His Excellency Jim Yong Kim,
President of the World Bank Group

Your Excellency,

The Government of the Lao People’s Democratic Republic (PDR) would like to accord its highest respect and compliments to the World Bank Group for the ongoing assistance for the social-economic development of Lao PDR.

I am writing, on behalf of the Government of the Lao PDR, to request a Development Policy Operation of SDR 28.5 million (US$38.6 million equivalent) to support our program that aims to lower the risks to macroeconomic stability and initiate the transition to green growth that is intended to improve the sustainability and quality of our growth.

Lao PDR has accomplished strong growth in the last two decades accompanied also with significant poverty reduction. This Letter of Development Policy sets out the key actions that our Government is committed to undertake to ensure strong, sustainable and inclusive growth in the future. Our growth has relied on our natural resources and we understand that more sustainable and efficient management of the natural resources is needed to preserve this engine of growth. We are also determined to pursue a green growth trajectory to reduce the impacts of pollution on the health of our population, particularly our children and other vulnerable groups. In addition, we are well aware of the importance of maintaining macroeconomic stability to promote strong, sustainable and inclusive growth. The proposed program is anchored in our 8th National Socio-Economic Development Plan (NSEDP) and our ambitions to increasingly mainstream the Sustainable Development Goals (SDGs) into our development agenda.

Country development goals

Our broader priorities and development objectives are guided by the Vision 2030, the ten-year Socio-Economic Development Strategy 2016-2025 and five year National Socio-Economic Development Plan 2016-2020 approved by the National Assembly in April 2016.

The Vision 2030 aims to transform Lao PDR into a upper-middle income developing country with innovative, green and sustainable economic growth; there is availability of industrial pillars
and a strong basic infrastructuresystem to support industrialization and modernization; the
country systematically follows a socialist market economy; there is social justice, peace and
order; people’s livelihoods are improved and solidarity is promoted; there are improved
development disparities between urban and rural areas; there is improvedhuman development
that ensures all have access to quality social services; people’s rights are protectedunder the
effective rule of law, the administrative system is enhanced by following the 3-builds
directive;there is environmental protection through efficient utilization of the natural resources to
ensuresustainability; there is political stability and strength; the country is actively moving
toward regional andinternational integration.

Furthermore, the overall objective of the 8th NSEDP is to ensure stability, peace and order in the
society; the poverty of thepeople is reduced significantly in all areas; the country is developed
out of LDC status by 2020 throughcontinuous, inclusive, and sustainable growth; there is
effective management and efficient utilization ofnatural resources; development is enhanced
through the national potential and advantages; Lao PDRparticipates in regional and international
integration with ownership.

Recent Economic Developments

Our country has been among the fastest growing economies in the world over the last decade.
Our economy expanded by 7.5-8 percent on average during 2005-2015, significantly
outperforming global and developing country averages at a time when the global economy faced,
and continues to face, numerous headwinds. The growth rate was driven by investment in mining
and power sectors, but we are also seeing increasingly signs of greater diversification and growth
in agriculture, services (trade, tourism, financial sector) and manufacturing.

The growth rate of the economy moderated this year, but at around 6.9 percent it remains robust.
The moderation is mostly due to a slowing regional growth and weak copper and commodity
prices which affected the mining sector and incomes in agriculture and a slowdown in budget
spending as we adjusted our fiscal policy to the new realities. On the other hand, the power
sector continued to expand vigorously with the installed capacity in the power system reaching
6,265 MW and with another 38 dams currently under construction. We also witnessed further
expansion of services, including in trade, communication and financial (banking and insurance)
services. The manufacturing sector also expanded, reflecting our success in attracting reputable
investors in our special economic zones (SEZs). Based on preliminary data from the Lao
Statistics Bureau, the GDP in Fiscal Year (FY) 2015/16 reached kip 108,709 billion (US$ 13,348
million) with GDP per capita reaching US$ 2,027.

