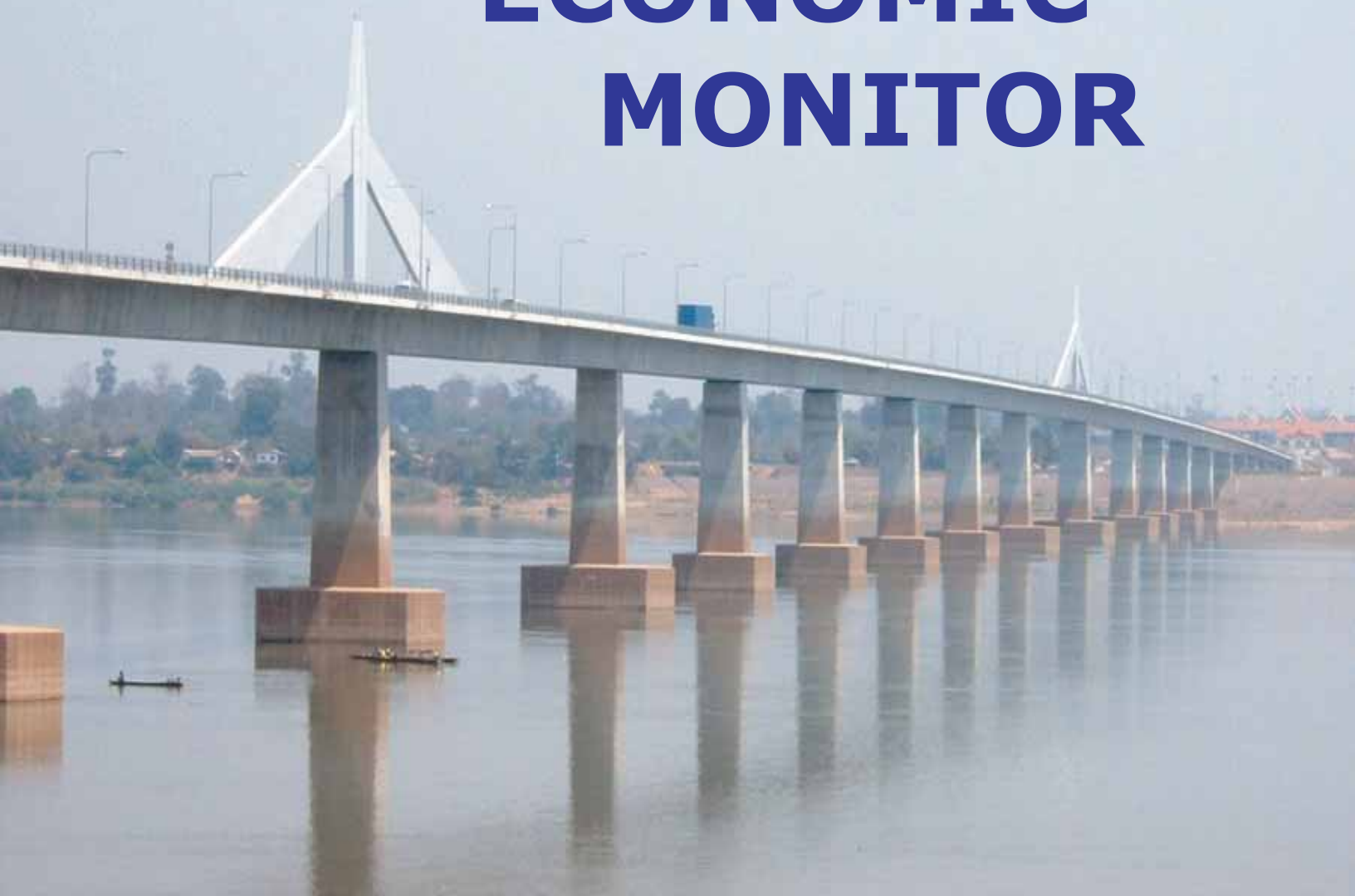


# LAO PDR ECONOMIC MONITOR

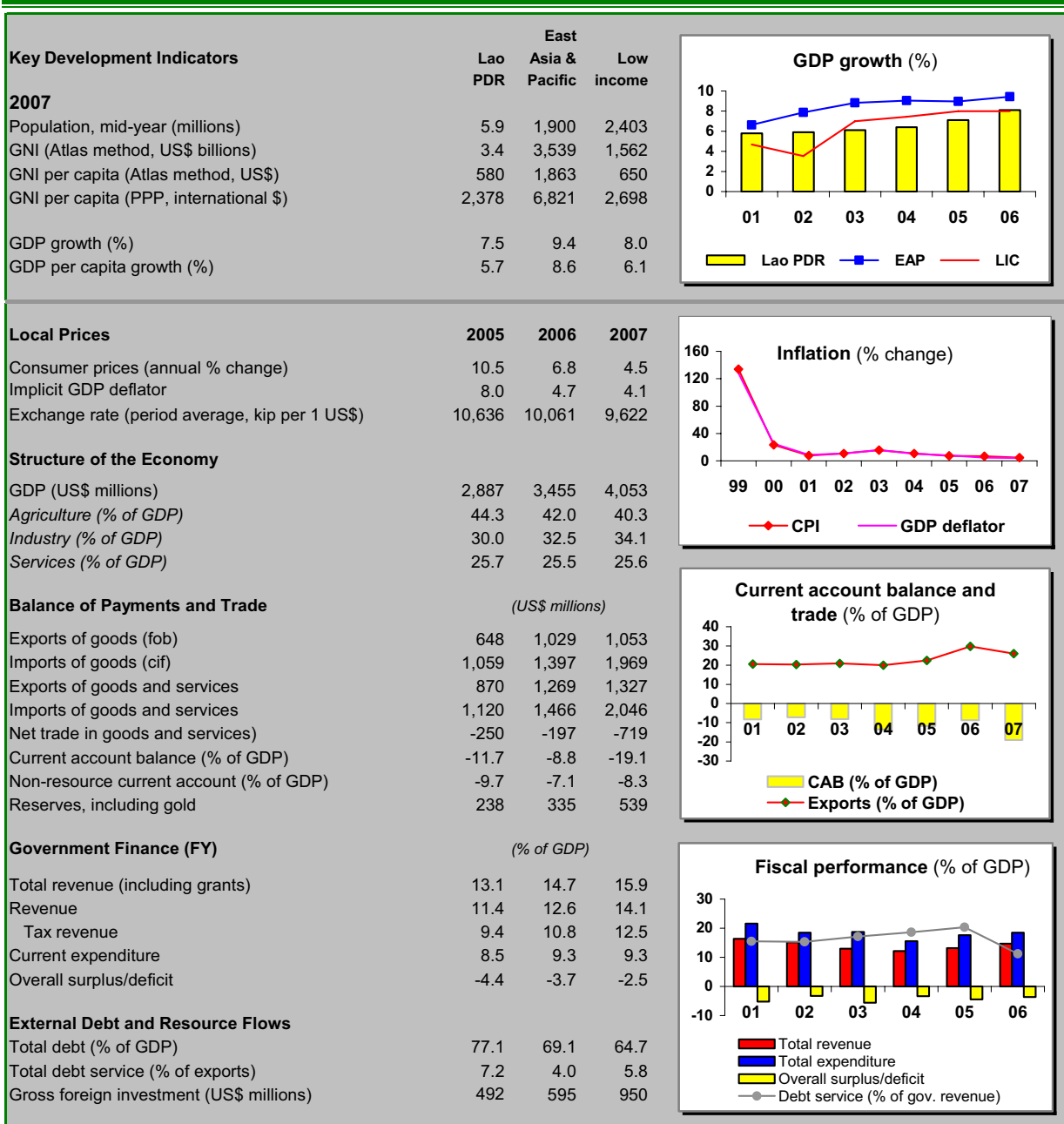


The World Bank Office, Vientiane



**APRIL 2008**

# Lao PDR at a glance



Source: Lao authorities, World Development Indicators and staff estimates. 2007 data are preliminary estimates and projections.



# Summary

## **Lao PDR's overall economic outlook remains encouraging, but rising inflation poses a risk**

**Lao PDR's economic outlook remains favorable, with continued strong growth.** GDP growth remained at above 7 percent in 2007. Output expanded in mining, newly emerging processing industries, agriculture, new construction of hydropower projects, tourism and other services. Non-resource sectors contributed over 5 percent to this growth, and the resource sector around 2.5 percent. As Lao PDR is surrounded by some of the fastest growing economies in the world, it has benefited from increased demands for its products and large FDI inflows from neighboring countries, such as China, Vietnam and Thailand.

**The macroeconomic situation remained fairly stable, but is at risk of rising inflation.** After falling to a record low level of 4.5 percent in 2007, overall inflation climbed to 6.4 percent in February 2008. High fuel prices pushed up the costs of transportation for individuals and households, construction (including imported raw materials and other chemical-related products), land clearing and agricultural farming (including processing materials). The kip nominal exchange rates appreciated almost by 9 percent against US\$ and was steady against the Thai baht during the last six months from Oct 2007 to Mar 2008.

**The government's fiscal position continued to improve.** The GOL achieved its revenue targets for a second consecutive year, increasing from 12.6 percent of GDP in 2005/06 to about 14.1 percent in 2006/07. The overall budget deficit is expected to decline from 3.7 percent of GDP in 2005/06 to about 2.5 percent in FY2006/07. The GOL's key priority sector spending has increased in recent years, especially in education and infrastructure. External public debts declined to 70 percent of GDP, but remain elevated.

## **The external balance continued to strengthen, but this could place upward pressure on inflation in the future.**

Reserves increased sharply close to the mark of 5 months of non-resource imports in 2007 and are expected to rise in 2008, driven by projected high prices for mining and agricultural exports, tourism receipts and FDI inflows. Imports associated with large projects in the pipeline will exert pressure on the external current account deficit, which is expected to be nearly 19 percent of GDP. However, the non-resource current account deficit will remain relatively low at around 7 percent of GDP.

## **Steady progress was made in the Public Financial Management reform agenda.**

The centralization of Treasury, Customs and Tax Departments has commenced, including the work on a new revenue sharing mechanism and piloting centralization in three pilot provinces (Savannakhet, Khammoune and Borikhamxay). Implementation of the revised Chart of Accounts (COA) is progressing well and is expected to be deployed by the FY2008/09 Budget. An Audit Peer Review by the SAO of New Zealand started in February 2008 to strengthen the capacity of the State Audit Organisation (SAO).

## **Although the legal framework is in place to support greater international trade and private sector activity, implementation remains incomplete.**

Some progress has been made to help implement the new Enterprise Law, with approval of the Negative List of Business Activities occurring in November 2007. Preparation of new Mining Law and implementing decree of the Tourism Law are other important contributions. To facilitate cross-border trade, the GOL reduced the number of agencies represented at border check points to immigration, customs and quarantine. A new Commercial Banks Law was endorsed and amendments to the Presidential Decree on Foreign Exchange and Precious Metals were adopted in 2007. Improvements also occurred in state-owned banks supervision, including replacement of BOL by MOF on the Board of the Banks to represent GOL's ownership role, reductions in NPLs, and drafting of a progressive financial and banking sector strategy.

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## 1.1 MACROECONOMIC SITUATION

In the 1990s and early 2000s, Lao PDR's economy grew at an annual average rate of 6.3 percent and poverty incidence fell from 46 percent of the population in 1992-93 to 33.5 percent in 2002-03. During the Asian economic crisis (1998-1999) inflation climbed to an annual average of 110 percent and growth fell to 4 percent. Resolution of the crisis and Lao PDR's macroeconomic policies helped stabilize the economy and growth resumed at around 6 percent in the early 2000s. The adoption of a stabilization program since 2000 and implementation of several reform programs since 2001 – in public expenditure management, banking, SOEs, forestry, trade and the private sector – contributed to this improvement. During 2003-06, inflation declined from 15.5 percent to 6.8 percent and real GDP growth accelerated from 6.1 percent to 8.1 percent.

The large inflows of FDI in the hydropower and mining sectors have significantly contributed to growth in recent years. However, increasing reliance on natural resources means that growth will progressively be more sensitive to the volatility of commodity prices and could impede development of other sectors. These risks will need to be prudently managed in future. Non-resource sectors (agriculture, manufacturing and services) have also contributed to overall growth and FDI has increased significantly in the last a few years.

**The economic outlook for Lao PDR remains favorable, but rising inflation poses a risk**

GDP growth remained stable at over 7 percent in 2007 and this is expected to continue into 2008. However the inflation rate has been climbing in recent months. While it had fallen to 4.5 percent in 2007 (down from 6.8 percent in 2006), inflation rose again to around 7.7 percent in March 2008. The government's fiscal position continued to improve in FY2006/07 owing to higher-than-targeted revenue collection and lower-than-planned expenditures, while implementation of the public finance management (PFM) reform agenda has been steady. Although the legal framework is in place to support greater international trade and private sector activity, implementation remains incomplete.

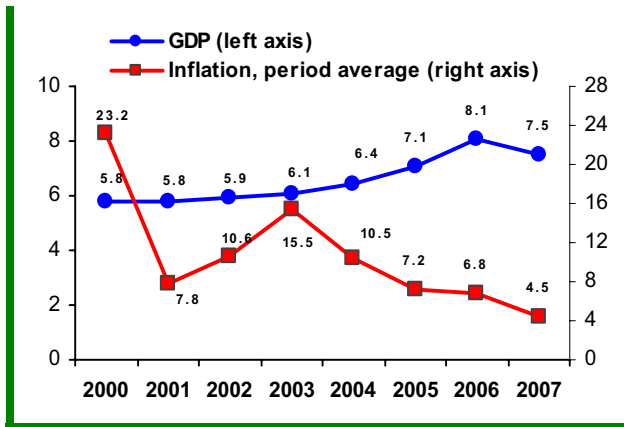


**Notwithstanding a more challenging international economic environment, the Lao economy is expected to maintain a rapid growth rate.**

Real GDP growth is estimated at 7.5 percent in 2007 and projected to rise to 7.9 percent in 2008 (see Figure 1). New hydro and mining projects are expected to only contribute around 2.5 percent of this growth, including from construction of four hydro-power dams and a large copper plant (see Figure 2).

The remaining 5 percent is expected to come from investments in plantations for agricultural crops and industrial forestry, steadily rising tourism revenues, and newly emerging food and nonfood processing industries. As Lao PDR is surrounded by some of the fastest growing economies in the world, it has benefited from increased demands for its products and massive FDI inflows from neighboring countries, such as China, Vietnam and Thailand.

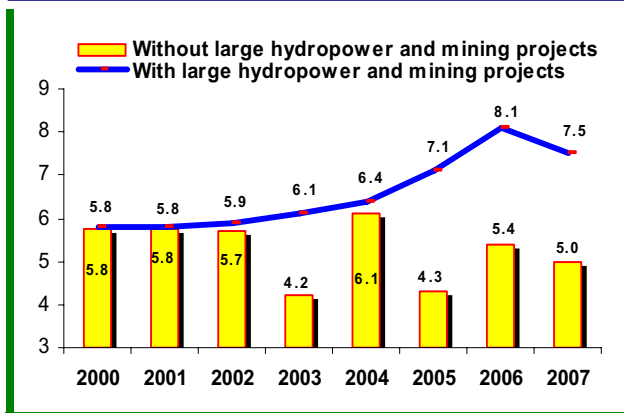
**Figure 1. GDP growth (%) and inflation (% change)**



Source: Lao authorities and staffs estimates.

**The Lao economy continued to grow quickly and steadily**

**Figure 2. Growth with and without major projects**



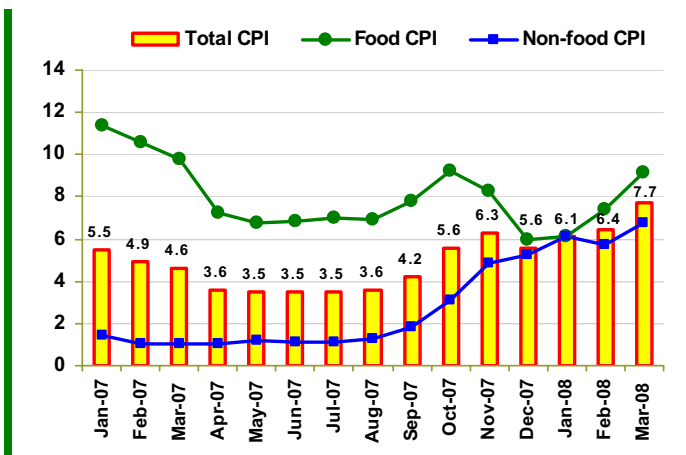
Source: Staffs estimates. Latest projections for 2007

**The non-resource sector contributed about 5 percentage points to overall growth, while the remaining 2.5 percentage points came from resources**

**Having dropped to historic lows in 2007, inflation picked up to about 7 percent in March 2008, fueled by high global oil prices.** Rising inflation was mostly due to: higher oil prices; fluctuations in local food prices due to low grain harvests caused by bad weather conditions in 2007 and culling of birds due to bird flu risk; and rising non-food prices. In particular, the key product categories contributing to price increases in recent

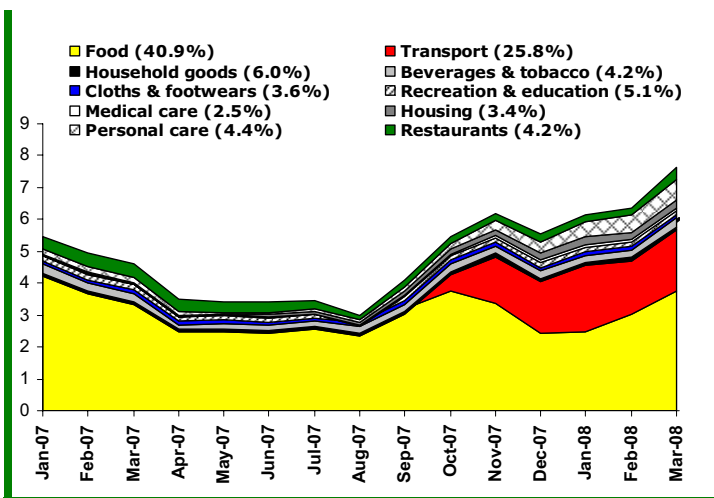
months were: food (mainly sticky rice, meat and poultry); transport (fuel, tickets and airfares); housing (imported construction materials, especially various steel products and timber); personal care; and jewelry. Although the food prices grew more slowly during Oct-Feb, it has climbed up in March 2008 to about 9 percent, and is therefore pushing up aggregate prices. The nonfood prices also grew continuously to over 6 percent in recent months (Figure 3).

