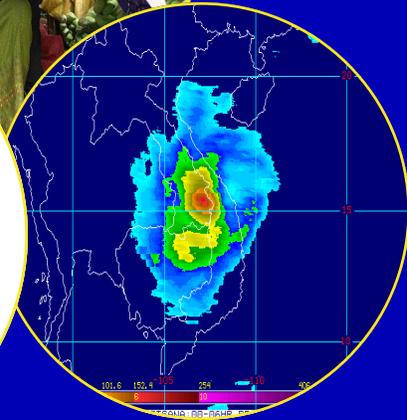


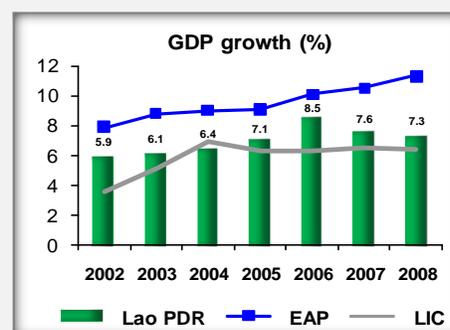
Lao PDR Recent Economic Developments



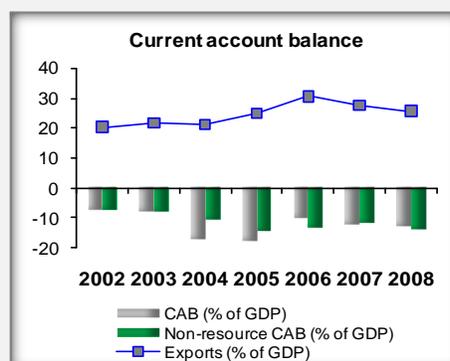
The World Bank Office, Vientiane

Lao PDR at a glance

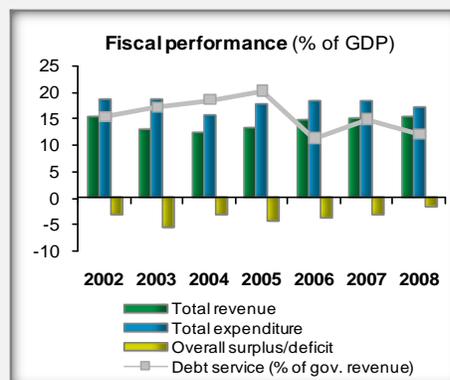
Key Development Indicators	Lao PDR	East	
		Asia & Pacific	Low income
2008			
Population, mid-year (millions)	6.0	1,912	1,296
GNI (Atlas method, US\$ billions)	4.7	4,173	744
GNI per capita (Atlas method, US\$)	740	2,182	574
GNI per capita (PPP, international \$)	2,080	4,969	1,489
GDP growth (%)	7.3	11.4	6.4
GDP per capita growth (%)	4.7	10.5	4.2



Local Prices	2006	2007	2008
Consumer prices (annual % change)	6.8	4.5	7.6
Implicit GDP deflator	13.3	6.6	8.4
Exchange rate (period average, kip per 1 US\$)	10,160	9,603	8,635
GDP (US\$ millions)	3,522	4,287	5,543



Balance of Payments and Trade	(US\$ millions)		
Exports of goods (fob)	1,080	1,188	1,422
Imports of goods (cif)	1,506	1,923	2,337
Exports of goods and services	1,295	1,510	1,814
Imports of goods and services	1,568	1,989	2,377
Net trade in goods and services	-273	-479	-563
Current account balance (% of GDP)	-9.9	-12.4	-12.7
Non-resource current account (% of GDP)	-13.1	-11.7	-13.7
Reserves, including gold	335	531	636



Government Finance (FY)	(% of GDP)		
Total revenue (including grants)	14.6	15.1	15.2
Revenue	12.5	13.4	13.9
Tax revenue	10.7	11.9	12.1
Current expenditure	9.2	9.1	10.0
Overall surplus/deficit	-3.8	-3.1	-1.8

External Debt and Resource Flows	2006	2007	2008
Total external public debt (% of GDP)	63.1	59.1	53.1
Total debt service (% of exports)	5.7	12.5	10.3
Foreign direct investment (US\$ millions)	625	617	771

Source: Lao authorities, World Development Indicators (2009) and staff estimates.

EXECUTIVE SUMMARY

The Lao economy has performed relatively well in the midst of the global financial crisis, supported by higher than initially forecasted commodity prices and significant expansion in public outlays which have acted as a fiscal stimulus. The impact of the global financial crisis is felt through declining commodity export earnings, reduced FDI inflows and remittance income, as well as a decline in non-resource exports, especially agriculture. Real GDP growth in 2009 is projected to slow to about 6.4 percent, as the impacts of the global financial crisis are felt in the domestic economy. This impressive growth rate – the second highest in the East Asia region after China – was possible for the following reasons: First, the Laotian economy is relatively insulated from the global financial system and its exposure to global trade is relatively limited, thereby mitigating the direct impact of external shocks. Second, it has benefited from a sustained demand for exports (minerals from China, garments from Europe, electricity from Thailand) and for tourism services, and from lower energy (fuel) prices. Third, a significant fiscal stimulus also contributed in 2009 to sustain economic growth and to compensate for the decline in foreign investment. This fiscal stimulus was driven by increased on-budget expenditures (wages and domestic capital spending) and by off-budget quasi-fiscal spending by the Bank of Laos financing local public infrastructure projects.

The contribution to GDP growth has shown a noticeable shift toward the resource sectors. The mining sector (mostly copper and gold) contributes about 2.5 percentage points to growth this year; manufacturing and construction together and agriculture about 1 percentage point each. Services account for the remainder.

With the expected global recovery, real GDP growth in Lao PDR will strengthen over the medium-term although the recovery remains subject to global commodity price changes (mainly in metals and agriculture). The economy is projected to benefit from the recovery of tourism, the implementation of large hydropower projects under construction and in the pipeline, and from projected increase in demand from neighboring countries (especially Thailand, China and Vietnam) and the European Union.

Prices have begun to rise after falling significantly during the past several months of this year. The headline inflation has climbed by 1.5 percent in November 2009 year-on-year after staying at just below zero during the past months, as food and energy prices recovered. At the same time, core inflation excluding food and energy has also increased gradually from 0.4 percent in June to 1.1 percent in September and 2.4 percent in November. Average inflation is estimated to decline from 7.6 percent in 2008 to just below 1 percent this year, but should increase slowly over the medium term as prices for oil and food grow.

Pressure from the global crisis combined with commitments to host a series of major events led to significant expansion of public outlays in 2009. As a result, the budget deficit is estimated to increase sharply from 1.8 percent in 2008 to 6.8 percent in 2009. Public spending has noticeably increased on capital expenditure and the wage bill (the increase in public servants' wages and allowances was approved by the National Assembly before the crisis). There was an increase in quasi-fiscal expenditures through the Bank of Lao PDR to support local infrastructure projects and two important events, the South-East Asian (SEA) Games and the 450 year Vientiane Anniversary. However, BOL has officially announced a phasing out of such direct lending operations by the end of 2009, which addresses in part the concerns over domestic debt levels in the future. Revenue collection is projected to fall short of the target by 8 percent, and to slightly fall to 13.8 percent of GDP in 2009. This is due to a reduction in resource revenues and non-tax revenue (particularly dividends).

While Lao PDR has made progress in reducing its external and public debt burden, it still faces a high risk of debt distress because of its large debt stock. Nevertheless, public debt service remains manageable as much of the debt is contracted on concessional terms. However, it is expected to increase slightly in the medium-term due to expected government need to finance equity holding in large investment projects.

Lao PDR's external trade turnover has contracted moderately due to secondary impacts of the global economic crisis. Trade is expected to decline slightly this year due to drops in commodity prices and global demand. While Lao commodity exports contracted by 7.2 percent compared to last year, imports are down by 9.6 percent in the same period due to falling prices of capital goods and fuel imported. As a result, the current account deficit has narrowed to 7.9 percent of GDP in 2009 from 12.5 percent in 2008. The capital account surplus almost halved in 2009 largely due to a noticeable fall in foreign direct investment.

Coupled with lower foreign capital inflows, expansionary monetary policy has resulted in a reduction of foreign reserves. BOL's direct lending, interventions on kip appreciation, and lower FDI contributed to a reduction of foreign reserves by almost 16 percent, recorded at US\$ 583 million as of June 2009 compared to the same period last year. This reserve level can cover 4.9 months of non-resource imports. Despite the falling reserves, this number has been relatively stable in the past three years because the imports have also declined. The kip exchange rate appreciated slightly by 0.5 percent against US dollar but depreciated by 3.1 percent against Thai baht during the last six months (Jun-Nov).

Credit has been growing rapidly. Credit growth recorded a 98 percent y-o-y increase, of which 30 percentage points are from the BOL lending to local government infrastructure projects. This fast credit expansion clearly represented an attempt to stimulate the economy in the midst of the crisis and is not sustainable over the medium term, although the risks on macro-stability are somewhat reduced by a low initial base (base of 12 percent of GDP at the end-2008). The Government is cognizant of the risks and committed recently to rein credit in to more sustainable levels of expansion.

Reforms have shown some progress. Most importantly, the government has committed to returning to a more sustainable macroeconomic path and a phasing out of quasi-fiscal activities. Public finance management reforms include completing the provincial level centralization of the Treasury, Customs, and Tax functions this year. Consolidation of revenue accounts with the National Treasury is also in progress, as is the revision and implementation of various laws and decrees, including the VAT law, the tax law, the executive decrees on minerals and royalties, and on the civil service administration. The government is also moving ahead with the elimination of the tax exemption on motor vehicle imports. A new decree on new import and export licensing procedures has also been approved, as have been the mineral law and the new unified law on investment promotion. However, the actual promulgation and enforcement of these laws is still pending.

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PART I – RECENT ECONOMIC DEVELOPMENTS

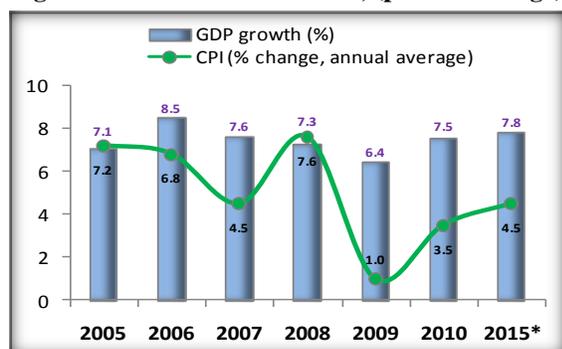
Economic growth in Lao PDR is projected to slow to a limited extent in 2009, down to 6.4 percent, as a result of higher than first anticipated production and prices in the mining sector, more resilient growth in the non-resource sectors, and the support of a significant fiscal stimulus. In the past, Lao PDR has succeeded in maintaining a robust economic growth with real GDP growing at an average rate of 7.2 percent per annum in 2003-2008 driven largely by natural resources sectors and services (mainly trade and tourism). The key impacts of the crisis on Lao PDR were felt through a decline in foreign direct investment, prices and demand for exports (especially in late 2008 and early 2009), and government revenue falling below the planned target. Tourism and manufacturing (garments) were less affected by the crisis than initially projected. Headline inflation has declined significantly since late 2008 due to lower fuel and food prices.

The Lao economy has recovered faster than expected from the global economic slowdown as a result of rapid growth in the mining sector (copper and gold) and the recent rebound of Lao exports due to the recent recovery of major commodity prices (in the second and third quarter of 2009). In addition, the SEA Games have acted as a timely stimulus on the economy, by attracting more than ten thousand foreign visitors and by supporting Lao tourism, retail trade, construction and other services industries. Finally, expansionary fiscal policy in 2009 has helped maintain rapid economic growth through a higher public wage bill and a significant increase in the public investment program. This has resulted in an upward revision of 2009 GDP projections to 6.4 percent growth. After several month in the negative, headline inflation appeared to have bottomed out and started to rise again to about 1.5 percent in November 2009 as food and fuel prices seemed to have recovered. At the same time, core CPI (excluding food and

energy) climbed to 2.4 percent from about 1.1 percent in September. The kip has remained fairly stable against the US dollar but has weakened against the Thai baht in recent months, as a result of the de facto peg against the US dollar. Domestic revenue collection improved significantly in the second half of FY2008/09 (an increase of 59.7 percent compared to the same period of FY2007/08) as deferred mining taxes were paid to the GOL by major mining projects and several revenue measures were put in place. The budget deficit widened in FY2008/09 but is expected to decline in FY2009/10 as the spending impact of the major events hosted by the country (SEA games, 450-year anniversary of Vientiane Capital) are expected to wane. The balance of payments overall balance is projected to decline slightly as a result of a smaller capital account surplus and lower current account deficit, leading to a moderate decline in official net foreign assets.

