play this role, information centers have been established in two provinces to facilitate such sharing of information. The Media Law has been approved and provides a platform to support wider and systematic information sharing with communities. Efforts to improve the flow of information from people to the government have been made through the Citizen Report Card.

The National Assembly plays a vital role in promoting people's participation in governance. The review of Law of the National Assembly and its procedures has commenced, to support its expanding role. The policy oversight role has been expanded significantly. Legislative drafting skills have been improved to enhance the role played by the Assembly members. Provincial offices of the National Assembly are deepening their links with citizens and handle more effectively the petitions filed in the Assembly. Public consultations have also commenced.

The Prime Minister's instructions regarding expansion of One-Door-Service to all provinces (Ordinance 86) has provided the trigger to examine the opportunities and constraints in using this modality more widely to improve service delivery. Of particular importance has been the need for clear delegation of responsibilities and assignment of tasks across districts, provinces and ministries – a detailed review of these arrangements has commenced in 2009. Seven of the ten One-Door-Service-Centers which were initiated in 2008 are fully operational.

Important steps were completed to improve the effectiveness of district administration. The Prime Minister's decree No. 39 was implemented, and the review of pilot efforts for restructuring led to an instruction from the Prime Minister classifying all districts into three categories, and provided guidance to merge some offices, as relevant to each category. The generic guideline for transforming districts into municipalities was completed. The operating procedures for the main municipal functions have been prepared. The frameworks will be used to establish Lang Prabing as a City.

District administrations which play a major role in implementing civil service reforms were included in a major effort to widen the awareness of the Strategic Plan for Governance. The series of awareness building workshops on this theme covered all 140 districts and, in addition, enabled wider awareness of the results of pilot initiatives in several ministries and provinces over recent years.

The Government has taken some important steps to strengthen Civil Service Management. The Government is revising a draft decree on Recruitment and Retention of Civil Servants in Remote Areas, whereby remuneration and service conditions would be suitably adjusted to motivate them to work in remote areas for reasonable durations. Instructions have been issued to establish a Civil Service Training Centre, which is expected to become operational over the next three years.

A gender in governance study has been completed with close involvement of Lao CAW. A set of actionable recommendations have been prepared which are now being discussed with relevant offices of the Government.

Significant progress has been achieved in preparing the administration to use Information Technology. The national IT Policy was approved by the Government earlier this year. Over a 100 key offices are now linked on the government's intranet and the backbone for linkages with most provinces completed. The E Governance decree is being drafted.

A very significant initiative of the government was the review of the Law on Government and the Law on Local Administration. A highlight of this review was the discussions on revising the Law to include the role of Provincial Councils, proposed to be reintroduced in the Lao administration in 2011.

Fiscal decentralization to accelerate investments that expand availability of services has been successfully piloted in four provinces. This has been implemented in close coordination with the Ministry of Finance, Ministry of Planning and Investment and provincial administrations in 20 districts across Houaphan, Oudomxay, Xiengkhouang and Sekong. These districts are provided with authority and financial resources to plan and undertake small investments to strengthen local service delivery and take on more responsibilities in local development.

Reinforcing the Legal Sector and the Judiciary

The past year has seen tremendous progress with regard to the international status of the Lao PDR and its accelerated integration into the international legal framework. The International Covenant on Civil and Political Rights (ICCPR) has been ratified by Lao PDR and instruments of ratification were deposited at the New York Treaty Event in September 2009. At the same time, other conventions of major importance, namely the United Nations Convention against Corruption (UNCAC) and the Convention on the Rights of People with Disabilities (CRPD) were also ratified. These conventions are especially important for Laos given its commitment to improve good governance and the rule of law. With the ratification of the ICCPR and the CRPD, Laos is now a party to six of the nine existing core UN Human Rights treaties and a process has started to assess the need to harmonize its domestic normative framework with the international conventions it recently became a party to. In addition, The GoL has ratified the Oslo Convention on Cluster Munitions in March 2009 and has offered to host the first conference of states parties to this convention, which demonstrates that a Least Developed Country is capable and willing to take the lead on international policy matters such as the ban on cluster munitions.

Regarding the domestic legal framework, some key milestones have also been achieved: most significantly the adoption of the revised Legal Sector Master Plan (LSMP 2020). This adoption represents the culmination of intensive work and consultation carried out over the past 3 years. It is a comprehensive statement of the needs of the Lao legal system and provides a series of guiding principles for developing a rule of law state, enhancing access to justice and enabling legal empowerment, and sets out an action plan to help achieve these goals by 2020. The LSMP will create the conditions allowing for reform and further development in the sector to be managed and coordinated over time. It will permit not only the efficient implementation of new activities, but also a coordinated pursuit of important ongoing initiatives in support to the sector, such as the enhancement of the judiciary process through the development of regional courts and the implementation of specialized courts and specific procedures for youth. The LSMP also mandates the establishment of regular forums for coordination and cooperation between institutions involved in LSMP implementation and the international development partners such as an annual conference and a bi-monthly roundtable. The Governance Sector Working Group as well as its Legal and Institutional Oversight Sub-Sector Working Group will play a role in coordinating this process and in steering development partner support for the LSMP implementation.

The overall legal framework will also be further strengthened by the adoption of the National drug Control Master Plan, which will address the illicit drug control problem over a period of five years, the issuance of the presidential ordinance on treaty making, the finalization of the law on lawyers and of a code of conduct for lawyers.

The government and legal institutions of the Lao PDR also took the initiative to collect data and information from the field in order to improve their knowledge and understanding of the way laws and legal rules or procedures are effectively implemented and how they impact people's life, in the perspective of enhancing the legal system in a

practical and appropriate way. This reflects the need for building efficient, effective, equitable and accessible justice and law enforcement systems that enables all citizens to fully exercise their legal rights and fulfill their legal duties.