**Figure 3. Food and nonfood prices (% change)**



**Having dropped to historic lows in 2007, inflation picked up recently to over 6 percent, the target set by GOL for 2008.**

**Figure 4. Contribution of food and non-food prices to inflation<sup>1</sup>**

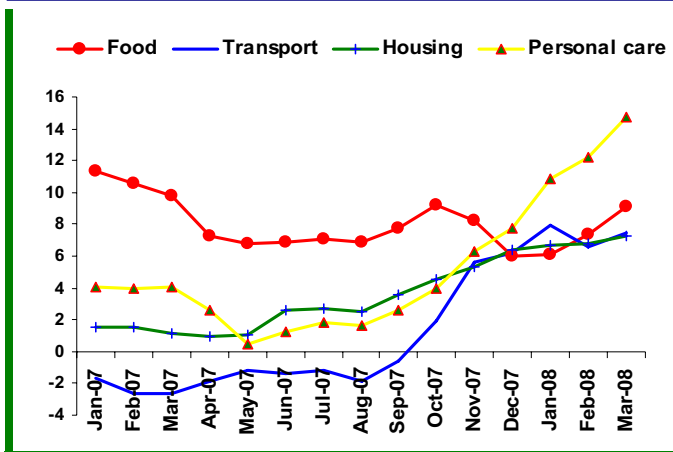


**High food, transport, housing and personal care prices contributed to rising inflation in Lao PDR in recent months**

Source: Lao authorities (NSC) and staff calculations

<sup>1</sup> Lao CPI weight distributions (out of 100): food - 40.9 percent of total CPI, Beverages & tobacco - 4.2 percent, Cloths & footwears - 3.6 percent, Housing - 3.4 percent, Household goods - 6.0 percent, Medical care - 2.5 percent, Transport & communications - 25.8 percent, Recreation & education - 5.1 percent, Restaurants - 4.2 percent and Personal care - 4.4 percent.

**Figure 5. Key products affected by oil and gold prices in recent months (levels, % change)**



Source: Lao authorities and staff calculations.

**Food, transport, housing and especially personal care (jewelry) prices grew fast in recent months as a result of high fuel and gold prices. Food prices were also vulnerable to seasonality**

**Given recent trends, the GOL inflation target of 6 percent will be difficult to achieve.**

Nevertheless, the Government has tasked several agencies to help control inflation. The Bank of Lao PDR (BOL) is to maintain tight monetary policies and stable

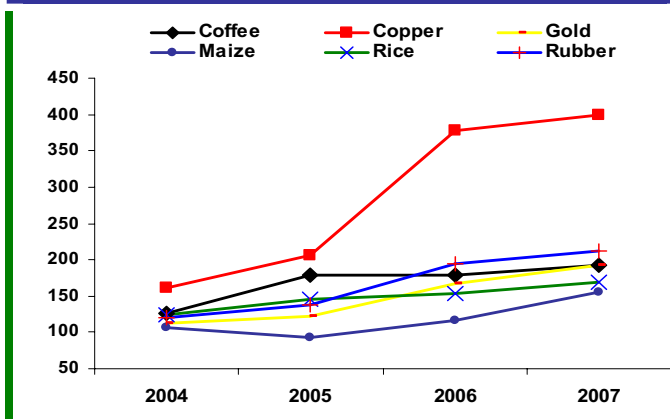
exchange rates; Ministry of Finance (MoF) is to sustain good fiscal performance and revenue management; the Ministry of Agriculture and Forestry is to promote food and agricultural production; and Ministry of Industry and Commerce is to monitor retail prices in the country and warn of emerging deficits.

**However, Lao PDR is also benefiting from rising raw material export prices.**

Lao key raw material exports include metals (mainly copper, gold and tin), rubber, sugar and other agro-industrial products. In the last

two years, production and exports of Lao agricultural products (maize, coffee, rice, fruit and vegetables) increased due to growing demand from neighboring countries - see Figure 6.

**Figure 6. Global food and metal price indices (2003 = 100)**



Source: Lao authorities and staff calculations.

**Lao exporters of metals, grain and other crops benefited from high commodity prices in global markets**



**Table 1. Import and export decomposition**

	2004	2005	2006	2007
<b>Exports (mil. US\$)</b>	<b>500</b>	<b>648</b>	<b>1,029</b>	<b>1,053</b>
<b>Agriculture</b>	<b>36</b>	<b>42</b>	<b>65</b>	<b>80</b>
Coffee	15	8	13	31
Other crops and livestock	18	30	45	46
Non-timber forest products	4	4	7	3
<b>Natural resources</b>	<b>149</b>	<b>308</b>	<b>631</b>	<b>635</b>
Electricity	91	105	104	99
Mining	58	203	527	536
<b>Manufacturing</b>	<b>300</b>	<b>275</b>	<b>266</b>	<b>291</b>
Garments	155	138	126	153
Woods and wood products	145	137	140	138
Other	16	21	67	48
<b>Imports (mil. US\$)</b>	<b>958</b>	<b>1059</b>	<b>1397</b>	<b>1969</b>
<b>Food products</b>	<b>24</b>	<b>28</b>	<b>40</b>	<b>55</b>
<b>Fuel</b>	<b>95</b>	<b>175</b>	<b>201</b>	<b>250</b>
<b>Resource imports</b>	<b>232</b>	<b>358</b>	<b>431</b>	<b>897</b>
<b>Other investment goods</b>	<b>287</b>	<b>273</b>	<b>344</b>	<b>308</b>
<b>Other consumption goods</b>	<b>157</b>	<b>68.3</b>	<b>223</b>	<b>251</b>
<b>Raw materials and intermediate goods</b>	<b>163</b>	<b>157</b>	<b>157</b>	<b>208</b>

Source: Lao authorities and partner countries and staff estimates

**Exports of agricultural products among others are growing steadily in recent years. Lao PDR remains relatively a net food exporting country**

**Table 2. Food share in consumption\* and food poverty, %, 2002/03**

Share of food in consumption	
Lao PDR	74.6
Urban areas	69.6
Rural	76.1
Poorest districts	79.8
Second-poorest districts	77.3
Other districts	72.2
Food poverty**	
Lao PDR	19.8
Urban areas	14.3
Rural	21.5
Rural with all-season roads	16.9
Rural without all-season roads	27.6
Poorest districts	26.9
Second-poorest districts	25.9
Other districts	16.1

Source: LECS III

**Food is the predominant part of consumption in Lao PDR. The food poverty rate was nearly 20 percent in 2002/03**

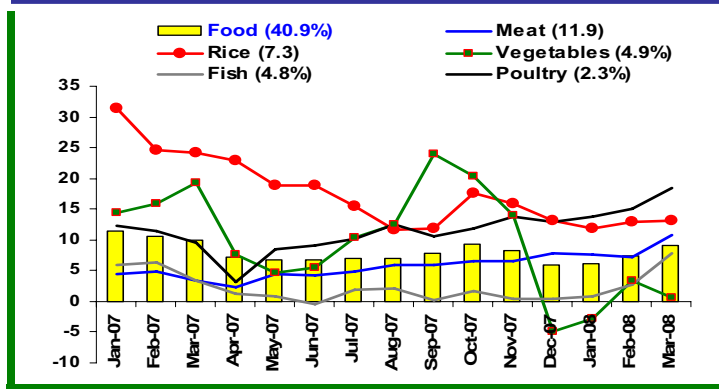
**\*Note:** Consumption is defined as all food consumption including own, plus non-food consumption without durable goods (furniture, kitchen appliances, sewing and washing machines, vehicles, TVs, video or audio recorders, computers, and housing or rent)

**\*\*Note:** Food poverty is defined as percent of population consuming less than necessary calorie intake priced at average related basket.

**Local food prices were more closely linked with seasonality than global trends.** Even though the price of rice continued to grow strongly year-by-year, aggregated food CPI declined in recent months to below the 2007 average of 8 percent. This was mostly due to the fact that the economy is based on subsistence

agriculture and self-sufficient production in most provinces. For this reason, it is expected that increasing inflation and global consumption patterns will impact urban households more than the rural poor. In addition, natural disasters (flood and drought) and other factors have had impacts on food production and prices - see Figure 7.

**Figure 7. Lao Food CPI breakdowns<sup>2</sup> (% change)**



Source: Staff calculations based on Lao authorities data.

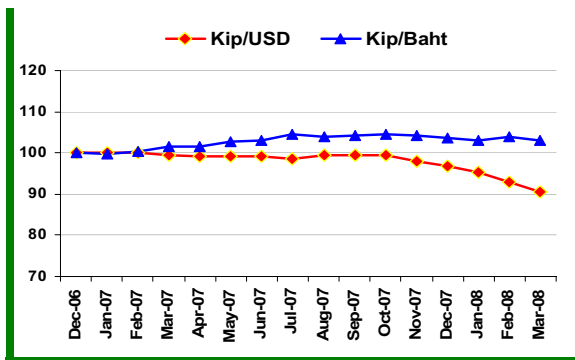
**Changes in the price of main food items, such as rice, meat, fish, poultry and vegetables in Lao PDR is driven seasonality, more than global trends**

**Exchange rates and external balances**

The kip exchange rate appreciated sharply - see Figure 8. Between Oct 2007 and Mar 2008, the kip nominal effective exchange rates (NEER) appreciated by almost 9 percent against US\$. Similar trends are expected in the real exchange rates. The NEER levels were 8,735 kip per US\$ and 278 kip per baht at end-Mar 2008 compared to 9,593 and 282 in Oct 2007. Reserves increased sharply close to the mark of 5 months of non- resource imports

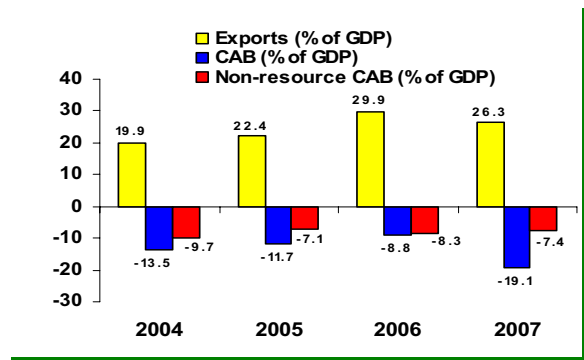
in 2007 and are expected to rise in 2008 driven by high prices for mining and agricultural exports, tourism receipts and FDI inflows. Imports related to large projects in the pipeline will exert pressure on the external current account deficit, which is expected to be nearly 19 percent of GDP. However, non-resource current account balance was at around 7 percent of GDP in 2007 - see Figure 9.

**Figure 8. Lao exchange rates (Dec 2006=100)**



Source: Lao authorities (BOL) and staff estimates.

**Figure 9. Current account balance (% change)**



Source: Lao authorities (BOL) and staff calculations

**Table 3. Balance of payments, 2004-07 (mil. of US\$)**

	2004	2005	2006	2007
<b>Current Account</b>	-339	-339	-303	-775
Merchandise trade balance	-459	-410	-368	-915
Services (net)	132	161	153	196
Income (net)	-98	-175	-250	-193
Transfers (net)	85	85	162	138
<b>Capital Account</b>	358	356	403	982
<b>Overall Balance</b>	19	17	100	207

Source: Lao authorities (BOL) and staff preliminary estimates

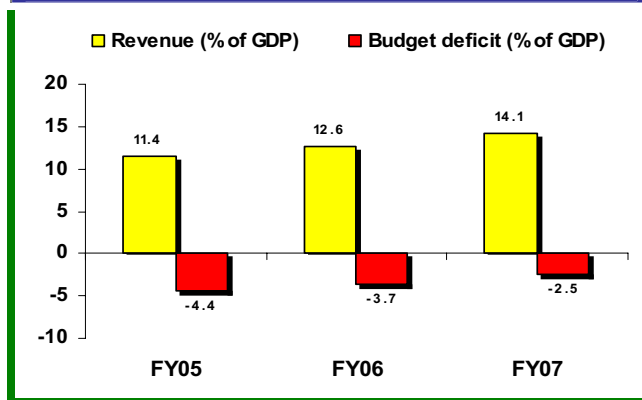
<sup>2</sup> Food CPI consists of 12 sub-groups and the top five are meat (11.9 percent of total CPI), Rice and cereals (9.4 percent), vegetables (4.9 percent), fish (4.8 percent), poultry (2.3 percent) and the rest (7.9 percent).

## Government revenue performance

**The government's fiscal position continued to strengthen.** The GOL achieved its revenue targets for a second consecutive year, with budget revenues increasing from 12.6 percent of GDP in 2005/06 to around 14.1 percent in 2006/07.

About 20 percent of GOL's revenue came from the resource sector. The overall budget deficit is expected to be around 2.5 percent of GDP in FY2006/07 (down from 3.7 percent in FY2006), if expenditure patterns remain unchanged.

Figure 10. The government revenue performance



Source: Lao authorities (MoF) and staff estimates.

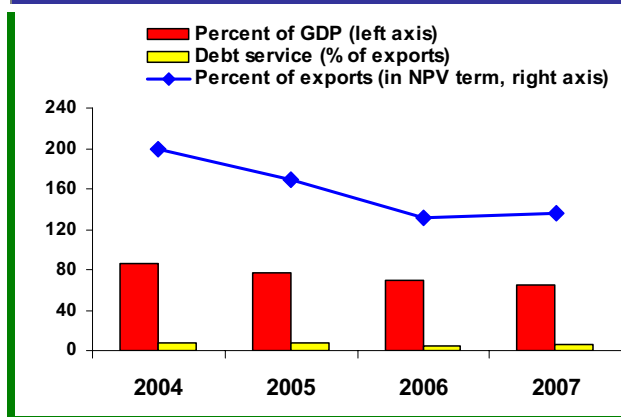
**The GOL's revenue performance continues to improve, while the budget deficit is declining**

## External public debt

**Lao PDR's external public debt ratios have declined during 2006, but remain elevated.** At end-2006, Lao PDR's stock of public and publicly guaranteed external debt was equivalent to 70 percent of GDP, comprising 135 percent of exports in NPV terms and 377 percent of fiscal revenues. All three debt stock indicators exceeded the indicative

sustainability thresholds for countries with comparable CPIA ratings, placing Lao PDR in the IDA's "high risk of debt distress" category. However, debt servicing indicators remained under indicative thresholds due to high concessionality of debt. Lao PDR is therefore unlikely to face difficulties in serving its debts, in the absence of the external shocks.

Figure 11. Lao PDR's public external debt



Source: IMF DSA Data and staff recent estimates

**The GOL's external public debt has declined steadily in recent years as a percentage of GDP and exports, and does not pose debt servicing difficulties**

## 1.2 IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

The GOL aims to maintain rapid economic growth in order to improve the living conditions of the poor, graduate from its status as a LDC by 2020 and meet the Millennium Development Goals (MDGs).

Lao PDR's first full Poverty Reduction Strategy Paper (PRSP), the National Growth and Poverty Eradication Strategy (NGPES), was finalized in February 2004 and was presented to the Boards of the IMF and IDA in November 2004. The NGPES process was initially launched in parallel to the national planning process and served as a basis for support by donors while introducing key PRSP principles to the national planning process, such as broad participation, poverty focus and result-orientation. Since 2005, efforts have been made to update the PRSP/NGPES and integrate it into the 6th Five-Year National Socio Economic Development Plan (NSEDP) covering the period 2006-2010.

The development strategy of Lao PDR was articulated in the NSEDP, which was approved by the National Assembly on June 17, 2006 and presented at the 9th Round Table Meeting on November 28, 2006. The NSEDP incorporates key elements of the NGPES, especially its geographical targeting and overall poverty focus. The NSEDP envisages the achievement of poverty reduction through a combination of broad-based growth and focused poverty-reduction interventions. In addition to maintaining a sound macroeconomic framework, the four key pillars of the plan are i) human-development-driven economic growth; ii) competitiveness, trade and regional integration; iii) social development and focused poverty reduction interventions; and iv) good governance.

**At the annual Round Table Meeting in November 2007, the GoL presented its annual progress report on implementing the NSEDP to donors and I-NGOs** - see it at [www.rtm.org.la](http://www.rtm.org.la). The report is an improvement on former annual progress reports. It prioritizes reporting on key development areas, is consistent with relevant quantitative and qualitative data, and often links targets set and met in the previous year(s). Furthermore, it presents operational implementation guidelines for reaching next year's targets and progress reporting on each MDG goal. It also encourages development partners (DPs) to provide program aid.