1.1 GROWTH AND INFLATION

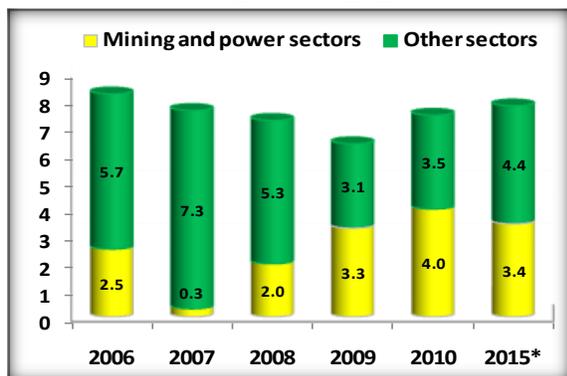
Figure 1. Growth and Inflation, (percent change)



Source: GOL (MPI) and staff estimates and projections.
* Yearly average for 2011-15

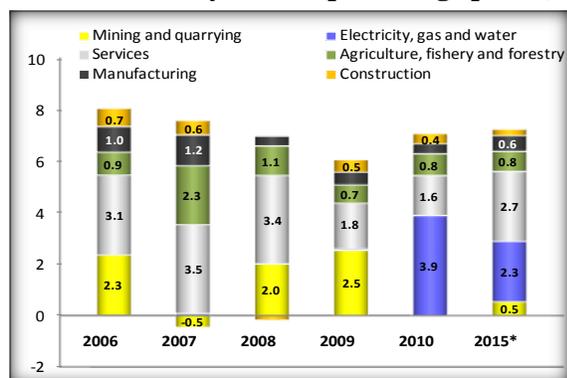
Lao PDR is one of the best performers in the region with real GDP projected to grow at 6.4 percent in 2009 (although slightly lower than the 7.3 percent in 2008), see Figure 1. This projection has been revised upwards from 5 percent earlier in the year because most sectors, including mining, manufacturing (garment, food and beverages, cement and metal industries), construction, agriculture and services have been performing better than expected due to the recent recovery of commodity prices (copper and gold), increased public expenditures and recovery in regional demand (especially from China).

Figure 2. Resource Sectors Contribution to GDP Growth, (percentage points)



Source: GOL (MPI) and staff estimates and projections.
* Yearly average for 2011-15

Figure 3. Real GDP Growth (at factor cost): Contribution by Sector (percentage points)



Source: Staff estimates and projections

The contribution to GDP growth has shown a noticeable shift toward the resource sectors. The mining and power sectors together contribute about 3.3 percentage points to the overall growth of 6.4 percent this year (this includes both direct and indirect contributions)¹ compared to 2 percentage points in 2008 (Figure 2); of which the mining sector (mostly copper and gold) contributes about 2.5 percentage points; manufacturing and construction together and agriculture about 1 percentage point each, and services account for the remainder (Figure 3). The construction industry has grown considerably this year due to the SEA Games events and the 450-year Vientiane Anniversary as well as new construction of hotels and other tourism facilities and private housing, and the ongoing development of several hydropower projects. This also led to increased local production of cement and other materials.

With the expected global recovery (see global economic outlook in Annex 1), real GDP growth in Lao PDR will strengthen over the medium-term although the recovery remains subject to global commodity price changes (mainly metals and agriculture). The economy is projected to benefit from the recovery of tourism and the implementation of large hydropower projects under construction and in the pipeline and further expansion of the mining sector². The total value of electricity exports is projected to increase nearly twofold from 2009, reaching about US\$ 300 million in 2010, driven by NT2.

Furthermore, growth will also benefit from a projected increase in regional demand and recovery of the service sectors. Demand for Lao exports from the neighboring countries and from the European Union is projected to increase as those economies start to rebound from the global financial crisis. The service sector also has prospects of recovering through boosted wholesale

¹ Resource sectors provide direct and indirect contribution to GDP growth. The direct contribution is the sector's output from the production phase, which include mineral products from mining (copper, gold, silver and other) and electricity from the power sector, while the indirect contribution is mainly a contribution of the resource sectors to construction, manufacturing and services (transport and trade) during the construction period.

² Major power projects under construction include NT2, Xeset2, Nam Ngum 2, Sekaman 3, Then-Hinboun Expansion, Nam Lik 1-2 and Nam Ngum 5; main power dams in pipeline are Hongsa Lignite coal-power plant (the power purchase agreement (PPA) has been signed and construction of the plant is expected to begin in 2010 and complete by 2015), Nam Ngum 3, NT1, Nam Ngiap 1 and Nam Ou hydropower projects (construction of these projects is likely to begin by 2011 and 2012). Investment in the mining sector is also expected to resume from 2010 with the expansion of the Sepon project (recently approved expansion plan of US\$64 million in total).

Figure 4. Monthly Inflation (y-o-y percent change)

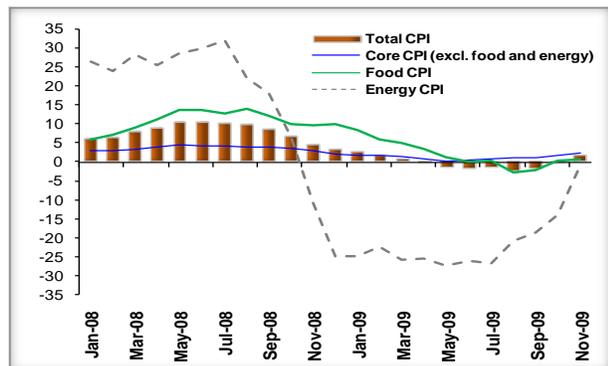
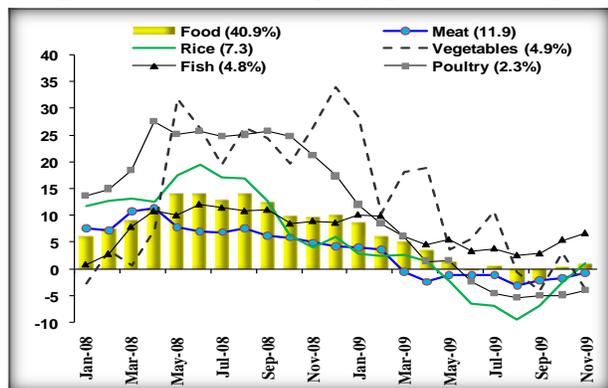


Figure 5. Food Prices (y-o-y percent change)



Source: Lao PDR authorities (MPI) and staff calculations.

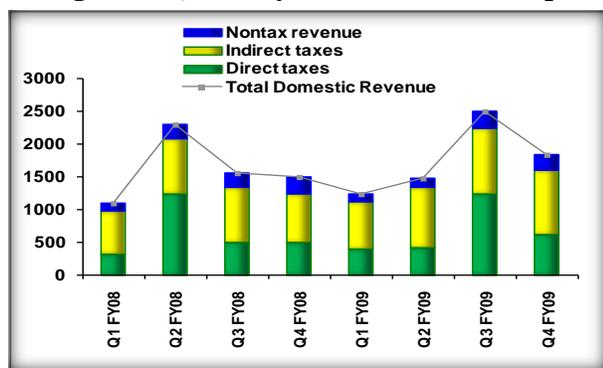
and retail trade, hotels and restaurants. Transport and communication is also projected to experience growth due to the projected increase in foreign investment and market repositioning of some companies including recent mergers and acquisitions, which is expected to generate growth.

After falling to just below zero during the past several months of 2009, the headline inflation (year-on-year) started to rise again to 1.5 percent in November as food and fuel prices recovered (Figure 4). Core inflation excluding food and energy has also climbed gradually during the past months from 0.4 percent in last June to 1.1 percent in September and 2.4 percent in November. The yearly averaged inflation is expected to decline to below 1 percent this year from 7.6 percent in 2008, but should increase slowly over the next year with the recovery of prices for oil and food combined with the recent impetus in public and private spending in the economy.

Prices of rice, fish, and meat also began to rebound last month after remaining at very low levels over the past several months due to improved supply and lower costs as a result of lower fuel and other commodity prices, and recent GOL’s measures to promote domestic food production. Nevertheless, this is the first time in the last few years that food prices have dropped below zero where traditionally it has been fairly high, above 10 percent (Figure 5).

1.2 GOVERNMENT’S REVENUE AND EXPENDITURE

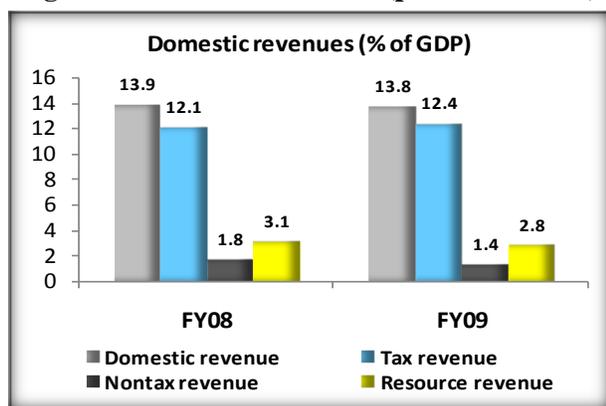
Figure 6. Quarterly Revenues (billion kip)



Source: Lao PDR authorities (MOF) and staff calculations.

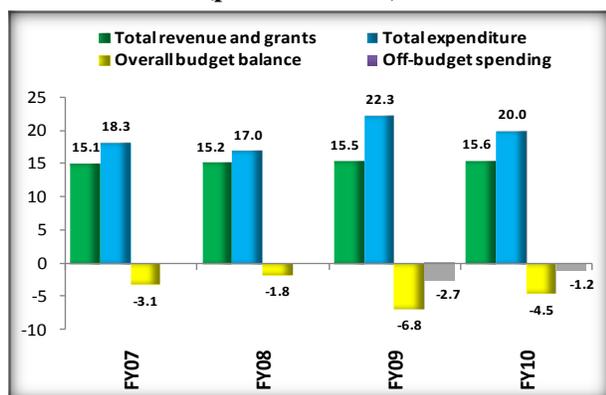
After three years of exceeding budget targets, domestic revenues are estimated to fall short of target in FY2009 by about 8 percent due to a reduction in resource revenues and non-tax revenue. Although the tax collection has improved significantly in the second half of FY2009 (Figure 6) - reaching about 12.4 percent of GDP in FY2009 from 12.1 percent in FY2008 - the overall domestic revenue is estimated to decline slightly to 13.8 percent of GDP in FY2009 compared to 13.9 percent in FY2008 (Figure 7). At the same time, grants have gone up to about 1.7 percent of GDP from 1.3 percent in FY2008.

Figure 7. Domestic Revenues (percent of GDP)



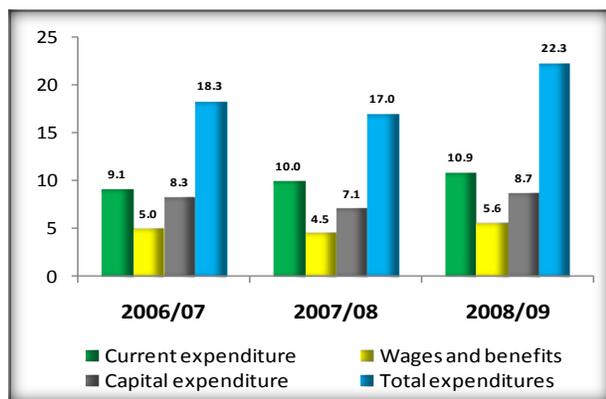
Source: Lao PDR authorities (MOF) and staff calculations

Figure 8. GOL’s Fiscal Performance (percent of GDP)



Source: Lao PDR authorities (MOF) and staff projection (FY10).

Figure 9. Key Government Expenditures (percent of GDP)



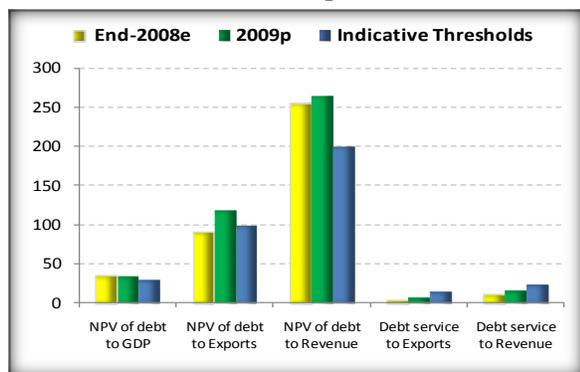
Source: Lao PDR authorities (MOF) and staff calculations.