The first of these initiatives was the start of an Access to Justice Survey. So far, no systematic and comprehensive study had been undertaken on the people's understanding or perception of their access to justice (including an assessment of access to justice for the poor, vulnerable and disadvantaged people in remote areas). Rooted in the Constitution of the Lao PDR and in the Legal Sector Master Plan, the survey aims at gathering information across all regions of Laos in relation to people's perceptions on the justice system, in particular their knowledge or understanding of the justice system, their interaction with the justice system and their perception of the effectiveness and efficiency of the justice system.

Governance and legal sector reform will be among priority development areas of the 7th NSEDP. A high priority is to formulate a governance roadmap and use it to facilitate coordination as well as time bound implementation. Since the governance strategic plan is broad and envisages several activities, a prioritization exercise and action plan would ensure that some highly significant and tangible results get the complete attention and support of all stakeholders. The legal sector master plan adopted this year will be part of the 7th NSEDP as well.

Environment and Climate Change

During 2009, both climate change and environment has increased in importance on both the national and international agenda.

The increasing incidence and severity of floods and droughts, together with environmental degradation, threatens progress towards the achievement of the MDGs as well as the Government targets to exit LDC status by 2020. Most recently, during the months of September and October 2009, a series of tropical storms have hit southern and eastern Lao PDR, affecting thousands of people and displacing hundreds. Extreme weather events, including floods, droughts, storms and others, will increase in intensity and frequency, with escalating costs for the Lao Government and people.

In order to tackle the increasing challenges of climate change, the Water Resource and Environment Administration (WREA) completed the development of the National Action Plan on the Adaptation to the Climate Change (NAPA). The National Steering Committee on Climate Change (NSCCC, established by the Prime Minister in 2008) has drafted the National Strategy and its Action Plan on Climate Change (NSAPCC). Due for completion shortly this strategy will provide a critical framework for developing climate change adaptation and mitigation activities in the country. Work on the overall strategy is being complemented by a number of sector-specific programmes, including eight Action Plan (AP) priority areas. The NSAPCC will be implemented in three phases from 2009 to 2020.

The Government has also participated actively in the Climate Change negotiations in the run up for the Conference of the Parties 15 (COP15), which will be held in Copenhagen later on this year. These negotiations are critical for countries such as Lao PDR who have contributed the least to climate change but are subject to significant impacts. The negotiations aim to establish binding emission reduction targets, as well as agreements on financing, adaptation, and technology transfer between developed and developing countries.

During the year 2009, WREA worked to strengthen the legislative framework for sustainable environmental management and protection, in particular environment management and monitoring in investment projects such as energy (hydropower), mining, infrastructure, industry-commerce and agriculture-forestry to ensure these investment projects have less social and environmental impact and attain sustainable development. This has included the revision of the Environment Protection Law, the development of a draft decree on Environment and Social Impact Assessment and the development of Pollution Control Systems - including the development of the National Environment Ambient Standard and the Emission Standard. The rapid approval of these three documents is considered critical to strengthening the mandate of WREA and legislative framework for environmental management.

Despite the slowdown in the global economy, the fast pace of the development in the Lao PDR has been accompanied by the exponential expansion of foreign direct investment in the natural resource sector, including agriculture, hydro and mining. This has had a range of impacts on environmental health and local livelihoods, for which it is urgently necessary to strengthen both investment management and environment and social impact assessment capacities. The Poverty Environment Initiative represents one important programme which will strengthen Government capacities in these areas.

During 2009, the Small Grants Programme of the Global Environment Facility has been launched in Lao PDR. This Programme supports activities at the grassroots level. It is now active in 121 countries and has made more than 11,500 grants worldwide. The Small Grants Programme is a unique mechanism that provides financial and technical support directly to community-based initiatives which are generating global environmental benefits while supporting sustainable livelihoods. The programme is based in the belief that the best way to address global environmental problems is when local people are involved and there are direct community benefits and ownership. The programme supports local actions that deliver global environmental benefits in the areas of biodiversity conservation, climate change mitigation, protection of international waters, prevention of land degradation, and elimination of persistent organic pollutants, and has significant funding for awarding to Lao community based organizations.

Nutrition and food security

Malnutrition accounts for one third of mortality and morbidity in developing countries. Despite impressive gains in economic growth, Lao PDR remains one of the highly affected countries: 23% of the population and 37% of children under five are still undernourished with slow improvements over the past decade. As a result, the national target for malnutrition is off track⁴ and it is increasingly clear that MDG 1 as well as various other MDGs will not be achieved without immediate, decisive, and integrated action.

According to WHO standards and recent surveys, the following causes of malnutrition are among the most serious problems requiring urgent action:

- Breastfeeding: Only 26%⁵ of children under 6 months are being exclusively breastfed
- Vitamin A deficiency: 45% of children under five (CU5) and 23%⁶ women between 12 and 49 years of age suffer from sub-clinical Vitamin A deficiency
- Anemia: 63.5% of children under two (CU2), 41%⁷ of CU5, and 36%⁸ of women in reproductive age (WRA) and suffer from anemia
- Iron Deficiency: 22%⁹ of WRA suffer from iron deficiency
- Parasitic infestation: 54%¹⁰ of children suffer from Soil Transmitted Helminthes (STH)
- Food security and diversification: 23%¹¹ of the population is undernourished; 40%¹² of CU5 are stunted
- Two thirds of the rural population are either food insecure or live on the edge of food insecurity and are at risk of being food insecure should a shock occur during the year.¹³

⁴ Source: 2008 MDG progress report. Malnutrition 1 of 3 from 18 MDG target indicators measured that is seriously off track.