### **Progress in 2006-07 to implement the NSEDP included among several others (according to Report):**

- Passing of the new budget law by the NA;
- Increases in domestic revenues according to targets;
- Slow but continued increases in the primary education enrolment rate to 87 percent up from 84.2 percent in 2005 (target of 90.6 percent for 2010); and
- Reduction of the death rate associated with malaria, down from 9 per 100.000 people in 1990 to 0.4 in 2006 (in line to meet the 2015 target of 0.2).

### **The GOL reported some constraints to implementing the NSEDP, including:**

- structural weaknesses in the economy;
- little progress in expanding the growth base and diversifying economic activities;
- inequalities and disparities of economic growth and social development between different geographic area and groups of the populations; and
- insufficient natural resource management and associated revenue generation.

**The NSEDP still lacks a comprehensive M&E framework.** The recent annual NSEDP progress reporting would benefit from monitoring results within NSEDP specified priority programs, by using reliable data which is linked to NSEDP impact targets. In October and December 2007 the MPI launched two training events for monitoring the NSEDP under the capacity enhancement program. Continued capacity enhancement for monitoring NSEDP implementation will assist the GOL to engage in the critical task to elaborate an action plan for developing and implementing a comprehensive M&E framework for the NSEDP and its successors.





## STRUCTURAL AND POLICY REFORMS

The GOL has made some good progress on reforms in 2007 and early 2008. However, the pace of reform was uneven across sectors. Key achievements related to building the legal

framework, but actual implementation of laws remained slow. Detail on key reform areas, such as PFM, SOE restructuring, banking sector, trade and private sector development is below.

### 2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

The GOL adopted a comprehensive medium-term PEMSP in early 2005, focusing on strengthening PFM systems and building the capacity of the MoF and Provincial Finance Departments. To complement this, the GOL promulgated the new Budget Law in February 2007 to address the weaknesses in the intergovernmental fiscal framework that stem from decentralized management of public finances and inadequate monitoring and control mechanisms. Key reforms include centralizing the Treasury, Customs and Tax Departments, developing a new fiscal transfer system, establishing greater control of public finance resources and aligning policies to the budget. The new Audit Law was also promulgated by the NA in July 2007, to allow the SAO to directly report to it instead of the Prime Minister. To succeed, these reforms will require significant capacity increases, continued political commitment, technical assistance, a 3-5 year implementation plan and a revenue sharing framework. Another important issue is the implementation of the Value Added Tax (VAT), which is currently planned for October 2008. Successful implementation will require close coordination between the Tax, Customs and Treasury Departments.

#### Fiscal policy

**Revenues have continued to perform strongly**, with higher than anticipated resource revenues flowing from high commodity prices and non-resource revenue and gains from tax changes in 2005. Revenue collection *excluding* grants as a share of GDP is estimated to have risen from 11.4 percent of GDP in FY2004/05 to 12.6 percent of GDP in FY2005/06 - slightly above budget estimates. Revenues are expected to increase to 14.1 percent of GDP in FY2006/07. Revenue increases helped reduce the fiscal deficit from 4.4 percent in FY2004/05 to 3.7 percent of GDP in 2005/06 and an estimated 2.5 percent of GDP in FY2006/07 (Figure 10).

**Recent good fiscal performance indicates the GOL commitment to fiscal sustainability.** The deficit, including grants, declined in the last two years as revenues have performed above estimates and expenditures contained at budgeted levels. The 2007/08 budget includes an increase in overall and non-resource deficits, driven by higher recurrent expenditures for wages, allowances and transfers.

**The GOL made efforts to reduce leakages in tax revenue in FY2006/07** by requiring traders to disclose the identities of purchasers and introducing an electronic tax return submission system for large tax payers. These measures have increased the transparency of the tax system and helped to raise tax revenue to well above the 6 percent target during the first 10 months of the fiscal year.

**Expenditures were in line with annual budget estimates, while external financing and grants were significantly below the annual target.** Nominal recurrent expenditures, including wages and salaries have been rising as a reflection of the increase in the salary multiplier from 1500 in FY2004/05, to 1800 in FY2005/06, 2000 in FY2006/07 and 2500 for FY2007/08. It is expected that this trend will continue, given the GOL's plan to raise incentives/benefits for staff working in remote areas from FY2008/09. **It is very important that these increases stay within non-resource fiscal envelop, to ensure fiscal sustainability of the expenditure policy.** The growing trends of wages are also worrisome in the environment of rising inflation.

**Table 4. Government Revenues**

	FY05	FY06	FY07
	<i>(billions of Kip)</i>		
<b>Revenue &amp; Grants</b>	3,886	4,962	6,004
Revenue	3,387	4,266	5,324
Tax Revenue	2,803	3,641	4,720
Resource revenue	237	390	868
Non-tax revenue	584	625	604
Grants	499	696	680
	<i>(percent of GDP)</i>		
<b>Revenue &amp; Grants</b>	13.1	14.7	15.9
Revenue	11.4	12.6	14.1
Tax Revenue	9.4	10.8	12.5
Resource revenue	0.8	1.2	2.3
Non-tax revenue	2.0	1.9	1.6
Grants	1.7	2.1	1.8

Source: Preliminary staff and authorities estimates.

**Table 5. Government Expenditures**

	FY05	FY06	FY07
	<i>(billions of Kip)</i>		
<b>Total expenditure</b>	5,204	6,205	6,985
Current expenditure	2,517	3,125	3,511
O.W. Wages & Salaries	1,058	1,263	1,586
Capital Expenditures	2,261	2,529	2,870
O.W. Domestically-Financed	468	403	517
Others	426	551	605
	<i>(percent of GDP)</i>		
<b>Total expenditure</b>	17.5	18.4	18.5
Current expenditure	8.5	9.3	9.3
O.W. Wages & Salaries	3.6	3.7	4.2
Capital Expenditures	7.6	7.5	7.6
O.W. Domestically-Financed	1.6	1.2	1.4
Others	1.4	1.6	1.6

Source: Preliminary staff and authorities estimates.

### Key priority sector spending

#### Social sector spending is increasing, but low recurrent spending limits services.

Spending in the four priority sectors as a percentage of total government spending has increased since 2003/04. However, recurrent expenditures have been under-funded, particularly in the social sectors. Overall, recurrent expenditures in priority sectors

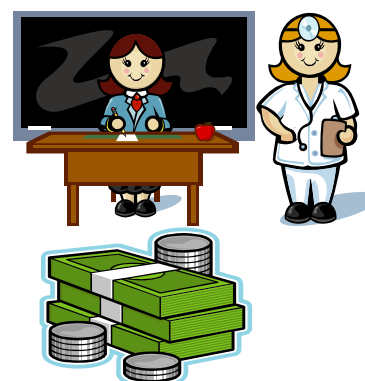
declined slightly, from 9.3 percent of total budget in 2003/04 to 9.1 percent in 2005/06, while capital expenditure increased from 35.2 percent in 2003/04 to 43.8 percent in 2005/06 – see Table 6. As a percentage of total public expenditure, infrastructure accounted for the largest share of spending, while health expenditure was the smallest.

**Table 6. GOL's 4 priority sectors expenditures**

	2003/04	2004/05	2005/06
	<i>(billions of kip)</i>		
<b>Overall spending</b>			
Four sectors	1,767	2,452	3,279
Agriculture	286	323	477
Infrastructure	843	1,156	1,551
Education	457	649	1,026
Health	180	324	226
	<i>(percent of total budget)</i>		
Four sectors	44.5	47.1	52.8
Agriculture	7.2	6.2	7.7
Infrastructure	21.2	22.2	25.0
Education	11.5	12.5	16.5
Health	4.5	6.2	3.6
	<i>(percent of GDP)</i>		
Four sectors	6.9	8.3	9.7
Agriculture	1.1	1.1	1.4
Infrastructure	3.3	3.9	4.6
Education	1.8	2.2	3.0
Health	0.7	1.1	0.7
<b>Recurrent spending:</b>	<i>(percent of total budget)</i>		
Four sectors	9.3	9.2	9.1
Agriculture	1.0	1.1	1.0
Infrastructure	0.5	0.5	0.5
Education	6.2	6.0	6.1
Health	1.7	1.6	1.5

Source: Staff estimates based on MoF data

**Overall expenditure on the four priority sectors has increased in recent years, but recurrent spending remains low, and even slightly declined as share of the total budget**



## Key reform progress

**The GOL continued to implement the new Budget Law.** Piloting of centralization of the Treasury, Customs and Tax is occurring and a new revenue sharing and distribution framework is being developed. Some changes in revenue assignments are expected to occur in FY2008/09. An international fiscal advisor is being recruited to design a revenue sharing mechanism and help establish budgetary norms. Progress has been made to implement the PEMSP, including developing a 2007/08 work plan and a multi-donor trust fund to provide financial support.

**The revised Chart of Accounts (COA) is progressing well, as are audit reforms.** Once finalized, ministries and provinces will be required to use the new COA to prepare budget estimates (likely to be introduced for the 2008/09 Budget). An Audit Peer Review (APR) of the SAO was conducted by the SAO of New Zealand during the first half of

Feb 2008, to establish a comprehensive audit capacity building program to assist the SAO to carry out external audits more effectively. The APR report will be submitted to SAO by March 2008.

**Steps are being taken to improve timeliness of civil servants' salaries and strengthen public sector performance.**

To improve timeliness of salary payments, the GOL is piloting an electronic salary payment system to replace manual cash payment. If successful it intends to extend to all provinces. A Prime Minister's Decree to recruit and retain staff in remote areas and to manage contract staff is being developed and a review of civil servants' job descriptions is nearing completion. Four provinces and two ministries have been selected to pilot the new instruction to improve the performance management system.

## 2.2 REFORM OF STATE-OWNED ENTERPRISES

SOE reforms implemented in the early 1990s reduced the size of the sector by closing down, leasing, merging and selling a large number of SOEs. The SOEs today are not only fewer in number, but play a significantly smaller role in Lao's economy in terms of GDP share and total employment. Nevertheless, during the second half of the 1990s, several large SOEs generated a large share of non-performing loans (NPLs) in the state-owned banking system. The NPLs put the banking system at risk of instability and were ultimately funded by Government revenue.

The current round of SOE reforms were initiated in 2001 and has three objectives: (a) improving transparency and governance of the state enterprise sector; (b) restructuring the larger SOEs whose losses and accumulated debt to banks were undermining both the budget and the financial sector; and (c) rationalizing the regulatory and pricing environment for infrastructure SOEs through tariff policy reform. Progress over the last few years has been uneven, but the GOL has improved SOE monitoring and reduced NPLs originating from the SOE sector (a much larger share of NPLs over the last 3 years have been private sector based). The pace of progress during 2005 was slow and uneven, but gained significant momentum in 2006. Many SOEs still take action that is inconsistent with commercial viability objectives.

**Performance assessments of 70 enterprises for 2002 to 2006 have been conducted by BPO.** Key findings include: restructuring of Phase I and II SOEs has been slow, however overall performance has gradually improved; 48 of the 70 enterprises do not maintain an adequate accounting system as required by Accounting Law; and compared to 100% SOEs, joint ventures generally have much better business performance.

**Independent external financial audits** for 2005 and 2006 for the Phase II SOEs and 3

Phase I SOEs (BPKP, NPPL and PF3) are near completion. Findings and recommendations of the audits will assist further restructuring in the coming months.

**The Business Promotion Office (BPO) is likely to be upgraded to become better equipped to lead SOE reform.** With support from JBIC, the BPO is conducting preliminary assessments of Phase III SOEs, which is expected to be completed this month. Primary objective of the assessment is to review the current status and suggest directions for reforms of Phase III SOEs.

<sup>3</sup> Current SOE restructuring is divided into 3 phases. Phase I started in 2004 and consists of 4 large SOEs (BPKP, Lao Airline, Nam PaPa Nakhoneluang and Pharmaceutical Factory No.3 (PF3)); Phase II started in 2005 of 4 medium SOEs (Agriculture Industry Development Import-Export State Owned Enterprise, Lao State Fuel Company, Societe Lao Import-Export, and Road Construction Company); and Phase III started in 2006 for 5 SOEs (DAFI, LXP, LVSVT and LVKK).

## Tariff policies for infrastructure SOEs

Most infrastructure and services in Lao PDR are provided by SOEs, although private providers deliver a high proportion of telecommunications. Despite significant recent adjustments, tariffs lagged behind inflation and remain below full cost-recovery levels. Low and complex tariff structures have led to inefficient energy and water use, and reduced the resources available for further investment. Major arrears are owed to utilities, including from the GOL budget, and now the utilities themselves have fallen behind on servicing their debts to the GOL.

Cognizant of the need to reduce budgetary subsidies and tap into the private financing, the GOL has been moving to more appropriate tariffs and prices, including more competitive pricing in telecommunications and airline services. The GOL is implementing a strategy to lift utility tariffs to cost-recovery levels, minimize cross-subsidy among consumer categories, reduce budgetary subsidies, improve their business performance and increase private participation and investment. Achievements of cost recovery targets were ahead of schedule in the electricity sector. Telecom tariffs (wireless) and airfares are set on a commercial basis to reflect market demands and competition.

## Water sector

**The GOL continued to improve water tariff structures.** The GOL (MPWT) finalized its tariff 2008-2010 review and expected to achieve: positive (5%) returns on capital by 2010 in Champasak, Luangprabang and

Vientiane Capital; full depreciation recovery in 6 provinces and 50 percent to just under 100 percent depreciation levels in the remaining 8 provinces.



**The water tariffs in Vientiane Capital City has increased substantially in 2007**

**Table 7. Recent water tariff change in Vientiane Capital (from May 2007 until now)**

Water users	Q/ty	Old tariff	Current tariff	
	Vol.(m3)	Kip/m <sup>3</sup>	Kip/m <sup>3</sup>	% change
<b>Group 1:</b>				
Households,	0 - 5	350	420	20
government offices	6 - 30	526	685	30
	> 30	706	1,060	50
<i>unweighted average</i>		<b>527</b>	<b>722</b>	<b>33</b>
<b>Group 2:</b>				
Commercial and	0 - 10	1,210	1,575	30
industrial	11 - 50	1,720	2,670	55
	>50	2,364	4,140	75
<i>unweighted average</i>		<b>1,765</b>	<b>2,795</b>	<b>54</b>
<b>Group 3:</b>				
Embassies and foreign	0 - 10	5,260	5,685	8
residential	11 - 50	5,620	6,745	20
	> 50	6,180	8,655	40
<i>unweighted average</i>		<b>5,687</b>	<b>7,028</b>	<b>23</b>

Source: WASA, MTPW

**GOL is promoting private sector water supply concessions** for small operators in six new sites in Vientiane and Bolikhamxay. Three private sector water supply concessions have been commissioned, of which two have been working since April 2006.

**The Water Supply Law is due to be submitted to the NA in 2008**, to provide a legal framework for the sector and improve construction and regulation of water supply systems, water quality controls and promote private participation.

## Electricity

Electricité du Lao (EdL) was hit particularly hard by the Asian crisis and ensuing inflation in the late 1990's due to a currency mismatch: its revenues are largely in kip while costs of debt servicing are mainly in US\$. A financial recovery plan was implemented in subsequent years, including converting government debt to equity and annual tariff adjustments of 25-50 percent. EdL is now reasonably stable and has been able to pay annual dividends to the GOL in the order of \$3-5 million since 2003. Profits from EdL's export operations cover the losses it incurs on the domestic market. The average domestic tariff rate is about 10 percent below the rate required for full cost recovery. Further inefficiencies are created by cross subsidization of residential and agricultural consumers by other consumer categories. In late 2005, the Action Plan for Financial Sustainability of the Power Sector was signed to increase tariffs to cost-recovery levels, eliminate the stock and avoid future additions to the GOL's payment arrears to EdL.



**The Government and EDL continue to implement the Action Plan for Financial Sustainability<sup>4</sup>, although some challenges remain.** Tariff adjustments slightly exceed target values, with the latest adjustment taking effect on January 1, 2008 (with an average increase of 1.8 percent but with varying rates for different consumer groups to gradually reduce cross-subsidization). Operational efficiency has improved, with losses falling to less than 17 percent in 2007. Settlement of government arrears is progressing, and the MoF observes the agreed settlement plan of arrears accrued up to September 2005. Payment discipline for billed current consumption has improved and the level of bill payments by government agencies is approaching actual annual consumption. 2007 was the first year where there was a net reduction in government arrears as the combined payment of current bills and transfers of arrears settlement exceeded annual consumption. Improvements are projected to continue in 2008.

**EdL is at the centre of a paradigm shift in energy sector which is highly favorable for the Lao hydropower potential.** Surging costs for fossil fuel sources has led to strong demand in export markets (Thailand, Vietnam and Cambodia) driven by an interest in fuel diversification oriented towards renewable energy options. Favorable market conditions have attracted regional and overseas investors who are willing to finance network and capacity expansions of the EdL system. Domestic demand is on the rise, spurred by the emergence of heavy industries, which are mainly found in mining and construction operations. Consequently, EdL, as well as independent power producers, are engaging in ambitious investment plans. Market demand and investment requirements have fundamentally changed the sector context in which EdL operates. In response, an update of the electricity tariff study will be conducted during 2008 to reassess the cost of supply as well as the impacts of new large-scale customers.

## **Telecommunications**

Availability of telecommunications services in Lao PDR is increasing, particularly mobile voice services, with GSM services now available in most of the country. Tele-density is steadily increasing and is currently above 20 percent. However, the current market structure and GOL's ownership stake in multiple companies is inefficient and leads to unnecessary duplication of investments by the public sector. Despite the sub-optimal policy and regulatory regime, private investors appear to be willing to invest in Lao PDR. However, investments are primarily focused on Vientiane and major urban centers. Regulatory adjustments are needed to develop the sector through sustained private sector investments. Fixed-line tariffs were revised upwards in early 2004 to bring tariffs closer to real costs. Mobile rates are set competitively by operators and a sharp decrease in connection fees and per minute call charges were noticed after the market entry of Millicom. However, rates are almost identical across companies, signaling limited price competition.