On the expenditure side, investment remained high reflecting a strong pipeline of projects in the
power sectors as well as increasing investment in non-resource sectors, including commercial
and real estate. Consumption was also supported by stable growth rates of credit from the
banking sector. Exports increased as the expansion of the power sector and manufacturing
resulted in higher exports of electricity and parts and components, thus offsetting the impact
from the reduction in timber exports following the Government’s firm commitment to deal with
non-regulated logging. Also, agriculture exports increased reflecting recent investment in
commercial projects. At the same time, lower oil prices resulted in lower imports and a
significant improvement in our trade balance.

However, the weak commodity prices created challenges for our fiscal accounts. In the previous
years, we took steps to consolidate the fiscal position and managed to reduce the fiscal deficit to
4.53 percent and 5.52 percent of GDP in FY13/14 and FY14/15, from 6.33 percent in FY12/13.
However, in FY15/16, continued weakness in global copper and oil prices affected our key
revenue sources (royalties and profit tax on copper exports and VAT and excises on oil imports).
For instance, the revenue from Lanexang Mineral Company and Phubia Mining was reduced
by 30-40 percent and 10-20 percent, respectively when comparing to the previous year. The
government took efforts to reduce on the expenditure side, including cutting non-productive
spending; still, the deficit widened to 6.97 percent of GDP and public debt reached 68 percent of
GDP.

Monetary and exchange rate policies continue to be guided by the objective of stability and
growth. The rate of credit growth was 20 percent by September 2016. The value of the kip against
the US dollar remained stable as Bank of Lao PDR (BOL) continues to use the exchange rate as
a nominal anchor.

The financial sector continued to expand with assets reaching 92.90 percent of GDP. At the same
time, it remained stable with non-performing loans at 3.04 percent of total loans, with regulatory
capital to risk weighted assets ratio of 17.74 percent and profitable with return on assets of 0.22
percent. Still, a few banks with weaker capital buffers remain.

Low global food and energy price pressures, stable government spending and moderate growth
rates of credit to the economy resulted in low inflation with annual inflation averaging 1.6
percent in 2016. At the same time, core inflation was 1.1 percent.

**Outlook and macroeconomic policies to support stability and growth**

The outlook for growth remains broadly positive. In light of the increased global uncertainty and
the ongoing rebalancing in key trading partners, we recently lowered the targeted growth rate for
the 8th NSEDP period from 7.5 percent per annum (on average) to 7.2 percent.

We fully appreciate the importance of macroeconomic stability for our development agenda. In
this regard, our fiscal, financial, monetary and exchange rate policies will aim to achieve
sustainable economic growth, low inflation and declining debt levels.

**Table 1. Key targets for 2016-2020.**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Target:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual real GDP growth</td>
<td>7.2%</td>
</tr>
<tr>
<td>Inflation</td>
<td>5%</td>
</tr>
<tr>
<td>Fiscal deficit</td>
<td>4.3% of GDP (on average)</td>
</tr>
<tr>
<td>Public debt</td>
<td>65% of GDP by 2020</td>
</tr>
<tr>
<td>Public external debt</td>
<td>50% of GDP</td>
</tr>
</tbody>
</table>
**Fiscal Policy and public financial management**

Fiscal policy will aim to ensure timely financing of all social obligations of the state, creation of favorable conditions for economic growth and lowering of the public debt (as percent of GDP). We recently (October 2016) revised our medium-term fiscal framework to reflect the lowered targeted growth rates. The framework envisages an increase in the deficit in FY17 to 6.52 percent of GDP (on the account of the start of the construction of one large investment project) and a gradual reduction afterwards to around 2.51 percent of GDP by 2020. This should help us ensure that public debt does not exceed 65 percent of GDP by the end of the NSEDP period (2020). We are striving to reduce the present value of external debt in percent of GDP to around 40 by mid-2020s. While we understand that the proposed adjustment is ambitious, we are confident that the set of policies considered make it credible and realistic.