⁵ Based on the finding from National Nutrition Survey 2006

⁶ WHO 2000. Serum /plasma retinol concentration < 0.7 µmol/l

⁷ National Nutrition Survey 2006. Proportion of children < 5 with HB < 110 g / L

⁸ National Nutrition Survey 2006. Proportion of WRA with HB < 120 g / L

⁹ National Nutrition Survey 2006. % of non-pregnant women with Serum Ferritin < 15 µg/l

¹⁰ National Nutrition Survey 2006. % of children age 24-59 months with parasite detected in stool

¹¹ LECS 2002/2003. % of population whose dietary energy consumption is continuously below a minimum dietary energy requirement for maintaining a healthy life and carrying out a light physical activity with an acceptable min. body-weight for attained-height

¹² MICS 2006. % of CU with -2SD and more from reference population height to age ratio

¹³ WFP Comprehensive Food Security and Vulnerability Analysis (CFSVA)

Progress has been made in some areas of intervention such as iodized salt, vitamin A, deworming, insecticide treated bed nets, or most recently exclusive breastfeeding education. Nevertheless, the overall situation remains concern.

As a response to this threat, malnutrition was highlighted as a key topic at the last two Round Table Implementation Meetings. Subsequently, the Government of Lao PDR has issued the first National Nutrition Policy (NNP) in December 2008. Based on the NNP, the first National Nutrition Strategy (NNS) and National Plan of Action on Nutrition (NPAN) have been formulated and is expected to be adopted in November 2009.

The National Nutrition Strategy forms the strategic guideline for all stakeholders in the field of nutrition and food security in Lao PDR. As such, it forms the basis for the National Plan of Action on Nutrition as well as for the nutrition and food security component of the MDG Costing and the 7th 5-year National Socio-Economic Development Plan. The NNS is based on a holistic causal analysis of the malnutrition situation in Lao PDR and forms a comprehensive approach to address the underlying problems from a farm to table food chain perspective. The breadth and depth of the NNS aims to fast track existing efforts and break the current trends in malnutrition to achieve the priority development goals of the government including the MDGs.

The National Plan of Action on Nutrition provides a detailed overview of which interventions should be implemented in which priority by whom until when and how much this will cost.

A multistakeholder planning process has resulted to a wider recognition of the multifactorial nature of malnutrition and food insecurity in Lao PDR. Consequently, a consensus was reached that sustainable cost-effective cross-sectoral actions are needed. The legislation of a National Nutrition Policy and its translation into a National Nutrition Strategy and National Plan of Action for Nutrition provides the strong anchor and can be regarded as a major achievement. However, with the MDG hunger goal off track and 99 interventions to be implemented across a highly fragmented stakeholder landscape, the implementation of the NNS and NPAN will be a great challenge. Current financial and non-financial capacity for nutrition and food security is extremely limited. Information systems and data availability is inadequate. The target population is highly dispersed and diverse in terms of language, geographic zones, ethnicity, and cultural habits and the quality, coverage, and utilization of health and other nutrition-related services is poor.

It is evident that now – with the policy framework to address malnutrition in place – Lao PDR has reached a tipping point: If the country takes immediate, decisive and integrated action, Lao PDR can become one of the great success stories in terms of significantly reducing malnutrition and achieving MDG 1. However, if this window of opportunity is missed, there is a major risk of losing broad stakeholder support and momentum in this common effort.

Lessons learned from successful countries show the required next steps for Lao PDR in order to effectively implement the NNS and NPAN and thereby achieve a step-change in malnutrition and food insecurity.

Government leadership and cross-sectoral coordination

Effective implementation of a comprehensive cross-sectoral strategy as the NNS requires strong government leadership and commitment at the highest level. Government leadership will not only be a necessary prerequisite for significant development partner and donor support, but also vital for a rigorous implementation process. Most successful national nutrition strategies have identified at least one senior government champion that takes ownership of the national strategy and oversees its implementation. To link high-level leadership with effective monitoring of the implementation progress and to coordinate all national cross-sectoral aspects, successful programs have usually established a highly capable and sufficiently staffed implementation secretariat (oftentimes located directly at the prime minister's office). Close coordination, collaboration, and partnership across all relevant stakeholders (key ministries, development partners, private sector, civil society) on all levels has proven to be key for effective planning, implementation, monitoring and evaluation, and resulting efficient allocation of resources. An interim task force, led by the National Science Council (NSC) and including all key ministries, is currently designing the national working and governance structure for nutrition and food security.

Integration into existing stakeholder structures

To ensure uptake and sustainability of interventions highlighted in the national plan of action, the NNS and NPAN must be mainstreamed into the 7th NSEDP and the annual plans of all stakeholders. Further, given the high degree of decentralization in Lao PDR, a solid integration into the governor's and sectoral plans on a provincial level will be key.

Mobilization of all stakeholders and rigorous scope management

Given the significant non-financial and financial constraints, it will be crucial to join forces of all stakeholders and to focus on the most cost-effective activities. Investments in nutrition generate among the highest social and economic returns. According to global evidence, scaling up the identified priority 1 interventions would reduce the burden of disease and negative economic impact of malnutrition by around 50% and would have a benefit / cost ratio of around 30. Hence, stakeholders should carefully evaluate their portfolio and consider allocating further resources to the field of nutrition and food security. In terms of allocation within the field of nutrition and food security, a clear focus in terms of demographics and interventions was decided and will be necessary to achieve fast impact. Children under two will be the highest priority¹⁴, followed by children under five and pregnant and lactating women. In terms of interventions, focus will be on proven interventions that are able to have a fast impact on the overall goal indicators. Based on this principle, NPAN interventions were prioritized through a consultative process among all key stakeholders, resulting in 44 priority 1, 30 priority 2, and 25 priority 3 interventions.