Pressure from the global crisis combined with commitments to host a series of major public events led to significant expansion of public outlays in 2009. GOL’s expenditure grew rapidly to 22.3 percent of GDP in FY2008/09 from 17 percent in FY2007/08 (Figure 8). A significant increase in the public wage bill before the crisis compounded with recent expansionary expenditure policy (including off-budget spending) has contributed to the rapid growth in public expenditures and fueled the budget deficit to 6.8 percent of GDP in FY2008/09. However, it is projected to narrow in the short to medium term due to the recovery of commodity prices, additional revenues from NT2 operations, the reduction in government outlays following the series of major public events, and the phasing out of off-budget spending through quasi-fiscal activities by end 2009 as announced by the Bank of Lao PDR (BOL).

After the NA approved the increase of wage index in June 2008, public wage and benefits grew significantly to about 5.6 percent of GDP in FY2008/09 from 4.5 percent in FY2007/08. At the same time, capital expenditure and lending grew to 8.7 percent of GDP from 7.1 percent in FY2007/08 due to increased spending on infrastructure (Figure 9). Interestingly, domestically financed expenditure also grew rapidly from 1.6 percent of GDP in FY2007/08 to 3.5 percent in FY2008/09 largely because of quasi-fiscal activities, which accounted for about 2.7 percent of GDP.

Public Debt

Figure 10. Lao PDR: External Public Debt Indicators at End-2008 (percent)



Source: Debt Sustainability Assessment 2009.

While Lao PDR has made progress in reducing its external public debt burden, it still faces a high risk of debt distress because of its large debt stock.³ Total public debt (both domestic and external) was recorded at 55.2 percent of GDP at end 2008. Nevertheless, public debt service remains manageable, as much of the debt is contracted on concessional terms (Figure 10). The NPV of external public and publically guaranteed debt is expected to increase marginally from 34.9 percent of GDP in 2008 to about 35 percent by end-2009, and slightly over 26 percent of GDP in the medium-term due to expected government need to finance equity holding in large investment projects.

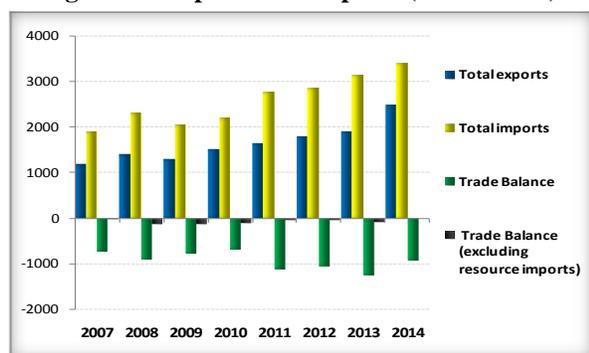
1.3 EXTERNAL BALANCE

Lao Exports and Imports

In dollar terms, Lao's exports and imports are expected to fall this year due to lower commodity prices (especially during the first half of 2009), smaller imports for large infrastructure projects and weaker global demand. Exports are projected to drop by about 7.2 percent in 2009 (to around US\$1,325 million) which brings the share of exports to GDP down from about 26 percent in 2008 to approximately 22 percent in 2009. However, mining sector exports, which make up more than 50 percent of total Lao exports, seemed to recover in the third quarter of

this year, an increase of nearly 10 percent compared to the same quarter of the previous year, due to the recent rebound of copper and gold prices, in addition to increased production. With expected recovery of global and regional demand – Annex 1, Lao exports are projected to rise steadily in the medium term. Hydro power sales, particularly from NT2 and other, are expected to drive overall exports growth from 2010 onwards. The total value of electricity exports is projected to increase twofold from 2009, reaching about US\$340 million in 2010.

Figure 11. Exports and Imports (US\$ million)



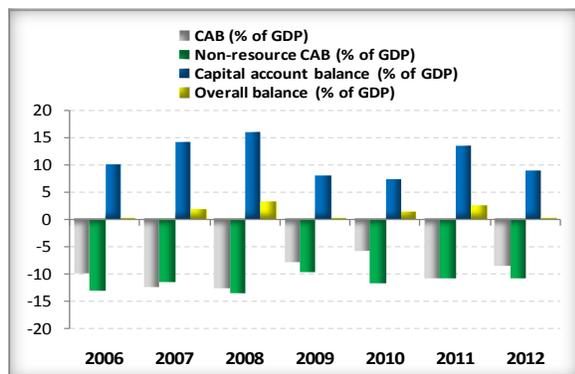
Source: Lao PDR authorities (MOIC) and staff estimates and projections.

Imports have fallen by a faster rate than exports. In 2009, total imports are expected to drop by 9.6 percent compared to last year (or to about US\$ 2,078 million) largely due to reduced prices for capital goods and fuel. However, import volume is likely to increase this year due to recent expansionary expenditure of the GOL and rapid growth in bank credits. With the expected recovery of FDI, particularly in the resource sector, as well as expected higher prices of fuel and other capital goods, Lao imports are projected to climb in the medium term. As a result, the overall trade deficit is likely to increase over coming years.

³ This DSA was prepared jointly by the IMF and World Bank, in consultation with the Asian Development Bank (ADB). The debt data underlying this exercise were provided by the Lao P.D.R. authorities.

Current Account Balance

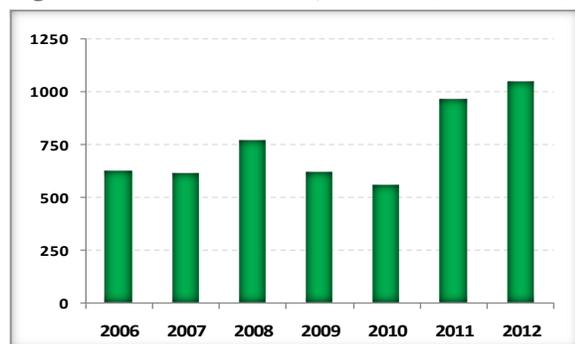
Figure 12. Balance of Payments (percent of GDP), 2006-12



Source: BOL and staff estimates and projections.

The current account deficit is projected to narrow to about 7.9 percent of GDP in 2009 from 12.7 percent in 2008 (Figure 12). This smaller deficit mainly results from lower imports, from 41 percent of GDP in 2008 to about 35 percent this year, coupled with a slower drop in exports. In 2010, the current account deficit is projected to fall further to 6 percent of GDP as export values are expected to expand faster than imports. The operation of large hydro projects, particularly NT2, is expected to accelerate growth of exports earnings. Assuming large resource and non-resource projects⁴ resume and capital imports rebound, the current account deficit is expected to widen over the medium term.

Figure 13. FDI in Lao PDR, 2006-14 (US\$ million)



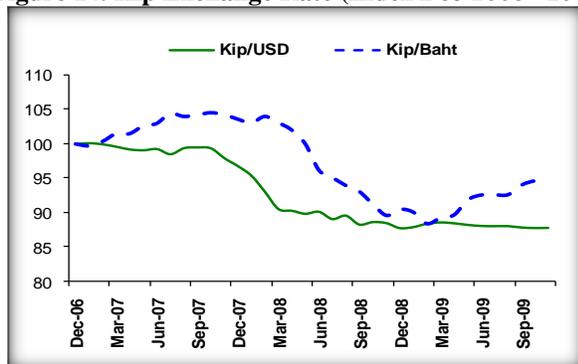
Source: Lao authorities (MPI) and staff estimates and projections.

The capital account balance is projected to record a surplus equivalent to 8.1 percent of GDP in 2009, down from almost 16 percent last year. This is largely due to the reduction in FDI inflows this year to \$614 million from \$771 million in 2008 (Figure 13). As a result, net foreign assets are projected to record a decline of \$175 million between June 2008 and 2009, but still remain at a comfortable level of \$805 million, while official reserves are estimated to decline slightly to around \$600 million (or 5 months of non-resource imports) compared to US\$636 million at the end of 2008.

1.4 MONETARY SECTOR

Exchange Rate

Figure 14. Kip Exchange Rate (Index Dec-2006 =100)

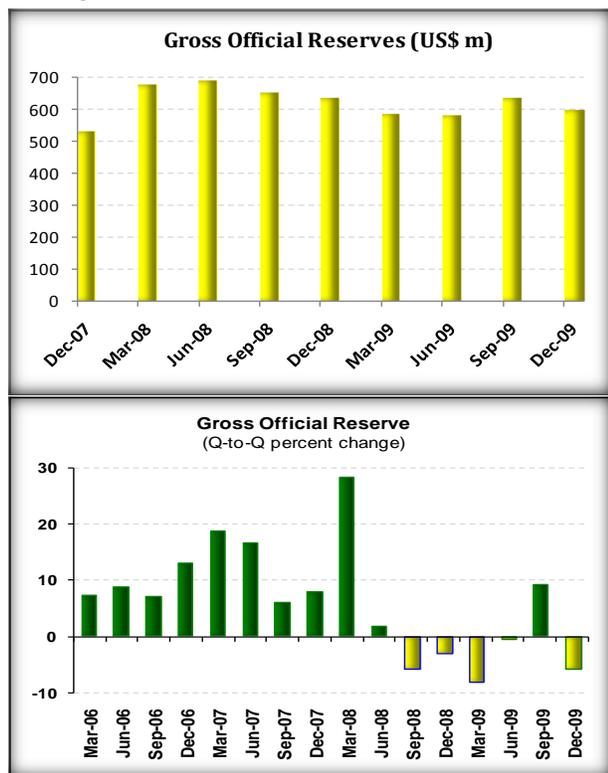


Source: Lao PDR authorities (BOL) and staff calculations.

The kip nominal exchange rate has been relatively stable against the US dollar. This *de facto* peg against the US dollar has led to a weakening of the kip against the Thai baht. The kip has appreciated only slightly by 0.5 percent against the U.S. dollar and depreciated by 3.1 percent against the Thai baht during the last six months (Jun-Nov 2009), see Figure 14. A strong kip has contributed in the past to low inflation, to people's confidence in the national currency and lower dollarization rate of the economy, and to reduce the external debt burden. On the other hand,

⁴ Major resource projects include large mines (such as Sepon, Phubia and other SME mines) and power dams in pipeline, such as Hongsa Lignite coal-power plant, Nam Ngum 3, NT1, Nam Ngiep 1 and Nam Ou hydropower projects. Key non-resource projects refer to those large investment activities in agro-processing industries, plantations, and tourism-entertainment related projects.

Figure 15. Lao PDR: Gross Official Reserves



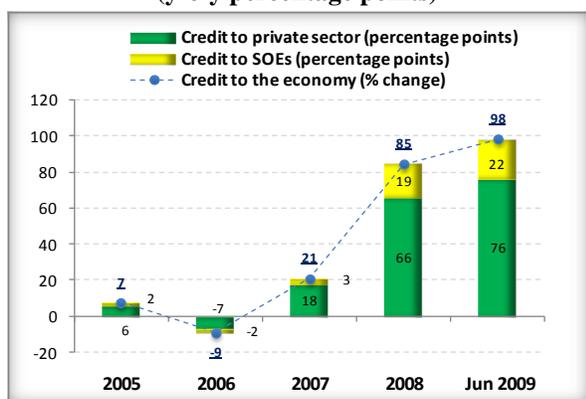
Source: BOL's early estimates and staff projections.

a prolonged strong kip would undermine the competitiveness of export-oriented industries, especially manufacturing (garments, processing industries), agribusinesses, and tourism related industries.

In the midst of an economic slowdown, the exchange rate stability comes at the cost of falling reserves. In the first 6 months of 2009, reserves were recorded at US\$587 million compared to US\$636 million at the end of 2008. It was estimated to increase to about US\$636 million by September and is projected to stay at around US\$600 million by the end of 2009, representing a modest drop of about 6 percent compared to the end of 2008, and covering nearly 5 months of non-resource imports. Despite the falling reserves, this number has been fairly stable during the past three years (Figure 15).