**The Lao telecommunication sector continues to grow** in terms of service providers and the number of users. As of December 2007 total capacity of telephone lines (including fixed line, mobile and CDMA/WILL) was 1,711,850,

with 1,598,775 lines being used. Telephone density in Lao PDR rose to 285 per 1000 inhabitants by December 2007, up from 210 in 2006 (a 36 percent increase). Tariffs did not change in 2007.

## **Tariffs of Lao Airlines**

Since 2002 Lao Airlines has been adjusting its air travel tariffs on a quarterly basis to cope with seasonal patterns of the tourist market. Air fares were first raised in June 2002 and again by more than 50% in September 2002. The tariffs for most routes remained unchanged in 2003 due to a sharp decline in overall sales (given the large shift from air travel to road transport). Recently, routes have been rationalized and domestic air tariffs adjusted according to market demands seasonal flows of travelers and competition from other transport services.

<sup>4</sup> The Government of Lao PDR, EdL and the Bank agreed on an Action Plan for Financial Sustainability of the Power Sector in 2005 in order to ensure continued strong performance by EdL. The plan includes four main components:

- 1) Tariff adjustment, with tariffs being restructured and increased by an average of 1 percent per year in real terms to achieve full cost recovery in 2011;
- 2) Settlement of accumulated arrears from Government to EDL, along with agreement on a settlement schedule;
- 3) Timely payment of future government electricity consumption;
- 4) Operational efficiency improvement by EDL, with overall system losses reduced from about 20 percent in 2004 to around 13 percent in 2011.

**The current capacity of Lao Airlines (5 small commercial aircrafts) is too small to meet the domestic needs of a road-challenged country.** Business and tourist traffic between Lao PDR, Vietnam, Cambodia, and Thailand is expected to continue its rapid growth. To cater for this, the GOL intends to introduce private investment to increase the company's competitiveness within the region,

and to expand and improve services. To improve its business performance, Lao Airlines recently moved to a fully commercial tariff setting mechanism without GOL intervention. In February 2008 a single uniform system of air fares was introduced for all travelers (both domestic and international). Lao Airlines is also in active search for a join partner.

## 2.3 FINANCIAL SECTOR REFORM

The latest bank reform in Lao PDR began in 2001 to restructure state banks, improve banking regulation and supervision and open up the banking system to private and foreign investors. Progress has been slow and SCBs' financial condition remains weak. Organizational structures are inadequate and lack checks and balances from external board members. Supervision and enforcement of prudential regulations by the BOL remains slow and it is limited in capacity and tools. Positive signs of change include significant reductions in NPLs and strengthened regular monitoring. SCBs have been susceptible to pressure to engage in non-commercial lending, which burdens the loan portfolio overtime. While poor credit culture and capacity constraints in credit analysis have progressively improved, SCBs remain fragile. International banking advisors in the two SCBs under the ADB's banking reform project are an important support to transition to a more independent management system.

**While the financial sector is growing, it remains small and dominated by banks.** Assets in the financial sector at end-2006 were 25 percent of estimated GDP, which represents a very small increase in recent years. Savings in the formal sector as a percentage of GDP (about 18.3 percent) are low by regional standards and credit provided by the banking sector, scaled against GDP, is

amongst the lowest in the region. Deposits exceed loans in the banking system by approximately 2:1 and loans are a small share of aggregate banking sector assets (see Table 8). Non-bank financial institutions constitute less than 5% of total financial sector assets (estimated). Other than a Social Security Fund for GOL employees, there is no pension and contractual savings system.

**Table 8. Lao PDR financial sector profile, 2006**

(in billion of Kip)	Assets		Deposits		Loans		Share of assets (%)	
	2003	2006	2003	2006	2003	2006	2003	2006
<b>State-owned banks (SCB)</b>	<b>2,844</b>	<b>4,886</b>	<b>3,331</b>	<b>5,077</b>	<b>1,456</b>	<b>1,703</b>	<b>55.2</b>	<b>54.5</b>
BCEL	1,618	2,965	2,014	3,069	993	715	31.4	33.0
LDB	946	1,475	1,098	1,563	225	542	18.4	16.4
APB	281	446	218	446	238	446	5.5	5.0
<b>Private &amp; joint venture banks</b>	<b>2,107</b>	<b>3,388</b>	<b>1,223</b>	<b>2,573</b>	<b>910</b>	<b>1,471</b>	<b>40.9</b>	<b>37.8</b>
<b>Total banks</b>	<b>4,951</b>	<b>8,275</b>	<b>4,554</b>	<b>7,650</b>	<b>2,366</b>	<b>3,174</b>	<b>96.1</b>	<b>92.2</b>
Micro-finance (MFI)	56	125	14	80	56	125	1.1	1.4
Non-bank intermediaries	72	267	-	-	-	-	1.4	3.5
Insurance (AGL)	32	267					0.6	3.1
Social security	40	40					0.8	0.4
<b>Total nonbank financial institutions</b>	<b>200</b>	<b>699</b>	<b>14</b>	<b>80</b>	<b>56</b>	<b>125</b>	<b>3.9</b>	<b>7.8</b>
<b>Total financial system</b>	<b>5,151</b>	<b>8,973</b>	<b>4,568</b>	<b>7,730</b>	<b>2,422</b>	<b>3,299</b>	<b>100.0</b>	<b>100.0</b>
In million of US\$	492	926	436	797	231	340		
In percent of GDP (%)	22.9	26.9	20.3	23.2	10.8	9.9		

Source: Lao authorities (BOL)

**SOCBs have been under strengthening plans for several years, leading to performance improvements in 2007.** The banking sector remains dominated by three State Owned Commercial Banks which account for approximately 50 percent of banking sector assets. Governance agreements are now in place for each SOCB, which have placed a greater emphasis on reporting key performance indicators. Based upon data provided by the BOL, the level of overall NPLs dropped considerably from around 49 percent in 2005 to about 21

percent in 2006, and to only 1.6 percent for the two state banks that hold most assets (data for 3d bank not yet available). BCEL and LDB have been allowed to recapitalize from net profits, alongside the ongoing recapitalization from the budget. Although serious challenges remain, such as considerable loan concentration, the percentage of the largest bank's top 20 borrowers of three SOCBs have declined from 56 percent in 2006 to 34.5 percent of its loans in 2007.

**Table 9. Some improvements of financial indicators of Lao PDR banking sector**



	2006	2007
M2 as a % of GDP	20.0	26.0
Saving % of GDP	22.0	27.0
Domestic Credit	10.0	11.0
Loan/Deposit Ratio	42.0	38.0
<b>Capital / Assets Ratios</b>		
SCBs	-9.0	-0.3
JV banks	6.0	5.0
Private banks	24.0	24.0
Total banking system	2.0	6.0
<b>NPL (% of total lending)</b>		
SCBs	13.0	5.0
JV banks	14.0	14.0
Private banks	1.0	2.0
Total banking system	10.0	6.5

**Overall NPLs in Lao banking system declined in 2007 while broad money, savings and credits grew. The capital/asset ratios of SCBs did reduce, although remain negative.**

Source: Lao authorities (BOL)

### **Recent banking reform progress made by GOL**

**In 2007, the GOL took measures to strengthen the banking sector and level the playing field.** This assisted the entry of new private banks and investment in a private bank (Vientiane Commercial Bank) by IFC and ANZ, helping to reduce the dominance of SOCBs in the future. In March 2007, the GOL set the capital adequacy requirement for the banking sector at 8 percent, which is in line with Basel Core Principles. It gives the same opportunities and provides the same rules

**Banking supervision is improving.** Bank boards no longer include an official from the BOL, and are chaired by an MOF representative instead. The system still lacks sufficient experience, training and data, resulting in weak enforcement of existing rules. The Commercial Banks Law promulgated in early 2007 provides a transparent, clear and easy licensing

process/procedure for establishing a bank. (level playing field) for domestic and foreign banks and there is no discrimination between private and state-owned banks. Amendments to the Presidential Decree on Foreign Exchange and Precious Metals in 2007 eliminates distortions which require mining companies to open accounts only at state banks, and lift currency exchange privileges.

**In 2007, steps were taken to improve microfinance, although it still remains underdeveloped.** The GOL started a microfinance working group and drafted legislation on deposit and non-deposit taking microfinance institutions and credit unions. The new regulations do not distinguish between foreign and local institutions and will hopefully override an earlier ban on foreign participation in the sector.

## 2.4 Trade reform

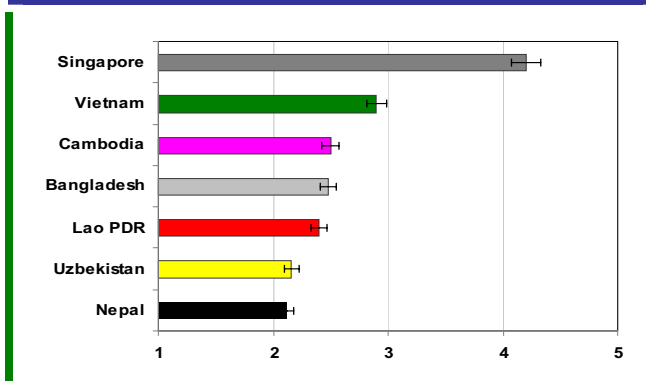
Lao PDR has gradually been integrating into the world economy since 1989, with accession to ASEAN and joining AFTA in 1997. In 2006, the GOL committed to enhancing donor harmonization and implementing a sector-wide approach to trade-related reforms based on the DTIS/IF Action Matrix<sup>5</sup>. Implementation of the AFTA Common Effective Preferential Tariff (CEPT) scheme started in 1998 and will complete the liberalization schedule by reducing tariffs on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008. The highest current import tariff rate is 40 percent (down from 150 percent in 1995) and is below 20 percent for most product groups. Non-tariff and quantitative import restrictions remain and in several sub-sectors are the primary binding restrictions.

**The GOL continued to make progress on WTO accession**, with the third working party held in Geneva in November 2007. The GOL/MOIC updated the legislative action plan and discussed the Initial Offer for services with negotiating partners during the working party meeting. Work on formal responses to the questions raised by bilateral and multilateral negotiating partners are ongoing.

**According to recent Logistics Performance Index (LPI)<sup>6</sup>, Lao PDR has been doing fairly well on logistics compared to various aspects of investment climate.** The country ranked 117<sup>th</sup> out of 150 countries on the 2007 LPI. Its weakest logistics

indicators are tractability of shipment (1.89 on the scale of 1 to 5) and quality of transport and IT infrastructures (2.0). The same study rates Lao PDR at 120 out of 150 countries on efficiency and effectiveness of Customs and other border procedures. Lao PDR compares unfavorably to the average EAP or low income country in most aspects related to the investment climate. It ranks 164<sup>th</sup> of 178 on the 2008 Ease of Doing Business Rank and 158<sup>th</sup> of 178 on the 2008 Doing Business – Trading across borders indicator. This is mostly due to very long import and export processing times. A large portion of the economy is informal involving unrecorded cross-border trade activities.

Figure 12. LPI of selected countries (LPI is given on a numerical scale, from 1 (worst)



Source: WB Global Logistics Performance Index, 2007

**Lao PDR's logistical services have been improving, but are behind neighboring countries, such as Vietnam and Cambodia**

**On-going efforts of the GOL to modernize customs and improve trade facilitation are likely to gradually improve its logistics performance.** However, international experience suggests that policymakers should look beyond the traditional "trade facilitation" agenda that focuses on road infrastructure and

information technology in customs. Logistics services markets should also be reformed to reduce coordination failures, especially those of public agencies active in border control. This demands a more integrated, comprehensive approach to reforms all along the supply chain.

<sup>5</sup> The action matrix was formulated based on the recommendations of the Diagnostic Trade Integration Study (DTIS) and is implemented under the Integrated Framework (IF).

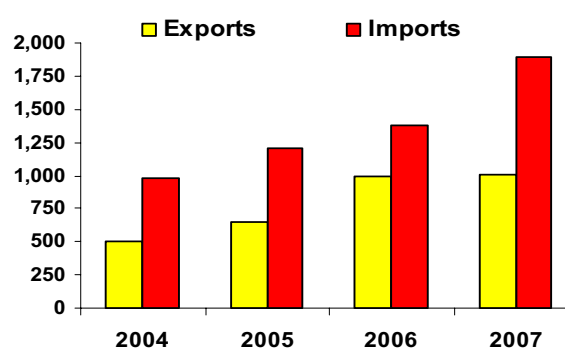
<sup>6</sup> The LPI is the first comprehensive cross-country assessment of logistics performance in 150 countries, based on a worldwide survey completed by more than 800 logistics professionals. It aggregates the performance in seven areas, including efficiency and effectiveness of Customs and other border procedures, logistics costs (including freight rates), and infrastructure quality, the ability to track and trace shipments, timeliness in reaching a destination, and the competence of the domestic logistics industry.

## Trade Developments

**After a sharp increase by 50 percent in 2006, Lao exports are expected to grow at a moderate rate of 5 percent in 2007 (or by just over one billion US\$ - see Figure 13).** Apart from the mining sector (especially copper, which grew by almost 9 percent last year), export growth was driven by agriculture (mainly coffee and maize) and garments, with both of these industries increasing by over 20 percent. The export of electricity and wood products declined marginally (see Figure 14) and gold exports dropped by over 20 percent due to a significant decrease in production in 2007.

**In 2007, Lao imports are expected to grow strongly, by over 30 percent compared to 2006 (or to around 1.9 billion US\$).** This increase is largely driven by increased investment imports for large resource projects (with mining and hydropower accounting for about 45 percent of total imports), agriculture (plantations),

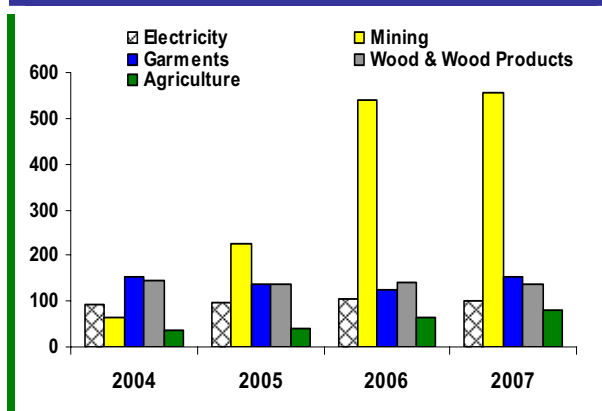
**Figure 13. Lao PDR exports and imports**  
(2004-2007, mil. US\$)



Source: Lao authorities and partner countries data. Latest staff estimates and projections (2007)

processing industries, trade and services. Capital imports grew quickly by about 50 percent and constituted almost 70 percent of total imports last year (see Figure 15). Imports of raw materials increased by almost 30 percent and consumption products increased slightly.

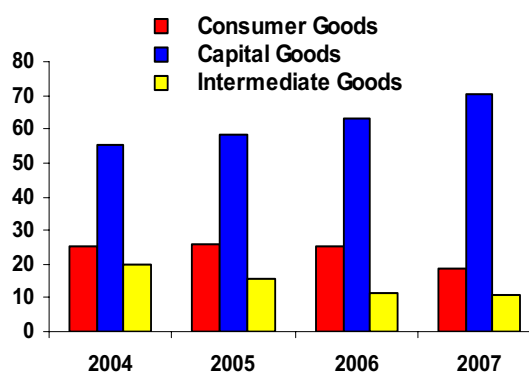
**Figure 14. Key export commodities (mil. US\$)**



Source: Lao authorities and partner countries data. Latest staff estimates and projections (2007)

**Lao PDR's key trade partners remained largely unchanged in 2007,** and key export markets included Thailand, Vietnam, Malaysia, China, Australia and the EU (see Figure 16). The share of Lao exports to Thailand decreased markedly in 2007 (down from about 50 percent in FY2006 to around 30 percent). Exports to China and Vietnam increased rapidly (from 11 to 16 percent to

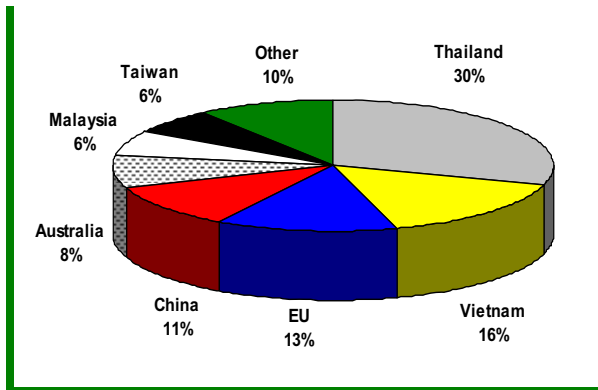
**Figure 15. Key import commodities (% of total)**



Source: Lao authorities and partner countries data. Latest staff estimates and projections (2007)

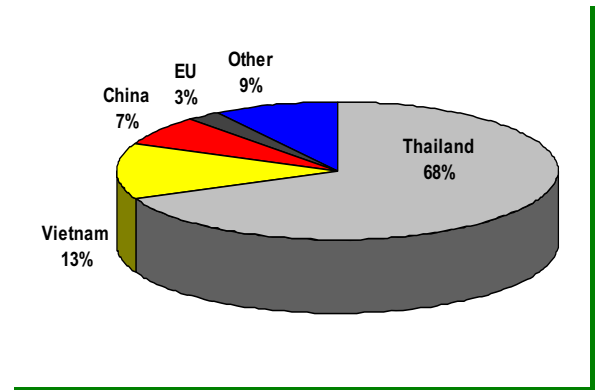
Vietnam and from five to 11 percent to China). Recently, Lao exports to the US have increased, but the overall value is low (just over 1 percent of total exports). Most imports to Lao still come from ASEAN countries (about 68 percent from Thailand and 13 percent from Vietnam), China (7 percent), EU (3 percent) and the rest economies (about 9 percent) - see Figure 17.