Coordinated proactive fundraising

Funding must be addressed in a rigorous and well-coordinated manner. To implement the five-year NPAN, around \$600M in total funds will be required. The 2010 funding requirements to implement priority 1 interventions amount to around \$25M. The government of Lao PDR fully acknowledges the crucial role of nutrition and food security in both social protection and economic growth and will co-invest own funds in this high-priority area as much as possible. Nevertheless, given fiscal constraints, funding will be a major challenge and Lao PDR will require major external support to achieve the goals of the NNS. Various measures promote donor support and will ensure that any internal and external resources will be used in the most effective and efficient way (for an overview of these measures, please refer to chapter 6 in the NNS). The immediate aim will be to raise funds for all priority 1 interventions via well-coordinated proactive advocacy and fundraising. Further, to ensure efficient allocation of funds and sound oversight, it is considered to establish a Nutrition and Food Security Trust Fund.

Strengthening of institutional and human capacity as well as delivery channels

One of the biggest challenges is the lack of capacity in the field of nutrition and food security. National capacity in support of appropriate and effective nutrition and food security governance, institutions, and legal frameworks must be strengthened. Further, management and technical skills at a central, district, and community level will have to be significantly improved in order to achieve the goals stated in the NNS. Finally, delivery channels (e.g. health facilities) will have to be strengthened across all sectors – both in terms of infrastructure and human capacity. To achieve the coverage and impact targets of the NNS, strong community delivery mechanisms will have to be developed. This includes intensive training of village health workers, close collaboration with mass organizations, and leveraging these resources with NGOs and other available channels such as schools and the private sector. Delivery channels must also be strengthened in terms of creating effective social safety nets to ensure the basic needs of the most vulnerable and to prevent negative coping strategies (e.g. selling productive assets, taking children out of school, or reducing the consumption of food) in times of hardship.

¹⁴ Evidences from several countries suggest that the effects of chronic malnutrition in the first two years of a child's life can only partially be reversed later in life and translate into smaller adult stature, limited capacity for physical and mental/cognitive work productivity, leading to lower wages, less resilience to social, economic, and natural shocks, and increased reproductive and maternal health risks. Because of this, those who survive malnutrition in childhood are at a much higher risk of poverty later in life and may even impact the well-being of future generations.

UXO Sector

Lao PDR is, per capita, the most heavily bombed country in the world. Wars during 1964-1973 saw more than two million tons of ordnance dropped on the Lao PDR as well as the use over 270 million cluster munitions, of which there is an estimated 80 million remaining live today. Approximately 25% of Laos' 10,000 villages are estimated to be contaminated with explosive remnants of war.

The UXO Sector in Lao PDR is led by the National Regulatory Authority (NRA) and involves the UXO Lao national clearance agency, 5 NGOs, 3 commercial clearance groups as well as a range of organisations providing victim support and educational awareness services.

Achievements - treaties

Lao PDR is at the forefront of the Oslo process to ban cluster munitions and was second to sign the Convention on Cluster Munitions on 3rd December 2008. Accession was completed swiftly with the instrument of ratification deposited with the UN in New York 18th March 2009. The GoL has offered to host the first Member States Party to CCM (1MSP) in Vientiane in late 2010 and a UN resolution to formalise this is expected in late 2009.

Although not yet a party to, the GoL agrees in principle with the Anti Personnel Mine Ban Convention and voted in support of universalisation at the UN General Assembly. A Lao delegation also attended the 9th Member States Parties Meeting in Geneva.

Additionally, the GoL signed the Convention on the Rights of Persons with Disabilities, in 2008 and ratified recently, although has not as yet ratified.

Achievements - on-the-ground impacts

- 529 villages visited reaching 99,859 people (45,705 children and 54,154 adults).
- Education programmes conducted in 533 primary schools with a total audience of 160,134 (155,244 children, 72,620 females)
- 4,500 radio spots in several ethnic languages of which 2000 were sponsored by the GoL.
- 5,700 hectares cleared in 2008 and 2,808 hectares cleared in the first 6 months of 2009.
- 48,053 explosive ordinances destroyed with no deaths or injuries to any of the operators.

Achievements - support systems

Phase 2 of the National UXO Victim and Accident Survey is now underway. Phase 2 aims to put in place a sustainable monitoring system of UXO and mine accidents covering all 17 provinces. When fully operational, the subsequent database will enable better targeting of resources and provide a platform for an overall community awareness strategic plan.

Records were consolidated for 22,889 hectares of high priority land cleared by national and international operators including over 1,000 hectares cleared by the Lao Army.

A National Database was established by the NRA, containing demographic data from the most recent government census as well as a variety of maps and satellite GIS products. All operators have been requested to report using the 2009 completion, MRE activity and Accident Reports starting from the beginning of 2009 in compliance with National Standards. The system is available to all relevant stakeholders and has been installed in several operators HQs and some provincial bases.

Challenges

The challenge remains to identify the scope and impact of the contamination. There have been an estimated 20,000 UXO-related casualties since hostilities ceased, averaging around 300 a year over the past decade (three times more

than previously estimated). In fact, the Lao PDR may account for more than half of all confirmed cluster sub-munitions casualties in the world.

Building on the success of the NRA database, the challenge remains to ensure the availability of quality, timely data to relevant agencies, as well as to monitor and evaluate the benefits gained from cleared land.

A key challenge for the UXO is to promote equitable participation, particularly in relation to women. Under the leadership of the NRA, the UXO sector is moving towards an inclusive approach, centered on people and communities. This will further enhance capacity to plan and measure the impact of its actions in terms of socio-economic outcomes leading to poverty reduction.