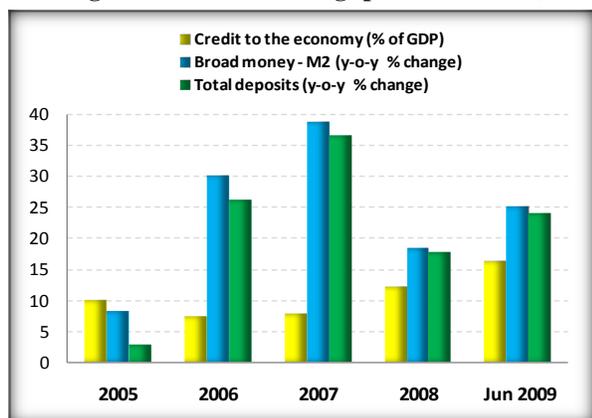
Bank Lending

Figure 16. Contribution to Bank Credit Growth (y-o-y percentage points)



Source: Lao PDR authorities (BOL) and staff projections

Rapid and accelerating credit growth has become a source of concerns for macroeconomic and banking sector stability. Credit growth accelerated from 84 percent a year in 2008 to 98 percent as of end June 2009, of which a significant share (30 percentage points) came from the BOL's direct lending to local governments to finance local public infrastructure projects. How this direct lending will be reimbursed in the future remains to be clarified. This rapid credit growth has translated into a relatively modest 22 percent monetary (M1) growth, and a decline in net foreign assets of 20 percent. Total lending as a percent of GDP amounted to 16.3 percent of GDP in mid-2009. The Government has committed to reining in credit growth by end 2009, as a response to increasing concerns for macroeconomic and banking sector stability.

Figure 17. Bank Lending (percent of GDP)

Source: Lao PDR authorities (BOL) and staff projections

Monetary growth has remained fairly strong as total deposits increased by 24 percent by June and have almost reached BOL target for 2009 while broad money (M2) grew by 25 percent y-o-y by June 2009 (Figure 18). However, it is expected to slow in the second half of the year.

NPLs have reportedly dropped over the past three years. NPLs have fallen from approximately 10 percent at the end of 2006 to about 4.4 percent in May 2009. The percentage of NPLs to total loans in State Owned Commercial Banks (SOCBs) dropped from 13 percent in 2006 to 1.7 percent in 2008. It remains however unclear whether these NPL reductions have originated from improvements in loans portfolios or from the rapid increase in new loans since June 2008.

PART II. STRUCTURAL AND POLICY REFORMS

2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

Public finance management reforms continue to be implemented within the overall umbrella of the Public Finance Management Strengthening Program (PFMSP). Since 2008, PFMSP has covered reforms on both the revenue and expenditure sides as mandated by the Budget Law 2007. After success in two phases of the centralization of the Treasury, Customs, and Tax functions, the third phase covering eight northern provinces has been completed. It is expected that the three functions will be fully centralized by the end of 2009. There has also been progress in the development of a new fiscal transfer system, establishment of greater control of public finance resources, and alignment of policies to the budget. The new Audit Law was promulgated by the national assembly (NA) in July 2007. The new law allows the State Audit Organization (SAO) to directly report to the NA instead of the Executive branch of Government; the SAO has performed the audit of the FY2006/07 and FY2007/08 budget execution reports which were submitted to the NA. Some of the recommendations of the FY2007/08 budget execution report were incorporated into the NA's Resolution in the June 2009 session. In order to fully implement the PFMSP, the Government will require significant capacity enhancement, continued political commitment, and technical assistance, a 3-5 year updated implementation action plan, and a revenue sharing framework. Currently, advisory services are being provided by the World Bank to the Ministry of Finance on the design of the revenue sharing framework and on preparations for the implementation of the Value Added Tax (VAT), which is currently planned for January 2010. Successful VAT introduction will require close coordination between the Tax, Customs, and Treasury Departments.

Key Reform Progress

Some measures have been taken to reduce tax leakages, improve revenue collection and counter the impact of the global economic crisis. Traders have been required to disclose the identities of purchasers and an electronic tax return submission system has been introduced for large tax payers. Initial Government responses to the

financial crisis and the revenue shortfall were to adjust fuel prices to be consistent with the falling world market price; to raise excise tax and taxes on luxury goods such as alcohol, cigarettes, and beer; improve collection of revenue from import tariffs; and limit the number of tax exemptions including those on motor vehicles.

The operationalization of the new Budget Law is progressing, through the implementation of the PFMS FY2008/09 work plan. The GOL has completed the centralization of the Treasury, Customs, and Tax Departments in Savannakhet, Khammuane, Bolikhamxay, Vientiane Capital and Vientiane province, and eight more Northern provinces are expected to be fully centralized in all three functions by the end of 2009. The revenue sharing and distribution framework has been designed and is being finalized while budgetary norms are being prepared. Implementation of new revenue assignments between central and local levels (based on the implementing decree of the Budget Law) started in FY2008/09A multi-donor trust fund was launched in February 2009 to provide financial support to PFMS. A Public Expenditure and Financial Accountability (PEFA) assessment was launched in April 2009 and the assessment report will be finalized by December 2009. The PEFA assessment will establish a baseline for monitoring the performance of Lao PDR PFMS system over time.

Deployment of the revised Chart of Accounts (COA) has started and audit reforms have been progressing. Ministries and equivalent agencies and provinces started to apply the revised COA in FY2008/09 for formulating their budget plans. The capacity development plan for the State Audit Organisation (SAO) was prepared and approved by the SAO President in April 2009. The plan aims at strengthening SAO capacity for performing their external audits more effectively. The audit of the FY2007/08 budget execution report was completed in May and endorsed by the NA in June 2009.

Progress in the introduction of budgetary norms for the education and health sectors has been slow, mostly on account of the lack of clear expenditure assignments between central and local governments in these sectors, the lack of adequate data for base-line information, and the need for changes in the management of the budget planning processes that are essential to implementing such reforms. This issue also relates to effective coordination between MOF, MPI, and PACSA because norms include non-wage and wage expenditures, and also capital-recurrent ones.

Preparation for the implementation of the Value Added Tax (VAT) in January 2010 has been advancing. After postponement of the VAT implementation from 2009 to 2010 due to the global economic crisis, GOL has a VAT team within the Tax Department to work full-time with an international VAT advisor. The Implementation Decree of the VAT Law has been drafted and approved by the Prime Minister recently. Several ministerial instructions, such as on registration and refund, and forms have been prepared to be submitted to MOF minister's approval. Capacity building activities (massive training) for VAT officers, tax-payers, and other stakeholders are being conducted with donor technical assistance. All training, information sharing and awareness building for all stakeholders and the public are critical to the success of VAT implementation.

Implementation of new Customs Law has shown progress. The general Instructions for implementing the Customs Law were prepared and approved by Finance Minister in October 2009 and preparation of the operations manual is near completion. The next step is to further simplify import and export procedures by introducing streamlined import and export and transit processes, including the application of the single administrative document consistent with ASEAN requirements before the deployment of an automated system.

Significant progress has been made in improving the timeliness of civil servants' salary payments and strengthening public sector performance. The GOL piloted an electronic salary payment system (ESPS) in 2008 to replace manual cash payment. So far, salaries of all civil servants at the central level and six provinces have been deposited to their individual bank accounts and can be withdrawn through ATMs. The expansion of ESPS to another three provinces is expected to be completed by the end of this year and the rest by 2010.

Key Priority Sector Spending

Table 1. GOL's four priority sectors expenditures

	2005/06	2006/07	2007/08
<i>Overall Spending</i>	<i>(billions of kip)</i>		
Four sectors	3,279	3,329	3,066
Recurrent	564	649	812
Capital	2,715	2,679	2,254
Agriculture	477	365	471
Infrastructure	1,551	1,561	1,236
Education	1,026	1,173	1,067
Health	226	229	293
	<i>(percent of total expenditure)</i>		
Four sectors	52.4	45.8	39.1
Recurrent	9.0	8.9	10.4
Capital	43.4	36.9	28.8
Agriculture	7.6	5.0	6.0
Infrastructure	24.8	21.5	15.8
Education	16.4	16.1	13.6
Health	3.6	3.2	3.7
	<i>(percent of GDP)</i>		
Four sectors	9.6	8.4	6.6
Recurrent	1.6	1.6	1.8
Capital	7.9	6.7	4.9
Agriculture	1.4	0.9	1.0
Infrastructure	4.5	3.9	2.7
Education	3.0	2.9	2.3
Health	0.7	0.6	0.6
<i>Recurrent Spending</i>	<i>(percent of total expenditure)</i>		
Four sectors	9.0	8.9	10.4
Agriculture	1.0	0.9	1.0
Infrastructure	0.5	0.4	0.5
Education	6.0	6.1	7.0
Health	1.5	1.5	1.9
	<i>(percent of total recurrent expenditure)*</i>		
Four sectors	19.8	19.3	19.1
Agriculture	2.2	1.9	1.9
Infrastructure	1.0	0.9	0.8
Education	13.3	13.1	12.8
Health	3.4	3.3	3.5

Source: Lao authorities (MOF) and staff calculations.

* Note: Total recurrent expenditure includes salaries and benefits, transfers, administrative expenses, and other recurrent spending.

Priority spending has shown a mixed trend. The total expenditure in the GOL's four priority sectors has declined during the last few years due to a reduction in capital spending, while the aggregated recurrent expenditure has increased as a percentage of total spending and GDP (see Table 1).

The recurrent spending of the social sectors (education and health) as a share of the total budget has increased notably in FY2007/08: education about 7 percent, up from 6.1 percent in FY2006/07 and the health sector around 1.9 percent, slightly up from 1.5 percent in FY2006/07. However, recurrent spending on education as a share of total recurrent expenditure declined modestly during the same period from 13.1 percent in FY2006/07 to 12.8 percent in FY2007/08, while in the health sector it climbed from 3.3 percent to 3.5 percent.

The capital expenditure of the four priority sectors has declined during FY2006/07-2007/08 partly due to a decline in donors' contributions as well as reduced public investment (PIP) in infrastructure and construction. The share of donor funding for all public investment programs (PIPs) dropped to 76 percent in FY2007/08 from 85 percent in FY2006/07.

2.2 FINANCIAL SECTOR REFORM

The formal financial sector remains dominated by State Owned Commercial Banks (SOCBs), but signs of competition have been seen recently due to the role that joint-venture and private banks have been playing in the very recent past. The financial system is dominated by banks, with non-bank financial institutions (NBFI) representing only 3% of overall financial sector assets. SOCBs are still dominant with around a 60 percent share of total banking sector assets, but this share is declining. The assets of private and joint venture banks have increased recently as new private banks emerged. In the past year, 5 new commercial banks commenced operations in Lao PDR and brought the total number of banking institutions to 20, consisting of 4 SOCBs, 3 joint-ventures, 1 private and 12 foreign bank branches. Increased competition by recent entries of new private banks has provided an incentive for SOCBs to improve their performance, risk management, governance, and products and services.

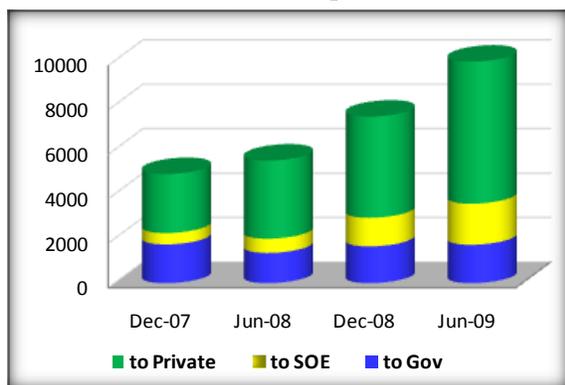
The regulatory framework for the financial sector has improved. Promulgated in 2007, the Commercial Banks' Law helps develop a level playing field for all commercial banks by allowing them to open branches outside Vientiane. The Implementation Decree on the Commercial Bank Law was approved on September 25, 2009. It clarifies a number of issues and further strengthens the overall financial sector legal regime. Under the direction of the BOL, the first Financial Sector Strategy (FSS) was approved by the government in February 2009. The government plans to implement this strategy next year after the completion of each subsector's action plan. The implementation decree of the Secured Transaction Law was submitted for government's consideration in October 2009.

Steps to develop the country's first stock exchange are underway despite a number of challenges. With support from the Korean and Thai Stock Exchanges, the Lao Government plans to open its first stock exchange on October 10, 2010. The Government sees the development of its capital markets as an avenue to fund its socio-economic development plan, and hopes the security market will be able to facilitate long term funding for the business sector. It is expected that several SOEs such as Electricite Du Laos (EDL) and Banque Pour Le Commerce Extérieur Lao (BCEL) will be selected as the pioneers to test the new market. The recently appointed Lao Securities Exchange Commission has been developing the

regulatory and supervisory framework for capital markets. However, the lack of necessary infrastructure to support a vibrant capital market, such as payment and clearance systems, could have a negative impact on the success of the new stock exchange.