**Figure 16. Exports by destination country, FY2007 (mil. US\$)**



Source: Authorities (MOIC) and staff calculations

**Figure 17. Imports by home country, FY2007 (mil. US\$)**



**Overall, Lao exporters have performed well in recent years.** Many sectors expanded their exports to the region and other large markets. In addition to mining and hydropower, other core sectors, such as

agriculture, processing and service industries increased during the past two years. Some of the key export-oriented sectors are discussed in **ANNEX 1**.

## 2.5 Private Sector Development

The Lao PDR Constitution of 1991 protects state, collective and private forms of ownership. During the 1990s an active legislative program laid the foundations for developing market based rules and institutions to support private sector development. Today, agricultural production and most manufacturing production is in private hands and SOEs only cover around one percent of employment. Nearly 97 percent of manufacturing units are small (less than 10 employees). Of the medium and large units, 35 percent are privately owned by Lao PDR citizens and 55 percent are joint ventures with foreigners. The remainder is owned by government. Foreign investment in-flows have increased rapidly, in both resource and non-resource sectors (mainly hydropower, mining, agriculture, processing industries and tourism). Between FY 2003 to 2005, approvals of investment increased from around US\$470m to US\$2,700m and actual investment increased from US\$70m to about US\$500m. The main foreign investors are from Thailand, China, Australia, Malaysia, Singapore, Vietnam (ASEAN), South Korea, Taiwan, France, the Netherlands and the United States. The NSEDP recognizes the need to improve the business environment and promote domestic and foreign private investments to foster growth, reduce poverty and achieve MDGs.

**A Combined Investment Law is being developed to improve investment attractiveness.** With support from IFC-MPDF and FIAS of the World Bank Group, the Law is expected to incorporate international best practice to improve transparency, predictability, certainty for investors; differentiate FDI entry and operation, simplify entry procedures and provide investor guarantees. The new law is scheduled to be considered by the National Assembly by the end of 2008.

**Approval of the Negative List (Conditional List) of Business Activities under the Enterprise Law in late 2007 is an important step to simplify business entry regulations.** It is expected that the GOL will officially issue the Negative List in the coming months. An Enterprise Registration Office has been created to implement the new simplified business registration procedures. With support from the donor community, the MoIC plans to introduce a new business registration system within the next 2 years and to create a national business registry which contains information on all registered enterprises.

**The SME Development Strategy and the Tourism Law are being implemented.**

Following the preparation of the first National SME Development Strategy, SMEPDO is playing an active role in mobilizing support from DPs to assist implementation, including ADB, EC, GTZ, IFC-MPDF, ILO and India. The implementing decree for the Tourism Law is expected to be submitted for approval in March 2008 and includes provisions on the role and responsibilities of the LNTA, institutional framework and funding, quality, and standards and licensing procedures for service providers.

**A new Mining Law is being developed to improve the regulatory environment,**

for consideration by the NA in the second half of 2008. This is being supported by the World Bank and IFC-MPDF, and involves intensive stakeholder consultation. Key issues to be addressed include the lack of transparency and predictability in granting exploration/mining licenses to investors, unclear regulations regarding the transfer of mining rights and an inconsistent fiscal regime.

**The Public-Private dialogue continues.**

The third LBF met on November 5, 2007 and drew more than 300 participants from the private sector, government, and donor agencies. A range of issues were discussed including: the Tourism and draft Mining Laws, harmonization of fees for visa on arrival, increased business expenses deductibility under the Tax Law and greater enforcement of third party liability insurance requirements. The next Forum is scheduled to meet on June 26, 2008. Regular dialogue between the GOL and private sector has also been established in Champasack, Savannakhet, Luang Prabang and Luang Namtha provinces to discuss solutions to issues affecting local businesses.



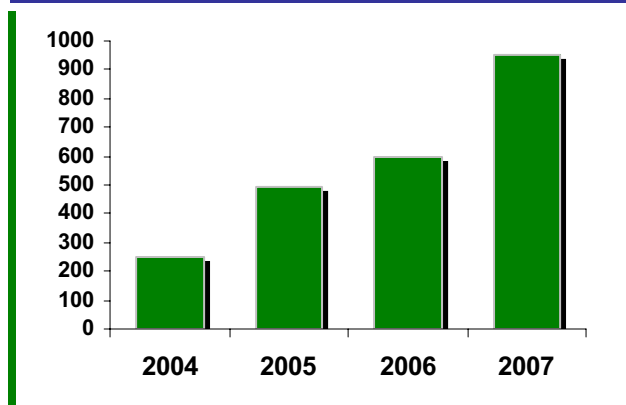
**Foreign Direct Investment (FDI)**

**Foreign investments in Lao PDR are expected to be robust in 2007.**

Although the level of approved investments (commitment-based) has recently dropped (to nearly 1.2 billion US\$ in 2007 down from about 2.7 billion US\$ in 2006), actual investments are expected rise due to new and existing large resource and non-resource projects. In 2007, actual FDI inflows are estimated at about US\$950m - a 60 percent

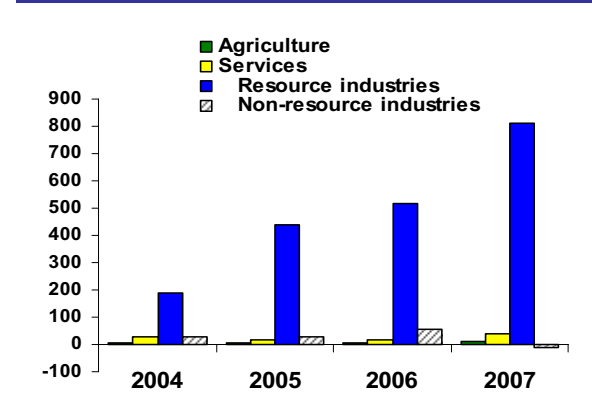
increase from 2006 (see Figure 18). Growth was mainly driven by new, large investment projects, such as mining (a new copper plant by Phoubia Mining), non-resource industries (food and beverage, agro-processing industries and manufacturing), agriculture, services, and ongoing construction of three large hydropower projects (NT2, Nam Ngum 2 and Xekaman 3) - see Figure 19.

**Figure 18. FDI in Lao PDR**



Source: WB staffs estimates. Preliminary estimates for 2007

**Figure 19. FDI by sector (US\$ m)**



**In 2007, the GOL approved several new large projects** worth over one billion US\$, in sectors such as agriculture (plantations and forestations), trade, services (shopping malls, entertainment, tourism and banking services) and industry (hydropower and mining

projects). The structure of Lao PDR's investments continues to diversify, although large projects still constitute the predominant part of total FDI. **Some of the key ongoing projects are described at ANNEX 3.**

### Successful Joint ventures between SOEs and private investors

#### State-private joint ventures have been expanding in Lao PDR in recent years.

The key joint ventures include Lao Brewery Company (LBC, 50/50 share holding for FDI/GOL), Lao Asia Pacific Brewery (68/25/7),

Lao Soft Drink Company (70/30), Lao Tobacco Company (53/47), Lao Telecommunication Enterprise (LTE, 49/51), Lao Insurance Company Ltd (51/49), and a few other hotel and tourism businesses.

The state-private joint venture is seen to be an effective form of business partnership and

the recent SOE performance assessment made by the BPO shows that:

- On average, the joint venture is 10 times more profitable than 100% SOE;
- Joint ventures' return on investment is 25 times higher than that of 100% SOE.
- Return on equity of joint ventures is 11 times higher, indicating that joint ventures are much more efficient in utilizing their asset base.
- Compared to 100% SOEs, on average joint ventures generate much higher incomes for the

- government in the form of dividends and taxes.
- Based on BPO's assessment of SOE performance for 2002-2006, every unit of capital invested in joint ventures generates 0.53 units in government income.
- This compares to only 0.05 units of income generated by every unit of capital invested in 100% SOEs.

**Table 10. Financial ratios of largest 15 join ventures (2002-06)**

	2002	2003	2004	2005	2006
<b>Profit margin (%)</b>	37.6	32.1	35.0	30.1	29.0
<b>Return on asset (%)</b>	39.0	33.5	38.3	35.1	40.2
<b>Return on equity (%)</b>	68.7	65.3	83.6	83.0	111.5
<b>Asset turnover</b>	1.0	1.1	1.1	1.2	1.4

Source: WB staff calculations based on BPO's SOE Assessment Report (2002-2006)

### Local private investments

The Lao private sector comprises mainly SMEs and unregistered household businesses. Overall, local investments are expected to expand quickly as the number of new SMEs and household activities has

increased in recent years. According to a 2006-2007 national business survey by GOL/NSC there are about 126,900 business units in Lao PDR.

- Nearly 99 percent were single units operating in one location and most did not trade internationally or export.
- The majority of businesses are small, household or family-run activities that sell their products and services locally.
- 65 percent were involved in trading businesses, 19 percent in industry and 3 percent in agriculture.

- About 97 percent of businesses are locally owned and only 40 percent are legally registered.
- Only one percent had a comprehensive standard accounting system, 20 percent maintained a basic accounting system; and about 75 percent keep records.
- Over 50 percent of these businesses are concentrated in a few big cities.

Source: The national business survey 2006-2007 by NSC.



# 3

## DONOR ASSISTANCE TO REFORMS

Lao PDR is highly dependent on external support, some of which flows into considerable technical assistance. In FY2005/06, the donor funding made up 77 percent of total capital expenditure (PIP) and grants accounted for about 14 percent

of total government revenue. This Part examines technical assistance and other donor-funded support to the Government's policy reform agenda. This information has been provided by donors and has been collated by the Monitor.

### 3.1 Key Donor Assistance to Reform Agenda in Lao PDR

**Public sector governance.** Governance attracts significant donor assistance, with more than 20 active projects supported by both multilateral and bilateral donors, including ADB, Australia, EC, France, Japan, New Zealand, Singapore, SNV, Sweden, UNDP, and The World Bank. These projects cover various aspects of public sector governance, including public administration, capacity building, decentralization, PFM, and legal and judicial reform. In recent years, with donor support, GOL has made some improvements in public sector governance, including by more clearly articulating its intended reform agenda. In late 2006 Government shared its new Strategic Plan on Governance with DPs. The plan focuses on improving public services, enhancing transparency and public participation in policy-making, strengthening the rule of law, and improving PFM. The Public Administration and Civil Service Authority (PACSA) has designed a new national GPAR-SBSD program as is currently working on an approach to improving domestic civil society.



**Banking Sector and SOEs.** Key donors supporting banking sector reform include ADB, IMF, and WB/IFC. Recently the government has taken several important measures to strengthen legal regulatory framework for banking and micro finance. However, progress on transformation of SOCBs has been slow. In the short to medium term more external support will be needed to further strengthen banking regulation and supervision, continue on going effort to restructure SOCBs, and improve financial infrastructure including establishing credit information bureau, collateral registries, payment system and others. SOE reform outside the banking sector has been supported mainly by WB and JBIC. Any substantial progress on this front can't be achieved without adopting a clear SOE reform strategy, which also clearly defines role and responsibilities of relevant agencies.

**Trade development.** Trade development agenda is seen by GOL as the driver for growth and poverty alleviation and regional integration and WTO accession as the driver for economic reforms. To move trade agenda forward, the GoL has recently established very high level National Committee for Economic Integration led by the Standing Deputy Prime Minister. Several donors have committed to support government to implement the DTIS Action Matrix through establishing multi donor trust fund –Trade Development Facility (TDF) administered by WB. Australia and EC have already contributed. Other donors active in trade related assistance include ADB, Australia, EC, ITC, SECO, UNCTAD, UNDP, US and WB.

**Private Sector, Tourism Development and Land Reform.**

Key donors active in PSD include ADB, EC, Germany, Japan, ILO, India, SNV, UNIDO and the World Bank Group (IFC and World Bank). With the assistance of donors, the GOL is simplifying business entry regulations. However to make Laos a better place for doing business, more concerted efforts will be required to further streamline business licensing procedures, improving tax administration, especially for SMEs, improving Contract Law and enforcement, improving competition policy and strengthen commercial dispute resolution.

**Tourism development.** This area received substantial donor support from ADB, Australia, EC, IFC, Japan, Luxembourg, New Zealand and SNV. Donor assistance is targeted at a wide range of areas including strategy development, physical infrastructure, marketing and branding, eco-tourism, community based tourism and skills upgrading for service providers.



**Land reform.** The GOL continues to implement the land reform agenda, particularly under the land titling program. With support from the WB, Australia, and Germany, the GOL is: conducting new land policy studies; drafting decrees and regulations at both central and provincial levels; delivering education programs in the government and private sectors; preparing land title certificates to comply with new laws; successful document trailing which will be introduced to 5 provinces; adjudication of 331,300 land parcels and increasing distribution of land title certification from 58,051 in 2005 to 69,504 in 2006. The government is further expanding the land policy framework into 9 provinces with a total of 278,352 land titles distributed so far.



## 3.2 Increasing the Impact of Development Assistance

### Promote aid effectiveness by using country systems

The Paris and Vientiane Declaration encourage development partners (DPs) to make as greater use of country systems in ODA projects and programs as possible. This contributes to sustainable capacity development by eliminating the need to create parallel implementation units and aligns donor support toward strengthening country systems. It also reduces transaction costs by not imposing additional requirements on Government regulations and enhances Government ownership.

Often, DPs are not able to use existing country systems if they are weak; doing so can jeopardize the effectiveness of assistance. This is often the case with financial management (FM) and procurement systems, as donors need to guarantee transparent utilization of funds. The Vientiane Declaration includes a comprehensive set of actions to improve FM and procurement systems and DPs have committed to disburse a substantive proportion of their ODA making use of the strengthened national systems by 2010.

**Lao PDR needs to strengthen country systems and encourage its utilization by DPs.** As seen in Figure 20, the percentage of ODA using FM is slightly below the world average level and the use of procurement

systems remains low. In addition, the bulk of ODA within these percentages corresponds almost exclusively to the International Financial Institutions with few other donors making use of country systems.

**Lao PDR ranks below the world average on the use local financial management systems by donors**

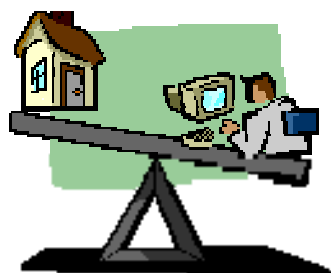
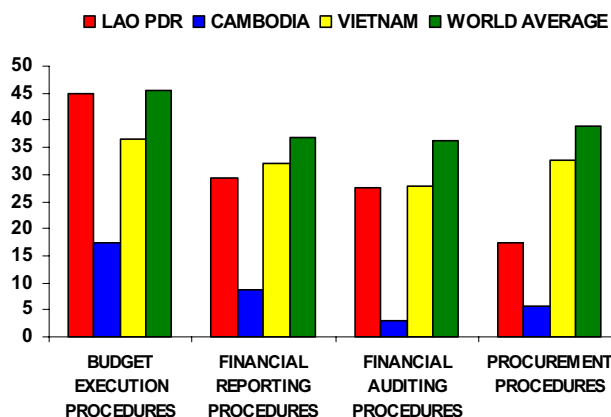


Figure 20. ODA disbursements using national procedures in SEA countries (% , FY06)



Source: Global and Lao PDR OECD/DAC surveys on monitoring the implementation of the Paris Declaration (FY06)

**Reforms to improve aid effectiveness are underway in some initiatives and sectors.**

The PFMS now incorporates all FM and procurement commitments from the Vientiane Declaration. The MoF will develop a Manual for standardizing ODA FM procedures that DPs

will be asked to follow. Similarly, the Procurement Monitoring Office will develop standard processes for proposals and the evaluation of consultants. These initiatives will be complemented by capacity development at the central and local levels.