Although effective mechanisms are in place to coordinate international assistance under Government leadership, meeting the obligations of the Convention on Cluster Munitions will require a significant scaling up of resources with greater attention being given to the principles of the Vientiane Declaration. The challenge in the longer term is to maintain an appropriate national capacity while gradually reducing the current reliance on international support, and mainstreaming UXO action into broader socio-economic development strategies and programmes to ensure sustainability, is imperative.

Future directions

The national strategic plan for the UXO Sector 2003 - 2013, "the safe path forward" was adopted by Prime Ministers Resolution number 33 in 2004. An extensive, participatory review process was undertaken during mid-2009 as a result of the advances and achievements of the last five years. The revised strategy will run from 2010 through 2020 which fits with both the Government's five year NSEDP cycle and the CCM.

As progress in the Lao PDR is more accurately measured in terms of impact reduction, rather than the total number of UXO cleared, the new strategy seeks to confirm development priorities of the Provincial, District and Village authorities, harmonised into national strategies, in order to establish priority areas and priority tasks.

To achieve the long term vision and meet the ten-year goal the strategy has six specific objectives. They are to:

1. Reduce the number of UXO casualties from 300 to less than 75 per year
2. Ensure that the medical and rehabilitation needs of all UXO Survivors are met in line with treaty obligations
3. Release priority land and clear UXO in accordance with National Standards and treaty obligations
4. Ensure effective leadership, coordination and implementation of the national programme
5. Establish sustainable national capacity fully integrated into the regular set-up of the Government
6. Meet international treaty obligations.

IV. Developments in Aid Effectiveness Agenda

Background

The Vientiane Declaration on Aid Effectiveness - a localized version of the Paris Declaration - and the Accra Agenda for Action provide the principles for the development of aid effectiveness in the Lao PDR. Based on these principles, two key national documents: the Vientiane Declaration Country Action Plan (VDCAP) and the 2008 OECD/DAC Survey provide guidance for developing government policies and actions to ensure effective implementation of the aid effectiveness agenda across Lao PDR.

There have been several significant advances in the aid effectiveness agenda over the past months. Some of the key developments, including the new ODA Decree, the VDCAP revision and the Xayabouly Provincial Conference on Aid Coordination and Effectiveness for Achieving the MDGs are listed below.

ODA Decree

The new Decree no. 75/PM on utilization and management of Official Development Assistance signed by the Prime Minister on 20 March this year defines the roles and responsibilities of the core and line ministries and local administration authorities. It aims to strengthen intra-government coordination, enhance accountabilities of Government agencies, simplify administration processes and further promote government ownership and leadership over ODA management and coordination processes and outcomes.

The Decree is available to development partners on the Round Table website (www.rtm.org.la)

Revision of the VDCAP

Implementation of the VDCAP and achieving its targets has been in slow progress. Accelerating progress requires further strong support from GoL and Development Partners and the involvement of a wider range of relevant stakeholders – an approach which has been recently reinforced by the Accra Agenda for Action (AAA). The VDCAP has been updated and revised to capture new commitments and actions resulting from AAA and identify actions that need particular attention, efforts and support.

A number of key actions are recommended to improve the implementation of the VDCAP among others key actions are as follows:

- Fully integrate VDCAP targets and actions within Government and Development Partner policies and targets.
- Fully increase linkages between the VDCAP and ODA programs/projects
- Ensure that domestic resources and international assistance are consistent with the NSEDP's objectives, needs and requirements.
- Enhance capacity of the country so that disbursements are increased and resources fully utilized to the benefit of accelerating the achievement of the country's development goals.
- Enhance aid predictability and synchronization with national planning, programming and budgeting frameworks
- Design and implement clear strategies for capacity development across government at national and sub-national levels.
- Strengthen the Lao PDR's procurement, auditing and reporting systems including developing internationally accepted standards and ensure that these systems are used for ODA operations to enhance ODA integration into the budget system.
- Seek support for harmonization goals by development partner's headquarters.
- Accelerate the work of SWGs formulating costed sector plans and priorities and ensure a coordinated consultation process for the 7th NSEDP across the eight Sector Working Groups.
- Make the SWGs more active in central and provincial levels and accountable on mobilizing resources, scaling up resource utilization, monitoring policies, programmes and resources' implementation, and simplifying and harmonizing donors' practices and procedures.
- Work to further define and clarify aid effectiveness approaches such as Programme-Based/Sector-Wide Approaches, including the development of common indicators to improve data quality and reporting mechanisms.

Xayabouly Provincial Conference on Aid Coordination and Effectiveness for Achieving the MDGs

In the lead-up to the RTIM Xayabouly Province was chosen to host the Provincial Conference on Aid Coordination and Effectiveness for Achieving the MDGs. Xayabouly is considered a good case study of aid effectiveness implementation in the Lao PDR provinces.

Some of the key progress highlighted in the Xayabouly conference include the achievement of several key MDG targets such as poverty reduction, net primary school enrolment rate, literacy rate among the 15-24 year-olds,

reduction of under-five mortality rates and maternal mortality rates. Key challenges remain however in the development of basic infrastructure such as rural roads access and expand electrical transmission network.

Key recommendations resulting from the Xayabouly conference include:

- Developing a clear sector/provincial development policy in line with the overall national and sectoral strategies.
- Reinforcing efforts to foster ownership particularly at the provincial and district levels, which have heavy implementation responsibilities yet typically have less capacity than the central government agencies and are sometimes overlooked within the context of ownership.
- Creating supporting industries for the agriculture sector to increase value adding and diversify export products to suit different markets.
- Developing environmentally sustainable approaches to agriculture.
- Conducting environmental and social impact assessments for all projects.
- Improving road links to facilitate economic activities
- Strengthening human resource capacity.