The rapid credit growth in 2008 and 2009 may jeopardize the already fragile position of the banking sector. At the end of June 2009, total lending to the overall economy grew by 98 percent year on year (or to 8,242 billion kip from 4,158 billion kip in June 2008 – see Figure 18) and the ratio of private sector credit to GDP also increased to 15 percent from 8 percent in June 2008. The banking sector increased its loan portfolio by about 60 percent and contributed 62 percentage points to the overall credit growth. If the new loans were not carefully assessed for risk, they could result in future quasi-fiscal liabilities. Over the same period, BOL accelerated its policy lending to public infrastructure projects through local Government agencies by 184%, with the objective of boosting the local economy during the global economic turmoil. Most of the government policy lending was targeted to construction projects for the 25th SEA Game and for the celebration of the 450th anniversary of the proclamation of Vientiane as the national capital. Rising concerns over central bank lending have led the Government and BOL to announce the phasing out of BOL quasi-fiscal lending.

Figure 18. Credits to Economy and Government (billion kip)



Source: Bank of Lao PDR

The recent high and accelerating credit growth has raised concern over future nonperforming loans (NPL). The percentage of NPLs to total loans dropped from 10.5% at the end of 2006 to a low of 4.4% in May 2009. However, it is unclear whether these NPL reductions are the result of improvement in loan quality or simply a reflection of the rapid growth in new loans over the last 12 months and NPL write-offs. This concern is heightened due to what is considered the poor risk management capacity of the sector. The possible deterioration of the balance sheets of banks may accelerate further if the global economic crisis does not recover as expected and, eventually, this could affect the profitability of the real sector. In addition to the concern over a possible deterioration in the quality of the loan portfolios of banks, BOL also has a limited ability adequately to assess risk and supervise the banking sector.

2.3 TRADE REFORM

Lao PDR has been gradually integrating into the world economy through the accession to regional and multilateral trade organization such as ASEAN and WTO. The country initially applied to join the WTO in 1997, and has recently made accelerating progress. However, as its integration is still at an early stage, evidence suggests that Lao exports are less affected by the global financial crisis than initially expected. The GOL is implementing a sector-wide approach to trade-related reforms based on the 2006 DTIS/IF Action Matrix⁵, to help address the supply-side constraints that inhibit export competitiveness.

Key Reform Actions Taken

Progress in the WTO accession process appears to be accelerating. The fifth meeting of the Lao WTO Working Party (WP) took place on July 14, 2009, at which the Lao delegation reported the progress on substantial legislative reforms. These include the adoption of the new Law on Livestock Production, Veterinary Law, Law on Plant Protection adopted in 2008, and a new National Food Safety Policy. The Decree on Import-Export Licensing, facilitating the introduction of automatic import licensing procedures, was also adopted. The Decree on Import and Export Management, which unprecedentedly introduces the “national treatment” concept into the Lao legal system, is being revised. At the same time, a draft Decree on Rules-of-Origin is being finalized.

Lao PDR is progressively complying with requirements to reduce tariffs under AFTA Common Effective Preferential Tariff. As of August 2009, all remaining products on the sensitive list were brought into the inclusive list, of which 71 percent of products have a zero tariff. Lao PDR is required to reduce tariffs to zero on all inclusive list products imported from ASEAN countries by the year 2015. Eventually Lao PDR’s accession to the WTO would depend on the agreement with all WP members on goods and services. The GOL has begun to draft elements of the Working Party report, the final version of which will be submitted to the WTO Ministerial Conference or General Council by the WP. The final report will recommend that Laos be admitted as a member. The next Working Party meeting is planned for early 2010.

⁵ The action matrix was formulated based on the recommendations of the Diagnostic Trade Integration Study (DTIS) and is implemented under the National Integrated Framework (IF) Governance Structure.

Important work on trade facilitation is progressing but challenges remain. Following the finalization of the Trade Facilitation Master Plan, a Trade Facilitation Action Plan is currently in the preparation and consultation process and expected to be finalized by the end of 2009. It will identify a strategic agenda for improving trade facilitation with a proposed implementation

structure and clear responsibilities for lead agencies as well as pre-defined performance indicators. Along with the commencement of the deployment of the new customs IT system (ASYCUDA) to modernize and streamline customs systems, a Time Release Study is underway as part of efforts to establish a baseline assessment of trade facilitation costs.

2.4 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 are 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 inflows have increased rapidly, in both resource and non-resource sectors (mainly hydropower, mining, agriculture, processing industries, and tourism). Between 2003 and 2008, actual investments increased from US\$110m to about US\$770m. The main foreign investors are from Thailand, China, Vietnam, Australia, Malaysia, Singapore, South Korea, Taiwan, India, France, the Netherlands, and the United States. The National Social and Economic Development Plan recognized the need to improve the business environment and promote domestic and foreign private investments to foster growth, reduce poverty, and achieve the Millennium Development Goals.

Key Reform Progress

In order to further improve the investment climate in the country, the National Assembly has approved a new unified Investment Promotion Law in July 2009 to replace two existing investment laws. Among other measures, the new law has abolished very lengthy and cumbersome licensing approval procedures for general investment activities, and created a level playing field for both domestic and foreign investors by harmonizing business entry procedures and investment incentives. However, this Law as well as the new Minerals Law (endorsed by the NA in December 2008) has not yet been officially promulgated.

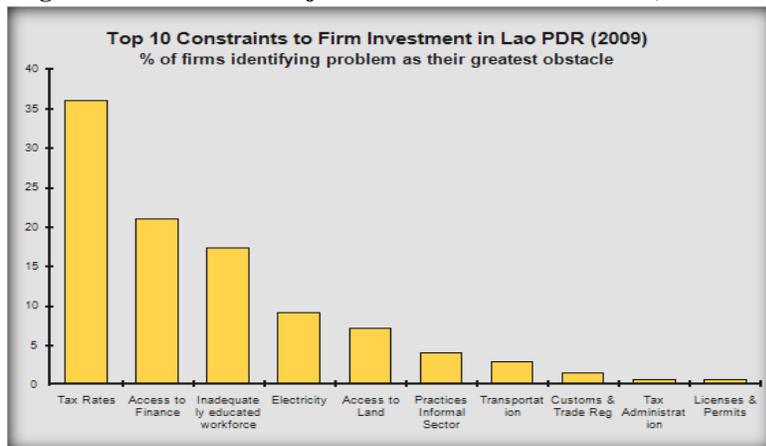
Implementation of the Enterprise Law and the Law on Processing Industry is continuing.

Several important steps have recently been taken by GOL to simplify business entry, such as elimination of a minimum capital requirement for starting a business, introduction of a simplified business registration system in major provinces as part of the Enterprise Law implementation, and abolishment of establishment licenses for general manufacturing firms based on the Law on Processing Industry.

Several mechanisms for public-private dialogue to identify and address business constraints have been established and are operational at both the central and provincial levels, such as the Lao Business Forum, Provincial Public-Private Dialogues, and direct dialogues between LNCCI and various business associations and the GOL. However, the efficiency and effectiveness of these dialogues need to be enhanced further as several issues raised in past dialogues still have not been resolved, such as the tourist arrival fee, investment incentives, procedures for importing assistance goods funded by ODA, and other issues.

Investment Climate Assessment (ICA 2009)

Figure 19. Lao PDR – Major Constraints to Investment (ICA 2009)

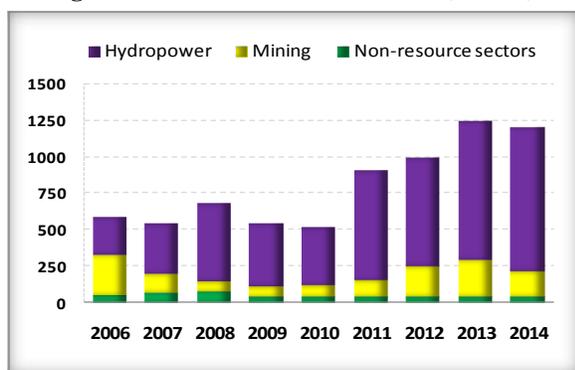


Source: The World Bank (ICA 2009)

The initial findings of new Investment Climate Assessment (ICA 2009) show that the top five binding constraints for private sector in Lao PDR are taxation, followed by access to finance, inadequate skilled labor force, electricity, and access to land (Figure 19). Despite recent achievements made in improving the investment climate in the country, significant constraints to doing business remain and greater coordinated effort by different sectoral agencies is needed to promote investment in non-resource sectors.

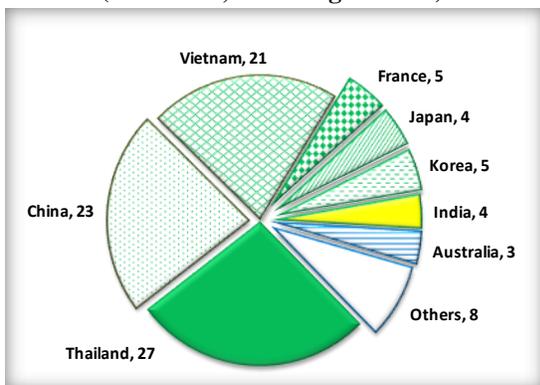
Foreign Direct Investment (FDI)

Figure 20. Actual FDI in Lao PDR (US\$ m)



Source: MPI and staff estimates and projections.

Figure 21. Share of accrual FDI by country (% of total, as of August 2009)



Source: Lao authorities (MPI) and staff calculation.
Note: The accrual FDI is based on approved FDI data from MPI.

FDI inflows to Lao PDR are expected to fall considerably in 2009 due to the impact of the global economic crisis. As discussed above, the nominal FDI value is expected to decline from about \$771 million in 2008 to \$614 million in 2009 (or by about 20 percent) due to recent delays of new hydropower and mining projects, as well as slow growth in the non-resource sectors (Figure 20). Assuming the global economy continues to recover - Annex 1), FDI to Lao PDR is expected to rise considerably in the medium term, as large resource and non-resource projects resume, compounded with the expected recovery of regional and global demand.

The majority of FDI goes to natural resource sectors. Foreign investment in natural resources accounted for more than 80 percent of the total FDI during the past few years although investment in non-resource sectors has also picked up substantially but still at a low scale. Private investment in the banking sector is expected to increase substantially in 2009. Interestingly, while banking sectors in other countries have been severely affected by the global economic crisis, several new private banks have been established in Lao PDR this year (Booyoung, Indo China and ST banks). Major FDI to Lao PDR in recent years comes from the region, mainly from Thailand, China, Vietnam, Australia, India, Japan, and Korea.

PART III. DONOR ASSISTANCE ON REFORMS

Lao PDR is highly dependent on external support, some of which flows into considerable technical assistance. 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 SUMMARY OF DONOR ASSISTANCE TO KEY REFORM AGENDA IN LAO PDR

Public Sector Governance. Governance attracted donor assistance in the areas of public administration reform, decentralization, civil service capacity development, public financial management, and legal and judicial reform. In 2009, the GOL reviewed the implementation of the decree on district restructuring, further instructing the classification of districts into three categories (urban, rural, and rural-poor). It is expected that the restructuring will increase efficiency by rationalizing the number of offices. The Prime Minister's Office (PMO) has instructed the assessment of the One-Door-Service Centre (ODSC) modality carried out under the direction of the Public Administration and Civil Service Authority (PACSA) and supported by the Governance and Public Service Administration Reform Program (GPAR). In relation to fiscal decentralization, the pilot District Development Fund (DDF) supported by UNCDF/UNDP is now operational in 18 districts and 5 provinces (Houaphan, Oudomxay, Xiengkhouang, Saravane and Sekong). The Poverty Reduction Fund (PRF) supported by the Swiss Development Cooperation (SDC) and the World Bank, has completed its seventh cycle of operations and has expanded to 21 districts during 2009. It now operates in 7 provinces. Discussions have begun to develop it into a national program. Efforts to improve feedback from service-users to the government have been made through the Citizen Report Card.