A description of these and other assistance projects is provided in **Annex 4**

# ANNEXES

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## ANNEX 1 - Acronyms and abbreviations

ADB	Asian Development Bank	LPI	Logistic Performance Index
AFTA	ASEAN Free Trade Area	M&E	Monitoring and Evaluation
ANZ	Australian and New Zealand Banking Group Limited	MDGs	Millennium Development Goals
APB	Agriculture Promotion Bank	MFI	Microfinance Institutions
ASEAN	Association of Southeast Asian Nations	MIH	Ministry of Industry and Handicrafts
ATM	Automatic Teller Machine	MOE	Ministry of Education
AusAID	Australian Government's Overseas Aid Program	MOF	Ministry of Finance
BCEL	Banque Pour Le Commerce Extérieur Lao	MOIC	Ministry of Industry and Commerce
BOL	Bank of Lao PDR	MPDF	Mekong Private Sector Development Facility
BPKP	Bolisat Phattana Khet Phoudoi	MPI	Ministry of Planning and Investment
BPO	Business Promotion Office	MPWT	Ministry of Public Works and Transport
CBTA	Cross-Border Transport Agreement	NA	National Assembly
CEPT	Common Effective Preferential Tariff	NAPPA	National Academy of Politics and Public Admin.
CIDA	Canadian International Development Agency	NGPES	National Growth and Poverty Eradication Strategy
COA	Chart of Accounts	NHDR	National Human Development Report
CPI	Committee for Planning and Investment	NPEP	National Poverty Eradication Program
CPI	Consumer Price Index	NPL	Non-Performing Loan
CPIA	Country Policy and Institutional Assessment	NSC	National Statistical Center
DIMEX	Department of Import and Export	NSEDP	National Socio-Economic Development Plan
DP	Development Partner	NT2	Nam Theun 2 Project
DTIS	Diagnostic Trade and Integration Study	ODA	Official Development Assistance
EAP	East Asia & Pacific	PACSA	Public Administration and Civil Service Authority
EC	European Commission	PEMSP	Public Expenditure Manag. Strengthening Program
EdL	Électricité du Lao	PEMSU	Public Expenditure Manag. Strengthening Unit
EU	European Commission	PFM	Public Financial Management
FDI	Foreign Direct Investment	PRS	Poverty Reduction Strategy
FM	Financial Management	PM	Prime Minister
FY	Fiscal Year	PSD	Private Sector Development
GDP	Gross Domestic Product	SAO	State Audit Organization
GOL	The Government of Lao PDR	SCBs	State Owned Commercial Banks
GSM	Global System for Mobile communications	SCP	Singapore Cooperation Programme
GTZ	German Agency for Technical Cooperation	SDC	Swiss Agency for Development and Cooperation
ICT	Information and Communication Technology	SECO	State Secretariat for Economic Affairs
IDA	International Development Association	Sida	Swedish International Development Association
IF	Integrated Framework	SME	Small and Medium Enterprise
IFC	International Finance Corporation	SNV	Netherlands Development Organization
ILO	International Labor Organisation	SOE	State-Owned Enterprise
IMF	International Monetary Fund	SPS	Sanitary and Phyto-Sanitary
I-NGOs	International NGOs	STEA	Science, Technology and Environment Agency
ITC	International Trade Commissions	SWAp	Sector Wide Approach
JBIC	Japan Bank for International Cooperation	TA	Technical Assistance
JFICT	Japan Fund for Information and Comm. Technology	TC	Technical Cooperation
JFPR	Japan Fund for Poverty Reduction	TDF	Trade Development Fund
JICA	Japan International Cooperation Agency	UN	United Nations
KOICA	Korea International Cooperation Agency	UNCDF	UN Capital Development Fund
LAT	Lao Asia Telecom	UNCTAD	UN Conference on Trade and Development
LATA	Lao Association of Travel Agents	UNDP	UN Development Programme
LBF	Lao Business Forum	UNIDO	UN Industrial Development Organization
LDB	Lao Development Bank	UNODC	UN Office on Drugs and Crime
LDC	Least-Developed Country	VAT	Value Added Tax
LHSE	Lao Holding State Enterprise	WASA	Water and Sanitation Authority
LNCCI	Lao National Chamber of Commerce and Industry	WB	World Bank
LNTA	Lao National Tourism Administration	WBI	World Bank Institute
LTA	Lao Tourism Authority	WTO	World Trade Organization

## ANNEX 2 – Lao PDR export-oriented sectors

- **Garment exports.** The Lao garment sector includes just over 100 companies and employs nearly 30,000 workers. Sector exports were expected to grow by over 20 percent in 2007 (or slightly over US\$150m). Key exporters include FDI and JV companies, such as TRIO (Laos) EXPORT, GREAT LAO GARMENT, LANEXANG GARMENT and WONDERFUL GARMENT (with each employing about 2000 workers). Other large companies are LAO GARMENT (1800 workers), ALPI LAO INTERNATIONAL (1400 workers), TRIMAX and KMS (each has about 800 workers).
- **Mining exports.** So far, there are two major projects leading the sector: Lane Xang Mineral Ltd (Oxiana Resources) and Phubia Mining (Pan Australian Resources Ltd). Lane Xang Mineral is the leading mining producer and exporter in the Lao PDR. The company's exports of gold and copper reached about US\$500m in 2006 and are expected to be slightly over a half billion US\$ in 2007. Phubia Mining (Pan Australian Resources Ltd) is the second largest mining investor in the country and will start to produce copper concentrates for export from mid-2008. The project expects to expand its exports from around US\$20-25 million to a few hundred million US\$ by 2008/09. The main markets for Lao copper are Thailand, Vietnam, Malaysia and China.
- **Coffee exports.** In 2007, Lao PDR's coffee exports increased by over 20 percent, largely due to improved harvests and favorable global coffee prices. The key coffee exporters are DAO HEUANG IMPORT-EXPORT CO., PHIDAO CO., AGRO LAO IMPORT-EXPORT, PHETKHAMSAI TRADING IMPORT-EXPORT and AGRICULTURAL PRODUCT DEVELOPMENT CO., LTD. The major export markets of Lao coffee are EU countries, Japan, the US and some ASEAN neighbors.
- **Electricity exports.** Electricity exports remain unchanged, at around US\$100m a year for nearly a decade. Its share of total exports has dropped to about 10 percent in 2007 from 30 percent in 2000. Currently, only two main projects export electricity to Thailand (Theun-Hinboun with EDL holding a 60 percent share and Houay Ho with EDL holding a 20 percent share). Several new large IPP projects are currently under construction and will be completed in the near future, including NT2, Nam Ngum 2 and Xe Kaman 3. Exports from the sector are expected to jump from 2010 onward.
- **Wood product exports.** Wood exports were estimated at about US\$140m in 2006 and are projected to be slightly lower in 2007. Key export products include furniture, floor tiles, wood accessories, plywood and other processed timber products. The key exporters of the sector are FIRST MAY TIMBER PROCESSING, LAO FURNITURE INDUSTRY, KHOUNTA TIMBER PROCESSING, KHAMMOUANE WOODPROCESSING FACTORY and CHAMPASAK WOODPROCESSING INTERPRISE. Vietnam and Thailand remain the two biggest importers of Lao wood and wood products. The GOL has recently tightened policies to ban exports of low value-added or semi-processed wood products and promote high value-added finished goods for export. However, exports of logs continued and enforcement of laws and regulations is still weak.
- **Exports of other agricultural products.** Apart from coffee, Lao exports other crops to neighboring countries. Exports to Thailand and China have increased during the last a few years (from US\$25m in 2005, to US\$40m in 2006 and projected at US\$50 in 2007). Exports of other industrial trees (rubber, eucalyptus and other products) are expected to climb in coming years. Key exporters of agricultural products include PARXONG DEVELOPMENT EXPORT-IMPORT ENTERPRISE, LAO AGRICULTURAL PRODUCTION COMPANY, LUANGPRABANG AGRICULTURE DEVELOPMENT, XAYSAVANG COMMERCIAL EXPORT-IMPORT and KASET 2000 COMPANY.

## ANNEX 3 – Major foreign investments in Lao PDR

### Agriculture

Major active activities in agriculture include plantations of industrial trees and cash-crop contract farming. Leading investors in this sector are China, Vietnam, Thailand, Japan, India, Korea and Malaysia. Thousands of hectares of long-term concession land were granted to investors last year for producing rubber, sugar, pulp from eucalyptus and palm oil. Some difficulties were experienced in allocating and managing

concession land. Recently, the GOL has been making an effort to address these challenges by improving concession land granting practices and regulation. This is very important to ensure that upland farming communities and rural poor benefit from economic growth and environmental sustainability and social safeguard issues are monitored and managed properly.

- **Plantation of rubber trees.** Rubber plantations in Lao PDR have been booming over the past few years, with the investment of millions of US\$ (how much?). Currently, the most active investors in rubber plantations are China, Vietnam and Thailand. Major Chinese investments are concentrated in the Northern provinces of Lao PDR (Luang Namtha, Oudomxay and Luang Prabang) down to Vientiane province. Vietnamese investments are focused in the South (Champasack, Saravan, Sekong and Attapeu). Key projects include DAKLAK RUBBER, VIETNAM GENERAL RUBBER, LAO-THAI HUA RUBBER, JUNNAN POWER BIOLOGICAL PRODUCTS GROUP. In 2007, the GOL approved new rubber projects, including QUANG MINH RUBBER (worth nearly US\$15m), LAO-QUASA-GERUCO JOINT STOCK (about US\$19m) and DAU TIENG VIET LAO RUBBER JOINT STOCK Company.

- **Pulp tree plantations** (eucalyptus and acacias). There are currently two main active projects: OJI LAO PLANTATION FOREST Company and ADITYA BIRLA Group (India). OJI LAO project has been expanding its eucalyptus plantations in Borikhamxay and Khammouane provinces over the past few years, with (how many thousands ha of trees planted). ADITYA BIRLA Group (an integrated project: a large wood pulp mill integrated with 50,000 ha of wood pulp plantations, predominantly Eucalyptus) recently commenced its plantation work, completing about 1,600 ha in 2007. This year, about 5,000 ha is expected to be planted under the project, but is dependent on the availability of requisite land to be provided by GOL. The project requires about 7,500 ha every year to generate a sustainable supply cycle of wood to the pulp mill (which is planned to be constructed in 2012).

- **Sugarcane plantation.** Mitr Phol Sugar Corporation (the key foreign investor in the sector) expanded its investment plan in Lao PDR to nearly US\$70m (2.3 billion baht) up from the budgeted US\$26m (900 million baht). The project is planned to include a sugarcane plantation (about 10,000 ha) in Savannakhet province and has undertaken project preparatory work since 2006. The processing of sugarcane is scheduled to start by end-2008 or early 2009. In addition, many Lao farmers in the Northern provinces, such as Phongsaly, Luang Namtha and Oudomxay continue to grow sugarcane for export to China.



- **Farming of cash crops** (maize, soybean, cassava, tea, starchy roots, vegetables and other crops). Thailand, China and Vietnam are the main investors in Lao PDR, through projects and contract farming in border provinces, such as Sayaboury, Bokeo, Luang Namtha, Oudomxay, Phongsaly, Houaphanh and other Southern provinces. Local border traders also play a very important role in promoting the business. During the past two years, two Thai farming projects have been established: CP Group (maize plantation in Sayaboury province) and River Kwai International Food Industry (organic farming in Paksong, Champasack province). In addition, some Chinese and Vietnamese farming projects for starchy roots, maize, vegetables and other crops were approved by the GOL in 2007.

## Processing industries

Construction of several processing projects continued in 2007. Khammoune Cement plant (the largest cement plant in Lao PDR) was constructed and commenced production of cement products in early 2007. The construction of the second largest brewery plant (Tiger Beer) by Lao Asia Pacific Brewery is due to be completed by mid-2008. The expansion of production by Lao Brewery Company (through construction of its second

brewery factory in Champasack province) is also expected to be completed this year. The construction of a new sugar factory (to produce 60,000 tons of refined sugar per annum, the largest in the country) in Savannakhet by Mitr Phol Sugar Corporation (Thailand) is ongoing and is scheduled to be completed by end-2008. Other agro-processing industries, such as rubber processing and wood pulp plants are expected to be established in the future.

## Trade and services

Key achievements made by foreign investors in the services sector during the past two years include the completion of hotels and an entertainment center under the *Golden Boten City* project in Luangnamtha (located on the Lao-Chinese border), shopping malls in Vientiane Capital by China and Singapore and ongoing construction of a golf course by Korea. A few other hotel and resort projects are being developed in Luangprabang, Savannakhet and Champasack provinces.



## Natural resources sector (hydropower and mining projects)

In 2007, FDI in the natural resources sector continued to grow quickly, mainly due to ongoing construction of key hydropower

projects and the expansion of Phubia Mining. The sector accounted for almost 90 percent of total foreign investment last year.

- **Major hydropower projects.** In addition to the two existing IPP hydropower plants (Theun Hinboun and Houay Ho), three other large projects are being constructed in Lao PDR: Nam Theun 2 (NT2), Nam Ngeum 2 and Se Kaman 3. So far, the three projects have made good progress and are on schedule for completion (when are they due to be finished?). Some new hydropower projects in the pipeline are expected to begin construction phase year and be completed by 2012-2013. These include Theun Hinboun Expansion (EDL holds 60 percent of total share), Nam Ngum 3 (GOL/LHSE holds 23 percent), Nam Ngiep 1 (GOL/LHSE holds 20 percent) and NT1 (GOL/LHSE holds 20 percent). There are two other hydropower projects to be constructed by China from 2008 on a construct-run-transfer basis to sell electricity to EDL, such as Nam Ngum 5 and Nam Lik (1-2). The construction is expected to be completed by 2012.



- **Key mining projects in Lao PDR.** In 2006-2007, the GOL made an assessment of sector performance (quality of investments) and reviewed mining licenses to streamline procedures and promote quality investments in the sector. Based on the outcomes of the review, the GOL recently reduced the number of concession agreements (given out to the investors early) to 112 from about 140 in 2006 (most small concession projects (nonperforming) were abolished in 2007). Within the existing projects, 64 are foreign-owned (of which 15 are working mines, 22 are at the exploration phase and 27 feasibility studies). Among the working mines, Sepon and Phubia (owned by Australian international operators) are still the largest projects in the country and the main drivers of the sector. So far, over US\$700 million has been invested in the two projects. Phu Bia Mining will start to produce and export copper concentrates in 2008. There are also many other small and medium working mines run by China, Vietnam, Thailand, Australia and Korea for various minerals.





## ANNEX 4 – Donor assistance projects on Lao PDR reform agenda

### 1 – PUBLIC SECTOR GOVERNANCE

#### ADB

- **Public Expenditure Planning for National Growth and Poverty Eradication Strategy** (\$0.7 million, 2005-2007). The TA provides capacity building and advisory services aimed at: (i) improved and effective allocation of public resources according to the Government's development and poverty reduction policy objectives; and (ii) improved quality of fiscal planning.
- **Improved Public Financial Management Systems** (\$0.85m, 2007-2008). The TA aims to improve the quality of public financial management for higher levels of efficiency, accountability and transparency. The TA will support "Component B: Budget Execution, Accounting and Financial Reporting" of the PEMSP.

#### Australia/AusAID

- **Asia Regional Trafficking in Persons Project – ARTIP** (A\$21m for Lao PDR, Cambodia, Myanmar, Thailand and Indonesia 2006-2011). Working with the General Police Department of the Ministry of Public Security, the goal of the project is to contribute to the prevention of human trafficking in the Asia region. The purpose of the project is to facilitate a more effective and coordinated approach to people trafficking by criminal justice systems of governments in the Asia region.
- **ASEAN-Australia Development Cooperation Program – AADCP** (A\$45m, 2002-2008). The **Regional Partnerships Scheme** component supports the governance sector in areas of taxation, banking, enforcement of intellectual property rights and program and project design. The **Program Stream** component has a governance focus on standards and conformity assessment, customs capacity building, legal infrastructure for E-commerce, foreign direct investment data collection and reporting, private sector competitiveness and trade-related aspects of SPS.

#### European Commission (EC)

- **Poverty Reduction Support Operation 3 – PRSO3** (A one-year single tranche operation, Euro 3m, 2008). The main objective is to provide budgetary funds to the Government to support NGPES/NSEDP implementation and associated policy reforms. Program coordinated with WB and Japan.

#### France

- **Strengthening the Capacity of the Ministry of Finance** (US\$0.78m and one advisor, 2005-2008). The project aims to improve budgetary mechanisms, capacity to implement a computerized custom instrument (ASYCUDA/Sydonia), strengthen the monitoring and control of budgets as well as training civil servants in every department in the Ministry of Finance, training of trainers and creating an on-going training center within the ministry.
- **Capacity building in the rule of law and in international relations** (US\$1.6m and one technical assistant, 2003-2007). The purpose of the project is to strengthen the capacity of the Ministry of Justice (MoJ), the Ministry of Foreign Affairs (MoFA) and the Office of Public Prosecutor in the field of governance and reforms in the rule of law.
- **Preventing human trafficking in Lao PDR** (US\$0.0975m, 2006-2007). Through seminars and capacity building training, the project seeks to raise awareness of policemen and reinforce trans-national cooperation on the issue of human trafficking.
- **Strengthening the capacity of the Mekong River Commission - MRC** (US\$0.975m, 2007-2011). This project provides two advisors on the implementation of the sector based approach programs for the secretariat of the MRC.

#### Japan

- **Project for Capacity Building for Public Investment Program Management** (US\$3m, JICA: Technical Cooperation Project 2004-2011). This project aims to improve overall management of the domestic Public Investment Program (implemented by the Lao PDR budget) in cooperation with the Ministry for Planning and Investment (MPI).
- **Local Administration Capacity Building Support to PACSA** (US\$0.3m, JICA: Advisor, 2007-2008). This technical cooperation mainly aims to assist the review of central – local relationships and to ensure structural improvement of local administration.
- **Phase 3 SOEs Reform Study** (US\$0.03m, JBIC: 2007-2008). TA is provided to support the GoL to stock-take and identify restructuring directions of the four selected SOEs (So-called "Phase 3 SOEs") and contributes to the GoL's effort to achieve the policy reform agenda under PRSO framework.

#### New Zealand

- **English Language Training for Officials** (US\$0.284m, Ongoing). ELTO is a long standing project that is providing English language training to mid level officials. The project moved into a new phase at the beginning of 2003.

## Singapore

**Human Resource Capacity Building Programmes** (US\$10.3m, ongoing since 1992). Lao PDR has been an active participant of the Singapore Cooperation Programme (SCP). As of September 2007, a total of 5,100 Lao PDR officials had been trained under the SCP in fields such as English language, IT, trade promotion and hospitality.