Standard Operating Procedures Manual

Developed by the Ministry of Planning and Investment in close collaboration with line ministries and development partners, the Manual on Standard Operating Procedures (SOP) is an important milestone of the Government in its efforts to improve the management of ODA.

The SOP Manual follows closely the principles and goals of the *Vientiane Declaration on Aid Effectiveness* and new ODA Decree 75/PM in emphasizing roles and responsibilities of government agencies and the importance of good governance of projects and programmes supported by ODA. The objective of the SOP manual is to establish methods and guidelines for project design and implementation ensure GoL ownership of such projects and programmes and enlarge the country's absorptive capacity. The Manual is intended for use by all agencies working in ODA-supported development programs/projects.

Standard Financial Management Manual

The Standard Financial Management Manual (SFMM) currently under development by the Ministry of Finance is designed to provide financial management guidelines to the line ministries, agencies and relevant local administration responsible for ODA-funded programs/projects. It sets out standard accounting and financial management procedures to assist projects to meet Government and Development Partner reporting and auditing requirements.

The Manual provides guidance on all areas of financial management from financial policies and standards, financial accounting systems and procedures, financial reporting and audit. It will ensure that there is consistency, transparency and accountability across ODA-funded programs/projects, as well as improve the capacity of projects and programs to generate high-quality, timely financial reports in order to meet reporting obligations.

The Standard Financial Management Manual will be used in harmony the Standard Operating Procedures Manual. It is expected that the SFMM will be finalised and implemented during 2010.

V. The Preparatory Framework and Strategic Directions of the Seventh NSEDP

The seventh NSEDP will be a crucial milestone in pursuing and scaling up the nation's development efforts towards the achievement of the MDGs, the integration in ASEAN community, the improvement of the living standards of the people and the graduation of the country from the LDC status. The Plan is conceived not as a rigid framework of objectives, set of priority sectors and measures, but as a platform for development which encourages an active participation of all stakeholders in its implementation, and which requires periodic adjustments and updates. The

following sections describe the framework of the preparation of the Plan and provide a summary of its strategic directions as being considered at this stage and which will be further developed in the Plan document.

Framework

The seventh Plan formulation started with the mid-term review of the Sixth Plan which was undertaken in 2008. Based on the findings and recommendations of the NSEDP implementation, line ministries and equivalent, municipalities and provinces started preparing inputs for the Seventh Plan. Two key documents providing direction and guidelines for the Plan preparation are the PM's Instruction on the formulation of the Seventh Plan (2011-2015), dated 26 August 2009, and MPI's Planning Guidelines of 4 September 2009.

The PM's instruction has assigned roles and responsibilities to different parts of the Government. Specifically, the Government General Secretariat has the overall responsibility for overseeing and mobilizing all line ministries efforts and synergies. MPI as the focal point provides overall coordination with relevant central and local agencies in the development of the five-year Plan; coordinate with Ministry of Finance, the Bank of Laos, social ministries and other relevant agencies to determine the development objectives and the projection of financial capacity to support the Plan. All line ministries, as well as provincial authorities have been given a clear role to play within the plan preparation as defined by the Prime Minister's Instruction.

This process is taking place through a broad participatory process, including - in addition to central ministries and institutions - provincial, district and village authorities, mass organizations and communities, and the country's development partners. Regional consultations will be organized and inputs will form the basis for finalizing the Plan. The preparation work that started nearly a year ago will continue in the coming months. All line ministries and provinces are expected to provide their inputs to the Seventh Plan to MPI by mid- February 2010. A draft of the Plan will then be reviewed by the Cabinet by mid-2010. The National Assembly is also expected to review and adopt the Plan in June 2011.

To ensure good process, comprehensiveness and soundness, various sources of information are gathered and analyzed. The sources include (a) existing and new sectoral and thematic strategies (some of which are developed in this document), (b) provincial strategies (9 northern provinces have developed master plans), (c) published studies and reports on surveys, needs assessments and costing; and (d) analytical inputs extracted from research studies. This information is to assist in enriching GoL dialogue and thoughts around the strategic directions and the content of the Plan. The RTIM deliberations and discussions within the SWGs will also help shape the Plan's targets, needs and priority actions.

The findings of the MDGs' assessment and lessons learned are also taken into account as well as the analysis of the international context and its current and potential implications to better weigh choices and strategies. Demographic factors and population dynamics will be incorporated into the parameters forming the analytical foundation of the seventh Plan.

Directions

The *overall goals* are to achieve new milestones of rapid and stable economic development, enhance business competitions and degree of integration, accomplish the MDG' targets and further social and human progress, and enable the country to move forward towards the graduation to middle income status by the year 2020. These goals are to be attained through the promotion of robust, broad-based and sustainable growth, acceleration of modernization and industrialization, regional and international integration, and scaling up rural development.

In this regard, the seventh NSEDP will be at the level of ambition required to meet the people aspirations and needs. The level of ambition is also in line with the need to address the various challenges facing the country's development, some of which highlighted in this document.

While the GoL has the ambition to strengthen efforts to address a variety of economic and social challenges, it is also essential that the Plan's objectives and priorities are in line with available resources and means.

The Plan will seek the attainment of the following *objectives*:

6. Develop fundamental materials and technology, and provide necessary conditions to improve the living standards and livelihoods of the people, reduce poverty and strive to achieve the Millennium Development Goals (MDGs) by 2015, lead the country out of LDC status by 2020, and ensure that development is moving towards the direction of socialism.
7. Ensure economic stability, sustainability, and growth at the rapid pace, develop self-reliant and align with the direction of industrialization and modernization.
8. Ensure that development is aligned, harmonized and sustained - economic development must be closely linked with social development and environmental protection.
9. Enhance efficiency, effectiveness, swiftness and transparency of public management and social protection; guide public management, governance and administration to the direction of the rule of law; ensure political stability, fairness and in order; encourage the public to exercise their rights; and utilize potential capacities of all economic sectors to the fullest in order to mobilize more assistance for socio-economic development.
10. Continue to expand the cooperation and develop necessary capacity for regional and global integration.