The development of a Personnel Information Management System (PIMS), which is expected to provide a platform for a unified human resource

management process across the country, continues to be supported by GPAR. The national ICT Policy was approved by the Government this year and over a hundred offices are now linked through the government's Intranet; the backbone fiber-optic infrastructure linking most provinces is also completed. The study on pay and compensation of civil servants, lead by PACSA and supported by the World Bank, has been finalized and the report is being prepared. A study on gender in governance supported by UNDP in collaboration with PACSA and the Lao National Commission for the Advancement of Women has also been drafted. In addition, the establishment of a PACSA civil service training centre to complement the work of the National Academy for Politics and Public Administration has been approved by PACSA.

During 2009, the Lao PDR has adopted a Legal Sector Master Plan 2020 outlining a sectoral reform program for the legal and judicial sector. Two studies have started led by the Ministry of Justice and the Lao Bar Association with the support of UNDP: the nation-wide Access to Justice Survey, and a survey on customary rules and practices. Five new laws were approved by the National Assembly in 2009: the Unified Law on Investment Promotion, the Media Law, the Law on the Lao Front for National Construction; the Law on Water supply; and the Law on Fisheries. The PMO issued fourteen decrees, including the Decree on Executive Positions of the Lao Civil Service, the Decree on the National Committee for Business Promotion, the Decree on Associations, and the Decree on the National Committee for Environment. The decree on recruitment and retention of civil servants in remote areas is being revised; the decrees on e-governance, asset declaration, and foundations are currently being drafted. In 2009 the Lao PDR has ratified a number of international treaties: the UN Convention Against Corruption, the International Covenant on Civil and Political Rights, and the Convention on the Rights of People with Disabilities.

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 the legal regulatory framework for banking and microfinance. 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 ongoing efforts to restructure SOCBs, and improve financial infrastructure including establishing a credit information bureau, collateral registries, a payment system, and others. SOE reform outside the banking sector has been supported mainly by WB and JBIC. Substantial progress on this front can only be achieved by adopting a clear SOE reform strategy, which also clearly defines role and responsibilities of relevant agencies.

Trade Development. The trade development agenda is seen by the GOL as the driver of economic growth and poverty alleviation, while regional integration and WTO accession are seen as key motivating factors for reform in such areas as trading rights, customs valuation, rules of origin, subsidies, sanitary and phytosanitary measures (i.e. food safety, animal and plant health), technical barriers to trade (i.e. product standards, labeling, etc), investment measures, and intellectual property. Trade-related assistance is coordinated via the government's National Integrated Framework Governance Structure, with priorities determined according to the DTIS Action Matrix. Several donors have committed to support government's implementation of the Action Matrix by establishing a multi-donor trust fund – the Trade Development Facility – administered by WB, and now at the end of its first year of implementation. Other donors active in trade related assistance include ADB, Australia, EC, Germany, ITC, Japan, SECO, UNCTAD, UNDP, UNIDO, US, and WB.

Private Sector Development. Key donors active in PSD include ADB, EC, Germany, Japan, ILO, India, SNV, UNIDO, World Bank Group (IFC and World Bank) and others. The government is making important progress in simplifying business entry regulations for both domestic and foreign investors through implementation of the Enterprise Law, the Law on Processing Industry, and preparation of the new unified Investment Promotion Law. However, to make Lao PDR a better place for doing business, more concerted efforts will be required to further streamline licensing procedures administered by technical agencies, simplify the investment incentive regime, improve tax administration (especially for SMEs), improve Contract Law and enforcement, improve competition policy, and strengthen commercial dispute resolution.

Tourism Development. Tourism is another area that received substantial donor support. Key donors include ADB, EC, Germany, 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, skills upgrading for service providers, and others.

A description of these and other assistance projects is provided in Annex 2

ANNEX 1 – GLOBAL ECONOMIC OUTLOOK

Some positive changes took place recently in the global economy with a positive sign of initial recovery, especially in EAP region (led by China) including an unexpected increase in durable and capital goods orders in recent months, as well as several positive rallies in the stock markets and revival of commodity prices. However, the global

outlook and the length of the global recession still remain uncertain at this time. This paper bases its country-level projections for Lao PDR's FDI and export demand on IMF (WEO Oct-2009) and the World Bank's projections (EAP Update Nov-2009) for the regional and global economic outlook and commodity prices, presented in Annex Table 1.

Annex Table 1. The Global Economic Outlook In Summary
(percentage change from previous year, unless otherwise specified)

	2007	2008	2009e	2010f	2014f
Global conditions					
World Output	5.2	3	-1.1	3.1	4.5
World trade volume	7.3	3.0	-11.9	2.5	6.4*
Consumer prices					
Advanced Economies 1/	2.2	3.4	0.1	1.1	1.9
United States	2.9	3.8	-0.4	1.7	2.2
Emerging and Developing Economies	6.4	9.3	5.5	4.9	4
Developing Asia	5.4	7.5	3.0	3.4	2.8
Commodity prices (percentage change of USD terms)					
Non-oil commodities	14.1	7.5	-20.3	2.4	0.9*
Agriculture	20.1	27.2	-14.8	-6.1	0.2
Food	25.7	33.9	-17.6	-5.0	0.4
Metals and minerals	6.2	-2.1	-24.9	16.0	-6.5
Copper	5.9	-2.3	-28.1	10.0	-10.0
Oil price	10.7	36.4	-36.6	24.3	2.6*
Interest Rates					
Real six-month LIBOR 2/	2.4	0.9	-0.4	-0.1	2.7*
World real long-term interest rate 3/	2.0	0.4	2.9	2.5	3.4*
Real GDP growth					
World	5.2	3.0	-1.1	3.1	4.4*
Advanced Economies					
United States	2.1	0.4	-2.7	1.5	2.1
Euro Area	2.7	0.7	-4.2	0.3	2.1
Japan	2.3	-0.7	-5.4	1.7	1.8
United Kingdom	2.6	0.7	-4.4	0.9	2.9
Central and Eastern Europe	5.5	3.0	-5.0	1.8	4
Emerging and Developing Economies					
Developing Asia	10.6	7.6	6.2	7.3	8.5
China	13.0	9.0	8.5	9.0	9.5
India	9.4	7.3	5.4	6.4	8.1
Indonesia	6.3	6.1	4.0	4.8	6.3
Thailand	4.9	2.6	-3.5	3.7	6
Africa	6.3	5.2	1.7	4.0	5.3

Source: IMF (WEO, October 2009)

Note:

1/ United States, Euro Area, Japan, United Kingdom, Canada, Korea, Australia, Taiwan Province of China, Sweden, Switzerland, Hong Kong SAR, Czech Republic, Norway, Singapore, Denmark, Israel, New Zealand and Iceland

2/ London interbank offered rate on U.S. dollar deposits minus percent change in U.S. GDP deflator.

3/ GDP-weighted average of 10-year (or nearest maturity) government bond rates for United States, Japan, Germany, France, Italy, United Kingdom, and Canada.

* this figure is the four-year average 2011-14

ANNEX 2 – LIST OF DONOR ASSISTANCE ON REFORM AGENDA

1 – PUBLIC SECTOR GOVERNANCE

Australia/AusAID

- *Asia Regional Trafficking in Persons Project – ARTIP* (A\$21m for Lao PDR, Cambodia, Myanmar, Thailand, Indonesia and Vietnam 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 ASEAN 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.
- *Support to PEMSP Multi-Donor Trust Fund* (A\$2m, 2008-2011). The MDTF will support critical interventions focusing on strengthening the public financial management systems and capacity at central and provincial levels.
- *Poverty Reduction Support Operations - PRSO* (See project description under the World Bank section).

Canada

- *Canada Asia Regional Emerging Infectious Disease Project (CAREID)* (CDN\$15m for Indonesia, Cambodia, Lao PDR, Malaysia, Philippines, Thailand, Timor-Leste and Vietnam, 2005-2011). The project in Southeast Asia and China interlinks components related to public health security on emerging infectious diseases and establishes regional collaboration while strengthening capacity of national public health systems in the region to prevent, detect and respond to emerging threats.
- *Asia Regional Cooperation in Human Development (SEARCH)* (CDN\$9.25m for Indonesia, Cambodia, Lao PDR, Philippines, Thailand, Timor-Leste and Vietnam, 2004-2010). The project develops capacity of selected non-governmental and governmental institutions in the implementation of the Rule of Law and in influencing policy makers on related issues.
- *Support to the Implementation of the Convention on the Elimination of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW)* (CDN\$10.5m for Thailand, Timor-Leste, Vietnam, Indonesia, Cambodia, Lao PDR and Philippines, 2003-2009). The program aims to realize substantive changes at the level of laws and policy.

European Union (EU)

- *Second General Budget Support to Lao PDR (PRSO4-7)* (Euro 13m, 2008-2011). Four-year support to Government's NSEDP implementation and reform agenda under the PRSO with Euro 12m in the form of budget support and Euro 1m for complementary capacity development to education and health. Program coordinated with WB, Australia and Japan.
- *Support to Public Finance Management Strengthening Programme (PFMSP)* (EUR 3m, 2008-2011). Multi-Donor Trust Fund (with funds from EU, Australia, Switzerland, Sweden managed by the WB) to support Ministry of Finance reforms and capacity enhancement.
- *Support to UXO clearance: 5 projects to support the operations of the National Regulatory Authority (NRA) and UXO LAO* (Total EUR 1.4m, 2008-2011). Funds are provided directly to the NRA and UXO LAO as well as through NGOs in order to support UXO clearance operations and capacity building of the national and regional NRA offices.

France

- *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.

Germany (GTZ)

- **Rural Development in Mountainous Areas** (2008-2011; US\$9.7m), RDMA supports the implementation of NSEDP in 10 districts, in 8 by close cooperation with IFAD. Institutional capacity development at National (MPI), provincial (PDPI) and District level for integrated area-based development planning enables GoL to improve its management function in economic development.
- **MRC regional programme 'Sustainable Development of Watershed Areas in the Lower Mekong Basin'** (US\$26.8m, 2002-2013). This programme assists the development of watershed management concepts and supports the local working groups of member states as well as the Secretariat of MRC in its technical, organisational and logistical tasks. In addition it helps the cooperation and coordination efforts of the member states and the Secretariat of MRC.
- **Integrated Experts Programme for Lao PDR** (2009: US\$0.5m): CIM supports provincial Departments of Planning and Investment (DPI) in Champasak and Luang Namtha, the National Geographic Department (NGD), as well as the National Assembly (NA) with the placement of international so-called Integrated Experts who support their organisations mostly with capacity building measures in a complementary approach to the GTZ-RDMA programme.

Japan

- **Project for Capacity Building for Public Investment Program Management** (US\$6m, 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.
- **Local Administration Capacity Building Support to PACSA** (US\$0.6m, JICA: Advisor, 2007-2010). This technical cooperation aims to assist the review of central and local government relationships and to ensure the structural improvement of local administration.

New Zealand/ NZAID

- **English Language Training for Officials** (US\$2.74m, Ongoing since 1995). ELTO is a long standing project that is providing English language training to mid level officials.
- **New Zealand Development Scholarship** (US\$0.83m, ongoing since 2006). NZDS programme provides support to both public and open candidates on postgraduate study in New Zealand.
- **Mekong Institute** (US\$13.9m, ongoing since 1997) MI provides support on human resource development and economic integration in the Greater Mekong Sub-region (GMS) - themes are: tourism, public sector reform, rural development, project management and Regional Research Development and Methodology.

Luxembourg

- **Bolikhaxay Livelihood Improvement and Governance Programme (US\$8.4m, 2009-2012)** improves the rural livelihoods in Bolikhaxay Province based on a client responsive local authority-lead planning and implementation process, on investments in social and productive infrastructure and on the promotion of income generating activities.
- **Lao-Luxembourg Health Sector Support Programme (Luxembourg contribution US\$20.2m, Belgian Contribution US\$3.1m, 2009-2013)** assist the Ministry of Health in implementing and operationalising its long-term Health Sector Strategy 2000-2020, Primary Health Care Strategy and Health Sector Development Plans, emphasizing its eight Priority Programmes, with a view to implement quality health services for reaching a larger share of the population, especially the poorest, those at risk and living in more remote areas.

Singapore

- **Human Resource Capacity Building Programmes** (US\$10.9m, ongoing since 1992). Lao PDR has been an active participant of the Singapore Cooperation Programme (SCP). As of September 2008, more than 5,800 Lao PDR officials have been trained under the SCP in fields such as English language, public administration, IT, trade promotion and hospitality. Singapore has also initiated a series of courses/workshops under the SCP with the aim of assisting the Lao PDR to prepare for the 2009 SEA Games, and expanded our English language training to National Assembly officials and the provinces.
- **Singapore Cooperation Programme** (Ongoing since 1992). More than 57,000 government officials from 169 developing countries have attended the SCP programmes spanning various fields such as public administration, civil aviation, education, environment, urban development, IT, trade facilitation, health and disaster management, port management and law.