- **The Lao-Singapore Training Centre** (US\$2m, 2001-2008) provides in-country courses for Lao PDR officials in areas such as IT, health, economic and finance policy planning, English language training, avian flu management, advanced productivity tools, effective negotiation, IT security, and PC networking and maintenance. Train-the-trainers courses were also held for IT managers and teachers.
- **Singapore Cooperation Programme** (Ongoing since 1992). More than 49,000 government officials from 166 developing countries have attended the SCP programmes spanning various fields such as IT, trade facilitation, health, port management, civil aviation and disaster management.

## Sweden/Sida

- **Institutional capacity building for National Statistical Centre** – (US\$3.2m, 2005-2008). The project objective is to provide users with reliable and relevant statistical information. Specific outputs to be achieved by NSC are to have: 1) regular statistical production program within its area of responsibility, 2) an efficient organizational structure and working methods to manage its regular statistical production, 3) sufficient professional capacity to produce statistics that meet the defined quality, 4) efficient organization in terms of financial management, and 5) the main coordinator of the National Statistical system.
- **Provincial Radio** – (US\$1.6m, 2005-2009) The project objectives are: 1) enhanced ability of management and staff of Lao PDR National Radio and five provincial radio stations to deliver good quality interactive, public service radio, 2) sustainable training capacity built to ensure continued support in interactive public service radio broadcasting, and 3) improved institutional framework for the media sector through exchange views on the role of the media in society between Lao PDR and Sweden.
- **Faculty of Law** – (US\$4.5m, 2003-2009). The specific objectives are to improve technical capacity and pedagogical knowledge among teachers faculty, to improve capacity in management and administration, and to improve students' motivation.
- **National Agriculture and Forestry Research Institute, NAFRI** - (US\$12m, 2007-2012) The objectives are to develop productive and sustainable upland technologies and land management recommendations for poverty alleviation and to generate socio-economic knowledge relevant for national level policy making; to strengthen NAFRI to fulfill its mandate through capacity development encompassing institutional development; and to improve management, sharing and dissemination of information to researchers and other stakeholders, particularly National Agriculture and Forestry Extension Services (NAFES).
- **Strengthening Environment Management (SEM)** – (US\$8.7m, 2005-2010). The project objective is to strengthen STEA's position to fulfill its mandate to implement laws and regulations, with particular regard to environmental and social impact assessment. The project also focuses on implementation and enforcement at national and provincial level of Environment Impact Assessment and Environmental Education and Awareness raising activities.
- **Forestry Strategy 2020 Implementation Promotion Project, FSIP** – (supported by Sida and JICA for 2006-2011. Sida's contribution: US\$1.2m). This support aims to strengthen MAF's capacity to carry out and coordinate Forestry Strategy 2020 implementation together with its partners (line ministries, donors, investors, provincial and district governments and civil society).

## SNV Netherlands Development Organization

SNV supports the UNDP project "Gender Empowerment for Poverty Reduction" to build capacity for stronger policy practice. The has the medium term goal of building pro-poor and gender sensitive advocacy, planning and resource allocation skills within the Lao PDR Government in support of decision making processes, policy formulations and planning forums.

## Switzerland (SDC)

- **Lao Poverty Mapping and Socio-Economic Atlas** (US\$ 0.297m, 2006-2008). Supports the Lao National Mekong Committee Secretariat (LNMCS) and the Lao National Statistical Centre (NSC) to produce a new Socio-Economic Atlas and Poverty Maps based on the most recent national socio-economic and environmental data sets.
- **Support the establishment of the UXO National Regulatory Authority (NRA) and support the Operation of the UXO Lao Programme** (US\$3.9m, 2006-2009). Supports the National Regulatory Authority (NRA) to strengthen the coordination and management of the UXO Sector, and supports the National UXO Lao clearance operator to further expand its operations and increase overall organisational efficiency and productivity.

## UNDP and co-financing Donors (EC, Finland, Luxembourg, SDC, Sida, and SNV)

- **Governance and Public Administration Reform Programme: Support for Better Service Delivery (GPAP: SBSB)** (US\$10.343m: UNDP - US\$0.99m; UNCDF - US\$0.7m; SDC - US\$3.5; and Luxembourg - US\$4m; Funding shortfall - US\$1.153m). The programme delivers multi-donor funding. The new SBSB

programme will strengthen capacity for strategic planning, financing, management and monitoring of governance reform for more effective, accountable and transparent delivery of services.

- **The GPAR: Luang Prabang Pilot Phase II** (Total US\$3.098m: UNDP-US\$ 0.59m; Sida-US\$2.5m, 2005-2009). The purpose is to assist the Luang Prabang authorities in the design and implementation of a rights-based local governance system. It supports the design and implementation of governance and public administration reforms related to the functioning of provincial departments so as to improve delivery of selected basic services for rural households (primarily in the health and education sector) and facilitate entrepreneurship and pro-poor business development.
- **The GPAR: Xieng Khouang Pilot** (Total US\$2.0m: SDC-US\$1.5, UNDP-US\$0.5m and SNV; 2005-2008). The project will pilot governance and public administration reforms with emphasis on more effective and participatory services in the agricultural sector and strengthen financial management and accountability. The project will facilitate institutional change to create an enabling environment especially for farmers and local entrepreneurs, notably by enhancing people's greater involvement and ownership.
- **The GPAR Saravane project - Saravane Governance, Public Administration Reform and Decentralised Service Delivery Project.** (Total US\$2.8 million; UNCDF US\$1.9, UNDP US\$0.2, EC US\$0.6, 2005-2009) This project supports six main areas: (i) inclusive and pro-poor planning and budgeting at local levels; (ii) effective and transparent implementation of local infrastructure and service delivery; (iii) financing and financial management of local public service delivery functions; (iv) organizational strengthening at provincial, district and sub-district levels; (v) human resource management and capacity development; and (vi) informing national policy-making on the basis of project experience in Saravane Province.
- **The GPAR Sekong Project** (Total US\$1.7m, 2007-2010; UNDP 0.7m, other sources: US\$1m) – is to improve people's access to public services in the largely multi-ethnic province of Sekong. Through the introduction of District Development Funds (DDF), aims in particular at developing strong decentralized governance systems at district, cluster and village levels.
- **Khoun Radio Support Project** (Total US\$0.2m, 2006-2007) – The project seeks to increase access to information, in particular for ethnic people and vulnerable groups in rural areas. It will also increase the voice and participation of local communities in the production of relevant information for their own community.
- **Strengthening the National Assembly of Lao PRD** (US\$1.5m: EU – US\$1.12m and UNDP - US\$0.41m, 2004-2007). This project takes a longer-term strategic look at the areas of assistance needed to help the National Assembly implement its constitutional mandate.
- **Strengthening International Legal Instruments in Lao PDR, Phase II** (US\$1.26m: Finland–US\$0.65m, EU–US\$0.39m and UNDP – US\$0.08m, 2005-2008). The project aims to strengthen the capacity of the Department of Treaties and Legal Affairs in the Ministry of Foreign Affairs in particular to enhance dissemination, enforcement and reporting mechanisms relating to international obligations of Lao PDR.
- **Enhancing Government Partnership with Social Organizations for Poverty reduction** (US\$1.1m: UNDP). - The project aims to contribute to greater people's participation in public policy, local development and nation building through the project goal of enhanced government partnership with social organizations to deliver services in the public interest towards poverty reduction.
- **Enriching the Round Table Process for Increased Aid Effectiveness and Development Results** (US\$ 2.5 m; ADB US\$ 0.5 m, Luxembourg US\$ 0.5 m, US\$ 1.5 – UNDP). The project aims to help the GOL to exercise a more effective leadership role in coordinating aid at macro, sectoral and cross-sectoral levels, and for aid to be: more transparent and predictable; aligned with and integrated into national planning and budgeting frameworks; and to contribute more effectively to achieving development results.
- **Enhancing Access to Justice** (US\$1.8m; 2008–2010) The LBA phase II project 'Enhancing Access to Justice through the Lao PDR Bar Association' builds on achievements of the previous project. It focuses on three main areas, namely institutional capacity building, education and legal aid.
- **Support for Implementation of the Sixth Five-Year Plan** (US\$2.4m: UNDP – US\$0.8m, 2006-2010) – The project aims to assist the GOL in the implementation of the Sixth Socioeconomic Development Plan (2006-2010) including the constituent poverty reduction strategy and the MDGs; and in monitoring and evaluating the results.
- **Gender Empowerment for Poverty Reduction (GEPR)** (US\$1.7m, 2006-2009)- The project aims to 1) build gender equality advocacy and planning and resource allocation skills within Lao Women's Union (GRID), National Commission for the Advancement of Women (NCAW), MPI and the National Assembly 2) enhance capacity for gender mainstreaming in decision-making processes, policy formulations, planning and data-based gendered policy analysis for use by Government decision-makers 3) ensure long term sustainability and capacity of NCAW, and GRID, and 4) build partnerships for gender equality mainstreaming.
- **Strengthening capacity for National Human Development Reporting [NHDR]:** (UNDP- US\$0.778m; 2004-2009). The project aims to: 1) support capacity development of the national system of statistics to collect and analyze socioeconomic data, 2) produce the fourth NHDR on Employment and Livelihoods in Lao PDR from a human development lens, providing policy recommendations for the 7<sup>th</sup> Five Year Plan 3) set up an advocacy and dissemination strategy based on the principle of national ownership.

#### **The World Bank (WB)**

- **Support to PEMSP and Budget Law Implementation** (through the Financial Management Capacity Building Project, US\$11 million, 2002-2011). The project supports three main areas of reform: financial and banking sector, SOE, and public financial management capacity building. The project assists the GOL in implementing the new Budget Law, specifically on: (i) developing a new revenue sharing framework; (ii)

implementation of the revised Chart of Accounts and Budget Nomenclature; (iii) support to Treasury Centralization and (iv) strengthening External Audit capacity.

- **Poverty Reduction Support Operations (PRSO)** - The second programmatic series for 2008-2011 (PRSO4, 5, 6, and 7) with yearly financing from the WB of about \$10 million, and potential co-financiers, such as EC, Japan, and Australia). The main objectives of this programmatic operation are to support NGPES/NSEDP implementation and provide additional contributions to the government budget and to policy reforms in public financial management, banking and financial sector, SOE reform, health, education, and revenue management.

## 2 – REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

### ADB

- **Banking Sector Reform Program** (US\$15m, 2002- 2007). The objective of the program loan is to support the government (BOL, MOF) efforts to foster efficient intermediation of depositors' resources and ensure a sound banking sector capable of supporting private sector growth and extending rural outreach.
- **Strengthening Corporate Governance and Management of SOCBs II** (US\$0.9m, 2002- 2007). The TA assists the Government to strengthen shareholder oversight of bank restructuring, including (i) strategy development; (ii) human resource (HR) development; (iii) case by case NPL resolution; and (iv) the legal and judicial framework to support NPL resolution, including establishing a commercial division of the court and strengthening the framework for commercial transactions.
- **Banking Automation to Support Outreach, Efficiency and Governance** (US\$0.65m, 2005- 2007). The grant's development objective is to enable a sustained reduction of poverty in the Lao PDR by reducing the digital divide between the technology deficient Lao PDR banking system and that of other countries in the region, in a sector that is increasingly driven by information and communication technology (ICT).
- **Rural Finance Sector Development Program** (US\$7.7m, 2006-2009). The Program Loan will support: (i) creating an enabling policy framework for public and private provision of rural and microfinance; (ii) creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions; (iii) transforming the Agriculture Promotion Bank (APB) into a financially self-sustainable, market-oriented rural finance institution; (iv) creating a supportive non-prudential regulatory environment for rural and microfinance.
- **Rural Finance Sector Development Program** (US\$2.3m, 2006-2009). The Project Loan will support: (i) building the Bank of Lao PDR's (BOL) supervision capacity of microfinance institutions (MFIs), (ii) supporting APB to complete the risk management, accounting, and MIS components of its Restructuring Plan, and (iii) upgrading the ICT system of the Agriculture Promotion Bank (APB).
- **Institutional Strengthening for Rural Finance** (US\$0.7m, 2007-2009). The TA will assist the GOL to (i) coordinate and integrate rural and microfinance policy reforms and program implementation, (ii) carry through the policy lending phase out plan and performance-based recapitalization of APB to ensure its full transition to a commercially-oriented operations within three years; and (iii) formulate and document a simplified mechanism, policies and procedures for residual on-budget policy lending; and (iv) assist APB to build capacity in its human resources management.
- **Upgrading of ICT and MIS at the Agriculture Promotion Bank** (US\$0.472m; 2007-2009). The TA will assist APB (i) plan and execute the bidding, selection, and contracting processes to procure IT hard and software systems and communication infrastructure financed under the Project Loan; (ii) strengthen APB's ICT human resources to manage the ICT systems upgrade; and (iii) plan and implement the rollout of ICT systems to the whole APB branch network.
- **Catalyzing Microfinance for the Poor** (US\$1.980m; 2007-2010). The JFPR TA will assist the development of a network of microfinance institutions (MFIs) in Lao PDR. Particularly, the TA will (i) create a Microfinance Fund (MFF) to provide matching grant funds for MFIs that focus on best practices, sustainability, and poverty reduction that are unlikely to be achieved without the support of the MFF; (ii) assist the Bank of Lao PDR strengthen its capacity in prudential monitoring and supervision of microfinance activities; and (iii) disseminate microfinance best practices through workshops and training activities for MFI practitioners and Government officials.

### International Monetary Fund (IMF)

- Annual surveillance reviews (Article IV consultations) and semi-annual macroeconomic assessments (Assessment Letters).
- Technical assistance in fiscal management (especially customs operations), central banking and statistics.
- Training. Short-term courses for government officials on economic and financial issues in IMF Institute (Washington, DC) and regional training institutes (Singapore, Vienna), and scholarships in Australia and Japan.

### Japan

- **Poverty Reduction Support Operation 3 – PRSO3** (US\$ 4.6m, 2008). The main objectives of this facility are to support NGPES/NSEDP implementation and to provide additional contributions to the government budget by co-financing the PRSO3 with the WB through the yen loan scheme. The loan agreement was signed in February 2008.

- **Fiscal Policy and Financial Statistics Support** (US\$0.5m, JICA: 2005-2008). This technical cooperation provides an advisor to Fiscal Policy Department, Ministry of Finance, and a series of counter-part training in Japan in order to improve financial statistics and fiscal policy management of GOL.
- **Capacity Building for Public Expenditure Management Strengthening Programme (PEMSP)** (JICA: 2008-2011). The objective is to provide assistance to establish a comprehensive human resource development framework in the Ministry of Finance under the framework of PEMSP and to carry out appropriate training based on the model.

#### Luxembourg

- **Banking and Finance Training** (EUR 2m, 2008 – 2010). The project aims at enhancing the overall efficiency of the banking sector in the Lao PDR in line with goals set out in the NSEDP (2006 – 2010). The Lao Banking Institute's physical, managerial and academic capabilities will be strengthened. A modular banking diploma and certification system will be developed to cater for the ambitions and abilities of all banking staff.

#### Sweden/Sida

- **Strengthening Fiscal Management** (US\$3.20m, 2004-2008). The overall objective is to contribute to poverty alleviation by strengthening Lao PDR's ability to improve revenue collection. The project includes: tax policy and tax administration, human resource development, organization and management and ICT development.

#### The World Bank Group-WBG (WB, IFC-MPDF)

- **Poverty Reduction Support Operations - PRSO** (See project description in 3.1 above - World Bank).
- **Financial Management Capacity Building Program – FMCBP** (See project description in 3.1 above – World Bank)
- **Financial Accountability** (IDF grant \$0.30m). This grant aims at improving Financial Accountability in SOEs and Private Enterprises. The project focuses on capacity building and introduction of international accounting and auditing standards and related training. The project also supports strengthening of LICPA and improvement of legal framework for accounting and auditing practices.
- **IFC-MPDF: Financial Sector Development:** (US\$0.3m, 2007-2008). IFC-MPDF's Access to Finance Program aims to (i) build strong and diversified financial markets with a range of financial institutions, and (ii) construct the regulatory infrastructure necessary to ensure financial institutions are successful. Under this program, IFC-MPDF continues to assist in drafting implementing regulations for the new Law on Commercial Banks.

## 3 – TRADE REFORM

#### ADB

- **Regional TA on Implementing the GMS Agreement on Facilitation of Cross-Border Transport of Goods and People** (US\$1.8m, 2006-2008): the RETA aims to assist in finalizing agreement on and implementing the GMS Cross-Border Transport Agreement (CBTA) and its annexes and protocols. The TA's particular emphasis will be on supporting the GMS countries to effectively implement the CBTA.
- **Regional TA on Support to Trade Facilitation and Capacity Building in GMS** (US\$1.5m, 2006-2008). The RETA will primarily provide initial support for the implementation of the strategic framework for action on trade facilitation, such as capacity building for the trade facilitation focal points and the core team at the national level. The project will also provide continuous and practical support to the GMS Trade Facilitation Working Group in the exercise of its functions and responsibilities.

#### Australia/AusAID

- **Support for the Role of Integrated Framework Facilitator** (A\$1.5 million, 2006-2008). Australia funded an expert to support GOL in implementing the DTIS Action Matrix and continues to work with the GOL's IF Secretariat and Focal Point and other key donors (World Bank, EC, UNDP and others) under the IF framework.
- **Trade Analysis and Reform Project** (A\$5m, 2005-2008). Project interventions will focus on building analytical and research skills in order to strengthen capacity for trade policy analysis.
- **Sanitary and Phyto-Sanitary Capacity Building Project - SPS CBP** (A\$3.9m, 2004-2007). The goal of the project is to enhance the capacity of the ASEAN focal countries to meet international SPS standards and the requirements of importing countries consistent with the WTO SPS Agreement. The three components focus on SPS-Trade linkages, Plant Health and Animal Health.