Robust and Inclusive Growth

The rate of economic growth is projected at the level of 8% per annum on the assumption that the global economic crisis would lessen in the coming two years. Achieving this growth target will require significant efforts, resources and investment both public and private.

Robust growth is a determinant factor for achieving socio-economic objectives and targets, but the way growth is generated and distributed among sectors and geographic areas is equally crucial to reduce disparities and inequalities. Identifying new sources of growth, taking advantage of abundant natural and human potentials, balancing investment and resource allocation, and promoting broad-based growth across the country, all represent key strategic directions to promote growth with equity. The GoL will implement necessary measures to this end.

In this regard, while efforts will continue in building physical infrastructure (transport, electrification, water), greater emphasis will be placed on further developing manufacturing, agriculture, farm economy, tourism and retail trade. Channeling significant investments through small and medium enterprises is essential to develop these priority sectors as creating job opportunities, fostering sources of income, accelerating rural development and alleviating poverty will largely depend on the level and quality of growth generated in these areas. The Plan will comprise informed measures to ascertain the requirements including through resource allocation.

Agriculture and manufacturing in particular have high potentials to grow provided that infrastructure is improved, and credit and other facilities are made available. Food and non-food production in the small and medium farmer economy, livestock and other farming hold the maximum promise since it ensures food security, higher growth and better distribution. Hence, scaling up investment, production and productivity in agriculture is a priority.

Building upon achievements of the fifth and sixth Plans, efforts will be pursued to upgrade agriculture production from subsistence to a more commercial pattern that ensures stronger supply to domestic market and expands exports. Enhancing supply of agricultural and forestry products and other raw materials to the processing industries will significantly contribute to the development of the industry sector as a whole which is another promising source of growth.

Extractive industries will need careful reorientation to efficiently contribute to growth inclusiveness through increasing value-adding, feeding processing industries and meeting requirements of sustainability. The services sector (trade, tourism, and banking) will benefit from these developments and other specific policy actions.

Table 4 Projection of sectoral growth and share

Sectors	Projected Growth (%)	Projected Share (%)
Agriculture	3	23
Industry	15	39
Services	6.5	38
Overall GDP	8	100

The growth strategy, as outlined here, will create a significant breakthrough in shifting the bulk of labour force from agriculture to industries and services provided that labour skills are enhanced and the labour market improved in line with new requirements. It has also the advantage of diversifying the economy, increasing export value and reducing the current high imports of products and materials that can be produced in the country, improving consequently external accounts and generating more public revenues. Appropriate measures will be implemented to achieve these objectives and results

Social development and the MDGs

As the MDGs will be central to the Plan, the upcoming five-year period will witness strong emphasis on policies and allocation of resources related to poverty alleviation and other MDGs especially those where progress has been slow.

An MDG-centred plan requires substantial spending on social sectors. Innovative schemes devised at the local levels to suit regional realities are required. Some additional programmes of household/person targeting can help achieve greater success. Decentralised planning, initiated through the *Kumban* approach, requires strengthening. This also requires integration into the main NSEDP process. In this connection, the Government has set up a joint taskforce (led by Department of Planning of MPI and the National Leading Board for Rural Development and Poverty Eradication) to review the current practices and come up with recommendations towards harmonized local planning. In this sense, all forms of direct financing (whether at the district or another level) should be integrated into a single stream.

Greater attention will be given to education and health to develop and provide quality services to the population throughout the country with particular attention to rural, remote and poor areas. The issue of malnutrition will be addressed within the new national nutrition policy and its implementing strategy/plan of action in a holistic way that addresses all issues underlining malnutrition in the country. Women's empowerment will further improve through various actions aiming at ensuring better access to public services, improving their capacities and providing them with equal opportunities to access to jobs and income sources. Full attention will be given to the conservation and protection of the environment within the wide array of legislation, regulations and action plans and through other concerned sectors. Promoting global partnership for development (MDG 8) will require much more attention within the MDG framework. Relevant indicators are being developed in this respect, which will help tackle issues relating to development partners' commitment to provide adequate resources to complement domestic funding for the achievement of the MDGs, and other issues such as market access, access to essential drugs and information and communications technologies.

The Plan will seek the following specific targets of *MDGs*:

Goal 1: Poverty Reduction

- Reduce poverty rate to less than 24% of the total population
- Reduce under-five stunting rate to less than 22%

Goal 2: Education for all

- Net primary school enrolment: 98%

- Primary completion rate: 95%
- Literacy rate (population aged 15-24): 99%

Goal 3: Gender promotion

- Eradicate gender inequality in accessing education by 100%

Goal 4: Reduction of child mortality

- Reduce infant mortality rate to 49 per 1,000 live births
- Reduce under-five mortality rate to 80 per 1,000 live births

Goal 5: Maternal health promotion

- Reduce maternal mortality ratio to not more than 260 per 100,000 live births

Goal 6: AIDs & Malaria control

- Death caused by malaria: not more than 0.2 person per 100,000 people

Goal 7: Environment sustainability

- Forest coverage: 65% of the total area
- Clean water access: 80% of the population
- Latrine usage: 60% of the population

In addition to the MDGs, the Plan will consider other aspects related to social and human development, such as social protection and safety nets including for the most vulnerable households and individuals. Appropriate policies, resource allocation and coordination of interventions will all be looked at to reach tangible progress in these areas.