Sweden/Sida

- **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)

- **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.
- **Poverty Reduction Fund – PRF** (Total US\$6.22m, 2008-2011.). The support aims to strengthen local capacity in respect of village development by financing small-scale investment and services.
- **Rights-LINK: Rights-Land, Information, Networking and Knowledge in Laos** (Total US\$1.5m, 2008-2012): The project aims to improve stakeholders (government, civil society, private sector, local communities particularly women and ethnic groups) capacity, knowledge, and participation in decision-making on land-related issues so that rural communities can exercise their rights to manage the land they use in a sustainable and equitable manner.

UNDP

- **Governance and Public Administration Reform Programme (GPAR)** (Total approximately US\$20m over 2005-2011. UNDP/UNV: US\$4m, UNCDF: US\$2.6m, SDC: US\$5m, Luxembourg: US\$4m, Sida: US\$2.5m, EU: US\$0.6m). The GPAR programme strengthens the capacity of the Lao Government at both central and local levels in strategic planning, financing, human resource management and monitoring of governance and public administration reforms for more effective, accountable and transparent delivery of public services. It has pilot initiatives in Luang Prabang (delivery of basic services for rural households, primarily in the health and education sector, and pro-poor business development), Xieng Khouang (more effective and participatory services in the agricultural sector and support to financial management); Saravan (support to inclusive and pro-poor planning and budgeting at local levels; effective and transparent implementation of local infrastructure and service delivery; financing and financial management of local public service delivery functions; organizational strengthening at provincial, district and sub-district levels; human resource management and capacity development; Sekong (The project aims to improve people’s access to public services through improved oversight, management and planning capacity at district level, and strengthened capacities of village and Kumban leadership.
- **Support to an Efficient Lao National Assembly – SELNA** (Total US\$ 4.13m. UNDP: US\$ 0.75m, EC: US\$ 1.375m, UNODC: US\$ 0.01m, UNFPA: US\$ 0.05m, UNICEF: US\$ 0.09m, UNIFEM: US\$ 0.1m, 2009-2012) SELNA is a UN Joint Programme involving six UN agencies alongside contributions from the EC and in-kind contributions from the German Government and Singapore Government. It is a comprehensive programme of support to the National Assembly that is focused on further strengthening its legislative, oversight and representational capacity through initiatives targeted for assembly members, the committees, their support staff, and the assembly secretariat.
- **Support to capacity building in the legal sector** (Total US\$5m, 2008-2012. Finland: US\$2.250m, EC: US\$0.625m, France: US\$0.046m, UNDP: US\$1.6m). Support to the Ministry of Justice and stakeholders to establish a national coordination mechanism for the implementation of the Legal Sector Master Plan. Capacity building to enhance the participation of the Lao PDR in the international legal system by developing a comprehensive capacity development for the country to meet the demands of its increasing participation in treaties and in international law generally. Capacity development for the Lao Bar Association, public legal education and legal aid. Mapping exercise of customary law practices in Lao PDR to enable the Government to develop a national strategy on customary law
- **Enhancing Government Partnership with Social Organizations for Poverty reduction** (US\$ 0.4m - UNDP, 2007-2009). - 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.
- **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.
- **Support to the UXO National Regulatory Authority (NRA) and the UXO Lao Programme** (SDC: US\$3.9m, 2006-2009; AusAID: US\$2.1m, Belgium: US\$ 0.5m, Canada: US\$ 1.2m, Denmark: US\$5.5m, Finland: US\$1.6m, Germany: US\$2m, Ireland: US\$1.3m, Italy: US\$.16m, Japan: US\$5.7m, Luxembourg: US\$2.7m, Netherlands: US\$2.9m, NZ: US\$1.7, Norway: US\$2.9m, Poland: US\$.1m, South Korea: US\$.14m, UNDP: US\$2.9m, UK: US\$1.4m, USA: US\$3.2m, 2006-2008). 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.

- **Support for Disaster Risk Management, emergency assistance and recovery in the Lao PDR** (UNDP: US\$1.5m, 2008-2010). Support capacity development of government in disaster risk management and implementation of Flood recovery activities linking to longer term development processes.

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 another \$10 million roughly from potential co-financiers, such as EU, Japan, and Australia -- about US\$20 million for the total operation. 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.
- **Support to Capacity Building for Hydropower and Mine Development** (through the Technical Assistance for Capacity Building in the Hydropower and Mining Sectors, US\$10.45 million, 2010-2013). The objective of the project is to increase human capacity and improves the performance of Government oversight institutions for the two sectors. The project supports capacity building in three main areas: (i) advanced education and professional training systems for human capacity development; (ii) development planning, concession management and enforcement of Government policies and regulations to ensure sustainability of hydropower development; and (iii) improvement of governance, government oversight and enabling environment and promotion of minerals development.

2– REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

ADB

- **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.

Germany (GTZ, DED, KfW)

- **AFP - Improved access to finance for the poor households and micro and small enterprises in rural areas** (2009-2011; US\$8.2m). AFP will be implemented in 2 components: one is capacity development for microfinance services in a systemic approach at national, provincial and village levels by GTZ and DED and a grant of US\$ 4m to GoL by KfW for refinancing.

International Monetary Fund (IMF)

- Annual surveillance reviews (Article IV consultations) and semi-annual macroeconomic assessments (Assessment Letters).
- 2009 General SDR allocation (39.2 million SDR) and Special SDR allocation (2.1 million), in total US\$ 61.95 available to the bank of Lao PDR.
- Technical assistance in government finance statistics, and in customs.
- 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 Japan.

Japan

- **Capacity Building Project for Public Financial Management Strengthening Programme** (US\$2m, JICA: 2009-2011). This project aims to establish a mechanism to improve capacity of the MOF officials in central and local level especially in the area of treasury and accounting by making HRD Strategy, HRD Planning of MOF and conducting of training. This project is conducted in cooperation with Organization and Personnel Department, MOF.

Luxembourg

- **Banking and Finance Training** (EUR 2m, 2009–2010). 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. 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.

UNDP

- **Capacity Development for National Implementation [NIM]**: (USD\$ 2.0m, 2009-2011. UNDP: US\$ 1.5m, funding shortfall USD\$0.5m). The project is aimed at developing the institutional and management capacities of the Implementing Partners of UN/UNDP-supported nationally implemented projects, in key areas ranged from results-based management to financial management, human resources management, procurement and asset management, to international standards. The project is also intended to contribute to harmonization of donor practice on project management for better aid effectiveness and greater national ownership.

The World Bank Group-WBG (WB, IFC)

- **Poverty Reduction Support Operations - PRSO** (See project description in section 1- World Bank PRSO)
- **Financial Management Capacity Building Program – FMCBP** (See project description in section 1– 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: Financial Sector Development**: (US\$0.8m, 2008-2010). IFC'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 continues to assist the GOL in (a) drafting implementing regulations for the new Law on Commercial Banks, and (b) drafting the implementing decree for the Law on Secured Transactions and establishing the secured transactions registry system (c) in partnership with the European Commission's (EC's) SME Development Program to assist the BOL to develop a workplan and to undertake a feasibility study, aiming at creating a conducive environment to share credit information by commercial banks with BOL and between other non-commercial bank credit providers.

3– TRADE REFORM**Australia/AusAID**

- **Support for the Role of Integrated Framework Facilitator** (A\$1.1 million, 2008-2011). 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, EU, UNDP and others) under the Enhanced IF framework.
- **Trade Development Facility (A\$3.05 million, 2008-2011)**. This is a multi-donor trust fund designed to support the implementation of GOL's trade-related reform activities under the DTIS AM. The TDF is managed by WB and co-financed by EU and Australia.

Canada

- **Asia-Pacific Economic Cooperation (APEC) Economic Integration Project (EIP)** (CDN\$9.95m for Indonesia, Philippines, Thailand, Vietnam, Cambodia and Lao PDR, 2003-2010). The purpose of the program is to assist 6 countries in Southeast Asia to comply with WTO obligations and/or WTO accession requirements and to strengthen their capacity to take advantage of their WTO rights.

European Union (EU)

- **The ASEAN-EU Programme of Regional Integration Support II (APRIS II)** aims to further the process of ASEAN integration (Euro 7.8m, 2007-2009). It is mostly directed towards ASEAN Member States and ASEAN collegial bodies responsible for dealing with economic integration issues relating to conformance and standards, customs administration, investment, and legal issues surrounding compliance to various ASEAN agreements. About 80% of the resource is going to the standards & conformance, and customs & trade facilitation areas.
- **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) – Multi-donor trust fund (with funds from EU and Australia, managed by the World Bank) to support the implementation of the DTIS Action Matrix (AM) of Integrated Framework covering Trade Facilitation, SPS-TBT, Export Competitiveness, Capacity Building on Trade Policy, Trade Agreements, and Global Opportunities and Strengthening of National Implementing Unit. The facility will be executed by the MOIC under a supervision of Lao IF Secretariat. In addition, EC carried out two complementary studies in 2007 and 2008 to support this facility: i) Import-export procedure review and ii) Needs assessment to formulate Trade capacity component.

Germany (InWent, DIE)

- InWent: Capacity building for Lao-WTO membership (US\$0.4m, 2006-2008), Training of Lao officials through seminars and workshops in Laos and Germany.
- DIE (US\$ 0.2m): WTO accession study on opportunities for high-value agricultural exports by the German Development Institute (DIE).

Japan

- **Advisor on Investment Promotion to MPI** (US\$0.9m, JICA, 2007-2008/2009-2011). This technical assistance aims to promote smooth investment and provide proper advice on the problems of investment situation in Lao PDR.
- **Project on Support to Trade Promotion** (US\$1.5m, JICA, 2009-2012). This project is a technical cooperation project to Department of Production and Trade Promotion (DPTP), MoIC. The project aims for capacity development of DPTP staff on providing better trade information and promoting effective participation to trade fairs and business matching.

New Zealand/ NZAID

- **Trade and Development** (US\$3.4, ongoing since 2000/01) provides support to GMS countries through phytosanitary capacity building, food safety/quality, metrology capacity building and development of the SME sector in the Mekong region through Mekong Private Sector Development Facility (MPDF).

Singapore

- **Trade related courses** (US\$1.8m, 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\$2.05m, 2004-2009, 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 2009 will be on building up and strengthening Lao supply capacity of organic agriculture products; developing community based tourism and, broadening trainings of councillors.
- **Lao PDR WTO Accession Support** (US\$ 0.37m, 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.
- **Linking Trade Demand and Sustainable Forest Management** (US\$0.2m, 2007-2010, implemented by WWF) The project aims to provide export trade driven to reduce illegal and unsustainable logging in production forests in Laos by (1) motivating changes in forest land use through long term financial incentives provided by trade and selective export market and (2) facilitating the linkage of producers and buyer.

UNDP

- **Enabling more effective Integration of Lao PDR into 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 I)** (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)** (US\$ 8.5m, 2008-12). 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 the EC and Australia. Other donors are also expected to join. The TDF has now completed a first year of implementation.
- **Customs and Trade Facilitation Project** (US\$6m, 2007-2013). The project is 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****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.
- **Establishing a Sustainable Production System for Rattan Products in Cambodia, Laos and Vietnam** (Euro€2.4m; 2009-2011) co-financed and implemented by WWF. To contribute to a more reliable and resource efficient supply chains, modern manufacturing techniques and technologies, easy access to investment capital and enhanced marketing capacity, hence improving competitiveness and better business opportunities - Laos: Bolikhamxay, Vientiane and Sekong provinces.

Germany (GTZ, DED, KfW, CIM)

- **GTZ - Human Resource Development for a Market Economy Program – Phase 2 (HRDME-2)** (August 2007 – July 2011: US\$8.9m) 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.
- **CIM – Integrated Experts Programme for Lao PDR** (2009: US\$0.6m), CIM supports SMEPDO, LNCCI, NUoL (Faculty of Forestry and Faculty of Engineering) and provincial Departments of Planning and Investment (DPI) in Champasak and Luang Namtha by placing international so-called Integrated Experts who support these organisations mostly with capacity building in a complementary approach to the GTZ-HRDME programme.