#### European Union (EU)

- **Asia Invest-Open Resource for Commerce in Horticulture aided by species Identification Systems (Orchis)** (Euro 0.3m, 2006-2009). The project aims to enhance the export capabilities of Lao PDR and the valuable flora of the country by promoting best practices in trade aided by open source based IT&C tools furthering the integration of Lao PDR in information society. The project also aims to reinforce institutional capabilities of Lao PDR to better adhere to international commitments made in conventions like CITES.

- **EC-ASEAN Intellectual Property Rights Co-operation Programme ALA/96/25** (Euro 0.5m, 2005-2007). The objective of this programme is to develop a modern intellectual property system in Lao PDR. This includes technical assistance to draft new legislation on Patents, Copyrights, and Industrial Design. Particular attention will be paid to TRIPS compliance, the judiciary and the enforcement.
- **Open Resource on Conservation Agriculture for Trade and Development (ORCATAD)** (Euro 0.3m, 2007-2009). The action aims to further the integration of Lao PDR in to the global information society by enhancing the export capabilities of Lao PDR in eco-friendly cash crops by promoting best practices in conservation agriculture aided by modern ICT. The action aims to also reinforce institutional capabilities of intermediary business organisations such as LNCCI by focussing on the niche market and new business opportunities for eco-friendly agriculture related products in the international markets.
- **Trade Development Facility** (Euro 4.2m, 2007-2010) – Coordinate with World Bank and Australia to set up a structure and mechanism of multi-donor trust fund for the implementation of DTIS Action Matrix (AM). Activities will be identified in consultation with GOL and other donors. EC also finances two studies on import-export procedure review and a capacity assessment for the implementation of DTIS AM to prepare this Facility.

#### France

- **TrainForTrade**: Training and Capacity Building in the field of International Trade, FSP 2002-95 (US\$2.3m for Lao PDR and Cambodia, 2003-2008). The main project activities include: (1) training of trainers (ToT), (2) use of distance learning, and (3) cooperation between universities of LDCs. Operational changes will be undertaken in the economic sectors identified by decision-makers and authorities of the countries involved. The project is implemented by **UNCTAD** together with Ministry of Commerce.

#### Japan

- **Investment Promotion Support to MPI** (US\$0.4m, JICA: Advisor and Training, 2007-2009). This technical assistance aims to promote smooth investment and provide proper advice on the problems of investment situation in Lao PDR.
- **Second Mekong International Bridge Construction Project** (US\$34m, JBIC: 2000-2008). The bridge construction of this project started in January 2007. Supplementary construction works including Common Control Area (CCA), the facility which enables single-stop inspection by Thai and Lao PDR officials, are currently on-going. The similar construction is also supposed to take place on the Thai side of the river.
- **Trade Promotion Project** (US\$1.5m, JICA: Technical Cooperation Project, 2008-2011) This is a capacity building project which supports the Department of Production and Trade Promotion (DPTP) in the Ministry of Industry and Commerce to promote trade and eliminate obstacles that hamper trade.

#### Singapore

- **Trade related courses** (US\$1.4m, ongoing since 1992). During the period, trade/economic courses were conducted at the Lao-Singapore Training Centre in the fields of business communication, international trade finance, consumer protection and export competitiveness strategies. Lao PDR officials also attended other trade related courses conducted in Singapore, including courses in trade and investment promotion, trade negotiation, national payment and settlement systems, and Central Bank accounting.

#### Switzerland (SECO)

- **Support to Trade Promotion and Export Development** (US\$1.704m, 2004-2008, implemented by ITC). The project is to build up export development capacities of Government, trade support institutions and enterprises by developing (1) export strategies, (2) a trade support network, (3) institutions to train export enterprises, (4) trade information capacity at the national level. The focus in 2008 will be on organic agricultural products, community based tourism and training of counsellors.
- **Lao PDR WTO Accession Support** (US\$ 0.34m, 2007-2010). The project aims to facilitate timely accession to the WTO through the provision of international level policy advice and negotiating strategy, and through ensuring timely and sequenced internal policy reform coordination, in line with Lao PDR's development policy and Preferential Trade Agreements.

#### UNDP

- **Enabling more effective Integration of Lao PDR into the ASEAN** Phase II (UNDP – US\$0.57m, 2006-2009). The project aims to (i) increase national commitment to the process of ASEAN integration (ii) improve capacity to coordinate ASEAN affairs within the Government of Lao PDR and (iii) enhance national capacity to assess policy implications of regional integration.
- **Capacity Building and Technical support to Lao PDR in the WTO accession negotiation** (IF Window II funds - US\$0.3m, 2007-2009). The objective of the project is to: (i) Improve capacity of the GOL to prepare and negotiate a pro-poor and pro-growth WTO accession agreement (ii) improve capacity of the GOL to negotiate market access in the goods and services sectors and (iii) ensure WTO accession negotiations are widely disseminated at central and provincial level.
- **Institutional strengthening of the IF coordination and implementation structures** (IF Window II funds - US\$0.22million, 2007-2008). The key objectives of the project are to enhance (i) institutional capacity to coordinate and implement trade related policies and projects within the GOL (ii) coordination

management capacity with relevant line ministries involved in the IF process and (iii) national capacity to assess the policy implication of trade on growth, economic development, and poverty alleviation.

- **Capacity Building for MOIC'S Department of Import and Export (DIMEX) in Rules of Origins (ROO), Product Specific Rules (PSR) and Operational Certification Procedures (OCP)** (IF Window II funds - US\$0.15m, 2007-2009). The project focuses on building capacity of DIMEX and on strengthening technical capacity on export procedures, specifically on ROO, PSR and OCP.
- **Support the shift of the Garment Industry from contract manufacturing to direct export (Phase 1)** (IF Window II funds - US\$0.32m, 2007-2008). The project aims to support the Lao Garment Industry to address the challenges that the garment sector is facing in the market and to operate smoothly its shift from contract manufacturing to direct export.

#### The World Bank (WB)

- **Trade Development Facility (TDF) to support DTIS Action Matrix (AM)**. This is a multi-donor trust fund designed to support the implementation of GOL's medium-term trade-related reform activities under the DTIS AM. The TDF is managed by WB and co-financed by EC and Australia. Other donors are also expected to join. This trust fund has been established and the National Implementation Unit is planning the first year activities.
- **Customs and Trade Facilitation Project** (US\$4m, 2007-2011). The project is currently under preparation and will support Lao PDR customs in facilitating cross-border trade, modernization and streamlining of customs procedures. In particular, through implementation of a computerized customs system (ASYCUDA), long-term technical assistance, change management, and support for WTO accession related to Customs.

## 4 – PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM

### PRIVATE SECTOR DEVELOPMENT

#### ADB

- **Capacity Building for Small and Medium Enterprises Development** (\$0.4m, 2007-2008). The TA aims to support the Government to implement reforms in the private sector – particularly those related to the implementation of a forthcoming ADB loan on Private and SME Sector Development Program. It provides technical training and inputs to government officials of executing and implementing agencies.
- **Private Sector and Small and Medium Enterprises Development Program Cluster (Subprogram 1)** (US\$5m grant, 2007-2008). The project comprises two subprograms covering reforms in institutional development in SME policy formulation and implementation, access to finance, investment climate, trade policy and capacity building, and macroeconomic stability. The TA aims to assist, MOIC, MOF, MPI in implementing and monitoring the impact of key policy reforms, broaden and deepen SME, investments, and trade policy reform agenda; and assist with the capacity strengthening in the EA and IA to produce policy for the sector, as well as to participate in the WTO.

#### European Union (EU)

- **Legislation and European experience on the subject of ADR procedures: possible replication model in the Cambodia and Lao PDR** (Euro€0.31m 2007-2009). This assistance intends to develop the knowledge and application of the Alternative Disputes Resolution (ADR) procedures in Cambodia and Lao PDR, with particular respect to SMEs, in order to more effectively and rapidly settle international disputes that may arise from business relations through training, seminars and study tours.
- **Small and Medium-sized Enterprise Development Programme** (Euro€3m; 2007-2010). The programme aims to develop national capacity for the implementation of the SME Development Strategy and to support the Government to meet the policy reform requirements under the Private Sector/SME Development Programme provided by the Asian Development Bank (ADB) particularly on regulations concerning business registration and licensing, investment, trade and finance.

#### Germany (GTZ)

- **Human Resource Development for Market Economy (HRDME) Program Phase 2** (June 2007 – May 2011: US\$ 7.1m) supports MPI, MoE, SMEPDO/MoIC and LNCCI to jointly improve the regulatory, institutional and human resource conditions for private sector/SME development through vocational training; SME promotion; streamlining of investment procedures; support to research; and public private dialogues in 4 provinces.

#### Luxembourg

- **Strengthening of Human Resources in the Hospitality and Tourism Industry in the Lao PDR** (EUR5.5m, 2008 – 2012). The project aims at strengthening the human resources in the Hospitality and Tourism Industry in the Lao PDR. It will assist the Lao National Tourism Administration to develop and operationalize a long-term HRD Strategy and Action plan to meet the current and future employment needs of the sector.

## Japan

- **Lao-Japan Human Resource Cooperation Center (LJC)** (US\$4m, JICA: 2005-2010). In cooperation with the National University of Laos (NUOL), this technical cooperation aims to provide a consistent supply of human resources for a market economy. The main courses and activities which LJC provides are (1) business management, (2) Japanese language, (3) information and cultural exchange between Lao PDR and Japan, and (4) basic computer course.
- **Tourism Development in the East-West Corridor Project** (US\$1.5m, JICA: 2008-2010). In cooperation with the Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project aims encourage tourism development thorough capacity building, in order to contribute sustainability in East-West corridor.
- **ODOP (One District One Product) Project** (US\$2m, JICA: 2008-2011). In cooperation with the Ministry of Industry and Commerce (MoIC), the objectives of the project are to raise awareness and importance of the ODOP concept, to support relevant exciting products as a pilot product, and to create good practice.

## SNV - Netherlands Development Organization

- **Private Sector Development Program** SNV aims at improving market access in order to create economic opportunities for the rural poor. The program consists of three service market combinations: 1) access to financial services, 2) value chain development (e.g. eco tourism, non timber forestry products and handicrafts) and 3) enabling environment for business development.
- **Non Timber Forest Products:** Advisory services in the field of non timber forest products (NTFPs) focus on developing best field practices for sustainable NTFP production and use, NTFP market development (including Marketing Information Systems), human resource development and supporting and institutionalizing networking and information exchange.

## Switzerland (SDC)

- **Preserving Agro-Biodiversity in the Lao PDR** (Inception phase US\$0.764, 2007-2008) The overall objective of the program is to support the efforts of the Government of the Lao PDR in preserving agro-biodiversity resources while maintaining agriculture productivity and enhancing the livelihood security of farming communities by means of better access and management of agro-biodiversity resources, particularly in the northern upland areas.
- **Lao PDR Extension for Agriculture Project** (Alignment phase US\$0.65m, 2008). The overall objective of the project is to assist Ministry of Agriculture (MAF) and National Agricultural and Forestry Ext. Services (NAFES) in developing a sustainable national agricultural extension strategy and to assist an institutional strengthening of NAFES at all levels. The "Lao extension Approach" has been officially introduced by MAF to all 17 provinces (in 2 districts). In the first six months of 2008, the project will align its support to the new structures introduced by MAF.

## Switzerland (SECO)

- **Promotion of Cleaner Industrial Production in Lao PDR** (US\$ 0.72m, 2003-2008). The program aims to support the Government of Lao PDR in poverty eradication and environmental sustainability by improving the productivity and competitiveness of its growing industries, as well as its access to international and local markets, through application of cleaner production techniques and technology.

## UNDP –UNIDO

- **Promoting Private Sector Development through Strengthening of Lao Chambers of Commerce and Industry and Business Associations** (US\$2.33m, 2006-2010). The project seeks to support the development of the private sector in Lao PDR, in particular SMEs, by (i) optimising the use of research findings and recommendations in the areas of private sector development (ii) strengthening the capacities of LNCCI and BA's so that they can become independent, self-reliant and self-financing organizations.

## UNIDO

- **Lao UNIDO Integrated Program** (US\$5.6m, 2004-2008). The Integrated Program for Lao PDR (phase II) consists of the following key components:
  - Industrial governance and enabling environment (\$0.9m)
  - Private Sector Development and SME promotion (\$0.9m)
  - Manufacturing productivity and environmental soundness (\$2.5m)
  - Market access, investment and trade facilitation (\$1.25m)

## The World Bank Group (WB, IFC-MPDF)

- **Poverty Reduction Support Operations - PRSO** (See project description in 3.1 above - World Bank).
- **IFC-MPDF: Private Sector Development Activities.** (US\$0.5m, 2007-2009). Following on from the support provided to draft the new Enterprise Law, IFC-MPDF is continuing its technical assistance to relevant agencies to implement the new law, particularly in the areas of enterprise registration and licensing. Recently, IFC-MPDF reached an agreement on the provision of technical assistance to MPI in drafting a unified investment law as well as its implementing regulations at a later stage.



- **IFC-MPDF: Lao Business Forum-LBF.** (US\$0.6m, 2005-2010). The LBF has proven an effective mechanism for enabling the private sector to raise their concerns to GOL. IFC-MPDF assists GOL to facilitate LBF by providing a secretariat to support its operations. As a result of issues raised through the LBF process, IFC-MPDF also provides TA to support issue development and provide solutions, including support to revise the Mining Law and prepare the implementing decree for the Law on Tourism. The fourth LBF is expected to convene in June 2008.

## TOURISM

### ADB

- **GMS: Mekong Tourism Development Project** (US\$10.9m, 2002-2007). The project aims to promote the development of the tourism sector in the lower Mekong River basin. In Lao PDR, It will improve tourism-related infrastructure, support pro-poor community-based tourism activities, facilitating private sector participation in tourism marketing and promotion, establish mechanisms to increase sub-regional cooperation, and facilitate the movement of tourists across borders. The project's phase 1 implementation has completed and the phase 2 is expected to begin by end 2008.

### Australia/AusAID

- **Child Wise: Combating child sex tourism in South East Asia** (A\$0.5m, 2007-2009). The aim of this project is to develop a 5 year plan for a sustainable response to child sex tourism in South East Asia. The plan will determine training needs for national tourism organizations and private sector, help position the ASEAN Tourism Committee to assume responsibility for oversight of anti-CST work, and establish a framework for a public-private partnership.

### European Commission

- **Asia Invest-Marketing Responsible Tourism in Lao PDR** (Euro€0.3m, 2006-2009). The project is co-financed with SNV. To enable the Lao Association of Travel Agents and its members to develop and increase the volume and quality of their high yield European sales and to engage more directly and constructively in sustainable tourism policy management and institutional frameworks.

### NZAID

- **National Tourism Authority of Lao PDR – UNESCO Nam Ha Ecotourism Project** (US\$0.338m, 2004-2007). Phase II of the Nam Ha project intends to assist Luang Namtha's provincial tourism and protected area managers become more effective stewards of their emerging ecotourism industry. It will also scale-up the core group of national professionals trained by the Nam Ha Project both in numbers and quality.

### SNV Netherlands Development Organization

- In the field of pro-poor sustainable tourism, a team of 11 advisors is delivering advice on policy, strategy, management and product development issues to a range of clients. At the national level, these include the Lao National Tourism Administration (LNTA), the National University of Laos (NUOL), and the Lao Association of Travel Agents (LATA). At the provincial level, provincial tourism offices are assisted, as are many other relevant governmental departments (including at district level). The ultimate aim is to promote tourism that benefits livelihood improvements to the poor.

## LAND

### World Bank and Australia

- **The Second Land Titling Project** (US\$23.92m: WB-US\$14.82m, AusAID-US\$8.85m and GOL-US\$2.27m, 2003-2008). The second phase of LTP aims to develop land administration capacity to support the country's economic development and poverty reduction goals. The objectives of the project are to (i) improve the security of land tenure; (ii) develop transparent and efficient land administration institutions at the national and provincial levels; and (iii) improve the government's capacity to provide social and economic services through broader revenue base from property related fees and taxes.

### Germany

- **Land Policy Development Project (LPDP)** (US\$1.75m, 2005-2008). This project aims to strengthen the policy and legal framework of land management and land tenure in Lao PDR. The overall objective is to increase land tenure security for individuals, groups and public administration. This project represents the German contribution to the Lao PDR Land Titling Phase II (see above).

### World Bank (IFC/MPDF)

**IFC/MPDF: Tourism.** (US\$0.5m, 2005-2008). The overall objectives of IFC-MPDF interventions are to (i) generate more tourists, especially higher net-value tourists, (ii) encourage longer stays, (iii) achieve higher average spends, and (iv) enhance higher local spends. IFC-MPDF is continuing its activities in this sector which include preparing the "Stay Another Day" booklet, with a second edition launched in late February, assisting NTA in revising the related legal framework and developing branding for Lao tourism, and organizing Business Edge tourism management training for service providers.

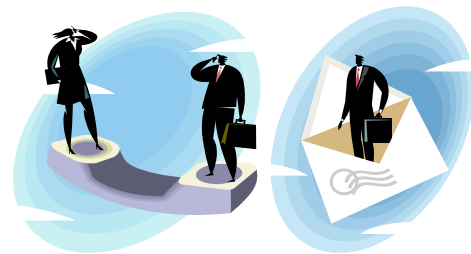


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THE WORLD BANK TEAM APPRECIATES  
FEEDBACK ON THE STRUCTURE AND  
CONTENT OF THE MONITOR.



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