Key factors for achieving the Plan's objectives and goals

Macroeconomic stability

It is an essential condition to lay the ground for sustained growth especially at these disturbing times of global uncertainties. Low inflation, limited deficits and stable Kip are crucial for macroeconomic stability and therefore the 7th plan will pursue reforms of the public finance to ensure among others increased budget revenues and will continue the implementation of the banking system restructuring and a sound monetary and exchange rate policy.

Private sector development

Private sector development is a critical policy feature of the country's future plan as the role of the private sector in achieving strong growth, employment and income targets is of paramount importance. Besides the necessary improvement of business climate and incentives, already part of the current process within the sixth Plan, to encourage and promote private investment in general, the seventh Plan will determine specific measures, incentives and policy actions to encourage investments in small and medium enterprises in agriculture, industry and services and at the same time promote investments that improve productivity and competitiveness, preserve the environment, boost economic diversification, target competitive export-oriented products, and contribute to creating productive activities in rural and remote areas.

A key issue that will need to be addressed is human resource development, labour force skills upgrading and supply of skilled labour through for instance developing a labour market and increase support to provincial vocational training centres. In addition, a particular attention with specific incentives and facilities, such as access to credit, will be given to local entrepreneurs to promote broad-based and pro-job investment across the country.

FDI is crucial to generate capital inflow and foster growth. The issue is how to reach optimum benefits and avoid negative implications. This is one of the main equations that the 7th plan should resolve. A number of policy actions will be considered in this regard: (i) sustainable development of mining sector; (ii) proper management of natural resources and related investments including the issue of concessions, licenses and land management; (iii) enhancing and enforcing regulations, and strengthening capacity; (iv) optimal benefits to the economy and the people; and (v) safety and rights of the labour force.

Governance

The seventh plan will include policies and actions to further improve governance, legal framework, institutional and human capacity within the public administration. These are important areas and cross-cutting issues that impact most of the Plan's policies and actions and are determinant to attaining its goals and objectives. The Plan will attach a high priority to accelerating the public administration reforms, achieving more tangible results in public services delivery, increasing people participation, rendering the judiciary system more effective, and strengthening the rule of law.

Economic integration

The Plan will provide policy actions to strengthen regional cooperation and integration within AFTA, the GMS and WTO, which will open further opportunities for beneficial trade and cooperation at the bilateral and multilateral levels.

Financial resource mobilization

The five-year Plan must align with the budget plan, identify priority programs, mega projects, and other projects in details, and define how the funds will be used such as: public investment projects, grants and loans, and private investment projects.

The Plan will require significant amounts of investment and thus resources from the government, development partners and private sector. It seems plausible, at this stage, that the government will need more resources than those implemented during the current NSEDP. ODA will be crucial and the GoL will work with development partners to ensure that the level of external assistance and funding will meet the requirements of the Plan. The 2010 main RTM will have to consider the level of resources, including from DPs, to implement the Plan. A strong emphasis will also be placed on increasing development resource allocation from the government budget and to strengthening planning, programming (PIP) and budgeting processes, as well as enhancing aid effectiveness.

Monitoring and Evaluation

The Plan will incorporate a framework for monitoring and evaluation of the implementation phase to make the plan more result-oriented and therefore measurable indicators will be incorporated.

A strong M&E System could help trace expenditures and outputs, along with time lines and expenditure-spill over if any. A dynamic M&E System will also help in introducing mid-way corrections and adjustments where required.

Conclusion

This background document gives an overview of the achievements of the country's major strategies and policies and highlights the key challenges encountered and provides indications for policy actions in the near future. Although it is not intended to cover all aspects of the national development agenda, it provides the overall framework of the RTIM proceedings.

After the RTIM is concluded, consultations between Government agencies and development partners will continue on an on-going basis on many levels. Direct bilateral discussions and negotiations remain important; however multilateral consultations through platforms such as the SWGs are critical in order to shape policies, agree on programmes and action plans, mobilize and coordinate adequate and predictable resources, and streamline disbursement procedures to ensure proper implementation of the national development agenda.

Both Government institutions and development partners are requested to take into consideration concerns, constraints and challenges described in this document, as well as the recommendations of the RTIM. Let us all continue to work together towards the achievement of common goals, objectives and outcomes.

Abbreviations

AFTA	ASEAN Free Trade Area
ARV	Anti-Retroviral
ASEAN	Association of South East Asian Nations
CAP	Country Action Plan (of Vientiane Declaration)
CSO	Civil Society Organization
DAC	(OECD) Development Assistance Committee
DTIS	Diagnostic Trade Integration Study
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GMS	Greater Mekong Sub region
HIV	Human Immunodeficiency Virus
IF	Integrated Framework
INGO	International Non-Government Organization
LDC	Least Developed Country
MAF	Ministry of Agriculture, Forestry
MDG	Millennium Development Goal
MEPA	Mineral Exploration and Production Agreement
MMR	Maternal Mortality Ratio
MOIC	Ministry of Industry and Commerce
MW	Mega Watt
NES	National Export Strategy
NGO	Non-Government Organization
NIFGS	National Integrated Framework Governance Structure
NRA	(UXO) National Regulatory Authority
NSEDP	National Socio-Economic Development Plan
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PDR	People's Democratic Republic
RTIM	Round Table Implementation Meeting
RTM	Round Table Meeting

RTP	Round Table Process
STI	Sexually Transmitted Infection
SME	Small and Medium Enterprise
SWAp	Sector Wide Approach
SWG	Sector Working Group
TB	Tuberculosis
TRA	Trade Related Assistance
UN	United Nations
UXO	Unexploded Ordinance
VDCAP	Vientiane Declaration Country Action Plan
WTO	World Trade Organization