- **KfW – Vocational School Programme (Phase 1&2)** (US\$ 12.7m) building, expanding, and equipping 6 vocational schools in Northern Laos.
- **DED – Technical Advisors in Sustainable Tourism Development** for the LNTA and for Provincial Tourism Departments in 4 provinces until 2012 (approximate date) (In 2009: US\$ 0.28m); PPP-Programme with 2 Technical Advisors beyond 2012 (in 2009: US\$ 0.2m for TAs and 0.16m for projects).

Japan

- **Lao-Japan Human Resource Cooperation Center (LJC)** (US\$10m, JICA: 2000-2010). 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.
- **ODOP (One District One Product) Pilot Project in Savannakhet and Saravanh Provinces** (US\$2.6m, JICA: 2009-2012). 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.
- **Preparatory Survey on Industrial Zone Development** (US\$3.3m, JICA: 2009-2010) This survey conducts basic plan for industrialization in whole Lao PDR and conceptual plan of industrial development in Vientiane, Savannakhet and Pakse and Feasibility Study of Vientiane Industrial Estate.

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)

- **The Agrobiodiversity Initiative (TABI) in the Lao PDR** (phase II, US\$4.95, 2009-2012) The overall objective of the program is to support the government of the Lao PDR to implement the specific CBD Conference of Parties (CoP) decision on agricultural Biodiversity related to food, income, nutrition, dietary diversity, hunger and poverty at the local and policy levels. The initiative clearly aligns with and support the key elements of the Lao PDR National Socio-Economic Development Plan (NSEDP) 2006-2010, the National Biodiversity Strategy and Action Plan.
- **Lao PDR Extension for Agriculture Project– LEAP** (phase IV, US\$4.7m from 07.2009-06.2012). 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. Project Phase IV will focus on how to better reach the poor, women and ethnic minorities in particular, through more relevant extension messages through its support to the new structures introduced by MAF.
- **Northern Upland Rice Farming System Research Project - NURIFAR**, the continuation of Lao-IRRI project (US\$3.5 m phase 1 from 10.2008 to 09.2012) The overall objective of the programme is to assist male and female pilot farmers (from low- and middle income households) and other stakeholders voluntarily adopt the research recommendations for improved and sustainable rice-based production system in uplands". The project clearly aligns with current government policies in term of improvement of household food security in northern uplands as mentioned in the Lao poverty reduction strategy and Ministry of Agriculture and Forestry.
- **Support to the Reform of the Agriculture and Forestry College - SURAFCO** in Luang Prabang (US\$4.7m, 09.2009-08.2012), the overall objective of the project is to improve skills and management of college for skills-based education and training in upland farming systems through skilled-based curriculum development, capacity building for teaching staff, infrastructure system and building network with private sector. The project is very much aligned with the needs of MAF for agricultural technical education reform as mention in the strategy toward 2020.

Switzerland (SECO)

- **Promotion of Cleaner Industrial Production in Lao PDR** (US\$ 0.72m, 2003-2009). 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.
- **Co-financing the IFC-MPDF Mekong Region Program** (US\$ 4.0m, 2008-2013: The program aims to bring about an improvement in the investment climate; and in firm level competencies through the following program areas (1) Business Enabling Environment; (2) Access To Finance; (3) Access To Infrastructure; (4) Sustainability; and (5) Supply Chain Linkages.

UNDP

- **Poverty Environment Initiative (PEI): Investment in Lao PDR, Minimizing the social and environmental impacts:** (PEF USD\$0.49m, UNDP USD\$0.6m; 2009 – 2011). This project aims to strengthen the capacity of national and provincial authorities to plan and manage investment in a manner that seeks to maximize pro-poor and pro-environmental outcomes. The project works with the Investment Promotion Department in the Ministry of Planning and Investment and provincial authorities to strengthen skills to design, negotiate, plan, monitor and enforce appropriate investment contracts.
- **Poverty Environment Initiative (PEI): Environment and Social Impact Assessment, reducing negative social and environmental impacts of investments in Lao PDR:** (UNDP: USD\$0.3m, funding shortfall USD\$1.2m). This project aims to support the Environment and Social Impact Assessment (ESIA) Department of the Water Resource and Environment Administration (WREA) at the national and provincial level in order to address growing environmental threats and to prevent and minimize negative environmental and social impacts of the rapid development activities in key sectors.
- **Participatory Wetland Management in Attapeu (support to the Lao PDR Water and Wetland Policy):** (UNDP: US\$1.7m). This project aims to strengthen capacities for sustainable use of Lao PDR wetlands. It focuses on strengthening wetland planning approaches at village, sub-village, village cluster and district/provincial levels will be applied in Attapeu Province. To improve communities' livelihoods, the project also supports village funds and training on wetland resources conservation and sustainable use for poor households; marketing and processing of wetlands and non-timber forest products; and income generation opportunities based on improvement of agricultural activities.
- **Mainstreaming biodiversity in Lao PDR's agricultural and land management policies, plans and programmes:** (USD\$0.17m for project formulation). With support from UNDP, FAO and the Global Environment Facility (GEF), a large agrobiodiversity programme of support to MAF is currently being designed. The aim will be to provide farmers with the necessary incentives, capabilities and supporting institutional framework to conserve agro-biodiversity within the farming systems of Lao PDR. The programme is being elaborated together with FAO and the Ministry of Agriculture and Livestock, and will have a total budget of about USD\$7 million. It will be formulated in close consultation with the SDC-funded TABI ("The Agrobiodiversity Initiative").
- **Global Environment Facility Small Grants Programme (GEF-SGP)** (US\$0.7m, 2009-2010). The GEF-SGP provides a critical source of finance in the form of small grants Lao community based organizations, not-for-profit associations, and mass organizations to implement projects that conserve biodiversity, reduce the risks of climate change and persistent organic pollutants, address land degradation and improve the management of international waters. Launched in 1992, GEF SGP is rooted in the belief that global environmental problems can best be addressed if local people are involved and direct community benefits and ownership are generated. SGP Lao PDR focuses on empowering small and rural associations to play a role in finding local solutions to environmental issues. The implementation of this programme in Lao PDR provides an important opportunity to strengthen the capacity of emerging mass organizations, not-for-profit and civil society associations.

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.

The World Bank Group (WB, IFC)

- **Poverty Reduction Support Operations - PRSO** (See project description in section 1- World Bank PRSO).
- **IFC: Private Sector Development Activities.** (US\$0.8m, 2005-2010). Following on from the support provided to draft the Enterprise Law, IFC is continuing its technical assistance to GOL in the areas of enterprise registration and licensing, preparation of a new unified Investment Promotion Law, which was endorsed by the National Assembly in July 2009, and its implementing regulations, as well as enhancement of MPI's capacity with regard to investment generation and facilitation.
- **IFC: Lao Business Forum.** (US\$1.0m, 2005-2010). The Lao Business Forum has proven an effective mechanism for enabling the private sector to raise their concerns to GOL. IFC assists GOL to facilitate the Lao Business Forum by providing a secretariat to support its operations and provided support to revise the Mining Law and prepare the implementing decree for the Law on Tourism. The latest Lao Business Forum (LBF5) was held in February, 2009.

TOURISM**ADB**

- **GMS Sustainable Tourism Development Project** (US\$10m, 2009-2014). The project aims to (i) develop model sustainable tourism development projects protecting the environment and cultural heritage; (ii) establish pro-poor community-based and supply-chain tourism projects; (iii) develop GMS tourism corridors; and (iv) improve human resource capacity of public and private tourism stakeholders. The project covers 9 provinces in Lao PDR.

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 Union (EU)

- **Asia Invest-Marketing Responsible Tourism in Lao PDR** (Euro€0.3m, 2006-2009). Co-financed with SNV. Aims 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.

Germany (GTZ – CIM)

- **CIM – Integrated Experts Programme for Lao PDR** (2007 - 2010: US\$0.43m), CIM supports the Lao National Tourism Administration (LNTA) with the placement of an Integrated Expert, who is supporting LNTA to develop a national tourism strategy with a focus on ecofriendly tourism and to establish international relations in the field of tourism.

Japan

- **Tourism Development in the East-West Corridor Project** (US\$1.5m, JICA: 2008-2011). In cooperation with the Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project aims to encourage tourism development through capacity building in order to contribute sustainable economic development in East-West corridor.

Luxembourg

- **Strengthening of Human Resources in the Hospitality and Tourism Industry in the Lao PDR** (EUR5.5m, 2009 – 2013). 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 developing and operationalize a long-term HRD Strategy and Action plan to meet the current and future employment needs of the sector.

New Zealand/ NZAID

- **Fighting Poverty at the Plain of Jars Project, Xieng Khouang Province** (US\$1.197, 2006-2011) The project focuses on UXO clearance, pro-poor tourism and sustainable resource management in seven target villages. The Lao National Commission of UNESCO is the main implementing body working in collaboration with Lao National Tourism Authority (LNTA), Ministry of Information and Culture and Provincial Tourism Department, UNESCO and MAG.
- **National Tourism Strategy Implementation Support Programme (NTSISP)** The programme aims to facilitate the work of the LNTA in implementation of the National Tourism Strategy through capacity building for LNTA and Provincial Tourism Departments/Offices as well as developing of the Tourism Development Plan for four pilot provinces.

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, 2003-2009). 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 II (LPDP II)** (US\$3.7m, 2008-2011). 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).

ANNEX 3 - ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank	ODA	Official Development Assistance
AFTA	ASEAN Free Trade Area	ODSC	One-Door-Service Centre
APB	Agriculture Promotion Bank	PACSA	Public Administration and Civil Service Authority
ASEAN	Association of Southeast Asian Nations	PEFA	Public Expenditure and Financial Accountability
ATM	Automatic Teller Machine	PFMSP	Public Finance Management Strengthening Program
AusAID	Australian Government's Overseas Aid Program	PIMS	Personnel Information Management System
BCEL	Banque Pour Le Commerce Extérieur Lao	PIP	public investment programs
BOL	Bank of Lao PDR	PMO	Prime Minister Office
COA	Chart of Accounts	PRF	Poverty Reduction Fund
CPI	Consumer Price Index	PSD	Private Sector Development
DDF	District Development Fund	SAO	State Audit Organization
DP	Development Partner	SDC	Swiss Development Cooperation
DTIS	Diagnostic Trade and Integration Study	SME	Small and Medium Enterprise
EAP	East Asia & Pacific	SNV	Netherlands Development Organization
EC	European Commission	SOCBs	State Owned Commercial Banks
EdL	Electricité du Lao	SOE	State-Owned Enterprise
ESPS	Electronic Salary Payment System	SPS	Sanitary and Phyto-Sanitary
EU	European Union	UN	United Nations
FDI	Foreign Direct Investment	UNCDF	UN Capital Development Fund
FM	Financial Management	UNCTAD	UN Conference on Trade and Development
FSS	Financial Sector Strategy	UNDP	UN Development Program
FY	Fiscal Year	UNIDO	UN Industrial Development Organization
GDP	Gross Domestic Product	UNODC	UN Office on Drugs and Crime
GOL	The Government of Lao PDR	VAT	Value Added Tax
GPAP	Governance and Public Service Administration Reform Program	WB	World Bank
ICA	Investment Climate Assessment	WEO	World Economic Outlook
ICT	Information and Communication Technology	WTO	World Trade Organization
IF	Integrated Framework		
IFC	International Finance Corporation		
ILO	International Labor Organisation		
IMF	International Monetary Fund		
LDB	Lao Development Bank		
LNCCI	Lao National Chamber of Commerce and Industry		
LNTA	Lao National Tourism Administration		
MOF	Ministry of Finance		
MOIC	Ministry of Industry and Commerce		
MPI	Ministry of Planning and Investment		
MPI	Ministry of Planning and Investment		
NA	National Assembly		
NBFI	Non-Bank Financial Institution		
NPL	Non-Performing Loan		
NPV	Net Present Value		
NSEDP	National Socio-Economic Development Plan		
NT2	Nam Theun 2 Project		

LAO PDR ECONOMIC MONITOR 2009 END-YEAR UPDATE

The information presented in the Lao Economic Monitor covers economic developments that have occurred in Lao PDR in the last six months (between June–November 2009). It is issued twice a year (in Spring – Mini Update and Autumn – Main Report) in both Lao and English by the World Bank team in Lao PDR. It reports on recent economic performance (Part I), progress in the implementation of the Government’s policy reform agenda (Part II), and donor activities in the relevant reform areas (Part III).

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



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