On the revenue side, we are making changes to our tax policy to support the adjustment. At the start of 2016, we moved from valuation based on reference (and in most cases outdated) prices to valuation based on actual prices for fuel and vehicles. We plan further improvements in this area going forward, including the setting up a prices' dataset linked to our customs operating system (ASYCUDA) to allow our Customs officials to more accurately assess the value of imports. Also, as of August 2016, we eliminated the import duty and tax exemption on imports of fuel and vehicles for most investment projects. We will improve monitoring of the exemptions that remain (including setting up e-meters for fuel consumption) and intend to phase-out all remaining exemptions which are not envisioned in the Investment Law and the existing Concession Agreement. We also amended the Tax Law and increased the excise tax rates for a number of products (alcohol, fuels, vehicles etc.) to be effective as of 2018 and 2019. We also plan to introduce an environment tax in 2018, as part of this Green Growth Development Policy program, and are considering introducing land and property taxes. Our efforts will be guided by the findings of an Integrated Tax Review, covering both tax policy and administration, which we will complete by mid-2018 with support from the World Bank and the IMF. We are also committed to implementation of the key recommendations from the Review by 2020.

We also have an ambitious agenda on tax administration. Recent amendments to the VAT Law are expected to streamline the filing while the adoption of the Implementing Instruction in January 2017 is expected to further provide clarity on enforcement. We expect to complete the restructuring of the Tax Department by 2020 (proposed DPO3 trigger), including the operationalization of key functions such as compliance, risk monitoring, and large taxpayers. In customs, we are introducing post-clearance audits focusing on three critical risks, valuation, classification of products and rule of origin. We are also rolling out the Smart-tax system (cashless transactions at border crossing) to more major border crossing points and making steps to expand the use of Easy-tax (payment of taxes through ATMs and via internet).

At the same time, we understand the need for discipline on the expenditure side. We have been able to reduce our expenditures on the wage bill from above 11.1 percent of GDP in FY12/13 to 8.4 percent of GDP in FY15/16. We limited the intake of new staff in the civil service to 5,000 (gross) over the last few years. We intend to maintain the same quota in 2017. Depending on circumstances, we would be ready to further reduce the intake in later years. Following the
freezing of wages since 2013, we will allow a 6 percent increase in wages of the public administration in 2017. We will consider further wage increases in 2018 and 2019 only if the situation significantly outperforms our current expectations. At the same time, during 2018 we will also audit the civil servants database to remove any potential “ghost employees” and we have initiated a dialogue with the World Bank on measures that could help us in better managing the public service. As a result, by 2020, the wage bill is expected to decline to 7.5 percent of GDP. We will also be upgrading our public procurement function by upgrading the Decree on Public Procurement to a Law on Public Procurement. Further savings are expected from more detailed guidance being currently drafted on the use of public assets (vehicles, fuel, mobile phones etc.) by civil servants. Stronger controls over public investment, including better screening of proposals, ensuring strict adherence to Budget Law and Public Investment Law requirements should result in more effective spending. In case our revenues underperform, we are committed to identifying further savings in order to ensure that the targeted deficit levels are not breached.

At the same time, we recently finalized the Long-Term Public Finance Development Strategy, a blueprint for our reform efforts in public financial management areas. We are reforming the Budget process. The 2015 amendments (to be effective as of January 2017) of the Budget Law further clarified some responsibilities, elevated the role of the Ministry of Finance and the National Assembly and strengthened the requirement for a credible medium-term macro-fiscal framework underpinning the budget process and for public debt reporting and analysis. We are also changing the fiscal year which will allow for better coordination with the National Assembly session schedules.

We also expect the promulgation of the Public Debt Law during 2017 and are taking steps to establish a public debt management function. We are currently restructuring the External Finance Department of the Ministry of Finance into an External Finance and Public Debt Department which will bring together all debt management functions. We are also discussing potential World Bank support in this area, including the drafting of a medium-term debt strategy and improving capacity for debt sustainability analysis. As part of the efforts to improve public debt management, we will introduce explicit debt ceilings and adopt a borrowing plan which will cover the entire public sector and all debt instruments and will be consistent with lowering the public debt to 65 percent of GDP by 2020. We expect that by 2020, at latest, we will be able to provide regular (bi-annual) public debt reports providing detailed information on key debt and risk indicators. Addition specific policies to improve debt management include:

- All borrowing will be processed through a one-stop service at the Ministry of Finance, which means that the Ministry of Finance will coordinate with relevant authorities to record all projects which plan to have a medium-long term borrowing in order to report to the government to consider approving. This is stipulated in Article 68 of the State Budget Law;
- We will limit external borrowing for the non-self-financing projects (non-commercial projects) to up to US$ 400 million per annum (around 3.5 percent of 2017 GDP). Furthermore, all new borrowing should be with maturity that shall not be less than 20 years, and with grace period more than 2 years and an interest rate that does not exceed 2.5 percent per annum;
- Commercial (self-financing) projects would need to be carefully scrutinized before requesting the Government’s approval;

Financial sector policies

We are committed to strengthening the resilience and effectiveness of the banking sector to ensure that our financial sector remains healthy and profitable. We have made management and governance changes in some State-owned Banks (SOBs) and given the mandate to BOL to work on the restructuring of SOBs. As a result, we recently established a high-level committee which prepared options for restructuring of two SOBs. To improve transparency, SOBs (except Policy Bank) are requested to start publishing quarterly financial statement on their web-sites (currently, only one SOBs publishes reports). The Bank of Lao PDR has also advanced discussions with private banks that currently do not meet the capital requirements on steps needed to bring these banks above the regulatory minimum.

We are also improving the regulatory framework for the operation of commercial banks and upgrading the capacity of BOL to effectively enforce the regulation. We recently amended regulation on bank establishment to enhance bank licensing criteria as well as regulation on bank credit in foreign currency, requiring banks to have adequate risk management framework for their foreign currency lending in order to mitigate currency risk and to comply with the 2014 Law on the Supervision of Foreign Exchange.

The regulation on Capital Adequacy is currently being amended and we are well advanced in drafting on-site and off-site supervision manuals (with assistance from IMF) and revising the deposit insurance framework. The program in the years ahead is equally ambitious. We plan to adopt our first Payment System Law, amend Bank of Lao PDR’s Law and Commercial Banks Law, which will bring Lao PDR’s regulatory framework in line with good international practice.

For moving the supervisory regime from Compliance Based Supervision to Risk Based Supervision, the working committee has been assigned in order to shift forward the Basel II and some parts of Basel III implementation, and Basel Core Principles for Effective Banking Supervision within 2016-2020.

Monetary and exchange rate policies

Monetary and exchange rate policies will continue to be focused on stability. We are targeting growth rates of monetary aggregates of below 20 percent year-over-year, in line with the expected growth rates and inflation developments as well as gradual deepening of the financial sector. We are aware of the need to improve the functioning of the monetary transmission mechanism. Still, given significant levels of dollarization and dominance of cash based transactions, BOL has introduced caps on lending and deposit rates.

Our exchange rate policy will balance price stability and competitiveness of the private sector but also avoid disruptions to economic flows. We are aware that greater flexibility in the exchange rate could, on balance, lead in this direction and also help protect foreign exchange reserves and are committed to steps in this direction over the medium term. Still, decisions in this
area would also take into account the pass-through of the exchange rate developments over inflation, the impact over producers that rely on imported inputs as well as the foreign currency liabilities (both in the public sector as well as the banking sector) with only limited hedges.

The Green Growth program

Building the foundation for green growth planning and monitoring

Lao PDR's consolidation of a green growth pathway began with the incorporation of green growth principles at strategic planning and monitoring levels. In April 2016, the National Assembly adopted the 8th NSEDP (2016-2020), which establishes concrete environmental protection and sustainable natural resources management outcomes and outputs, and lays the foundations for a transition to a clean, resource-efficient, and resilient growth. To further advance in this transition, the Prime Minister has established the Green Growth National Steering Committee (GGNSC) to guide green growth planning, implementation, monitoring and reporting. The Deputy Prime Minister/Minister of Finance chairs the GGNSC, the MPI is its Secretariat, and DOP of MPI coordinate all GGNSC members, including representatives from MONRE, MAF, MEM, MOIC, and MPWT, among several ministries. The GGNSC will also be responsible for ensuring that the progress and lessons learned are monitored and transparently reported, and inform subsequent NSEDPs and longer term plans, including the 9th NSEDP (2021-2025). In addition, the government will design a “Green Growth Strategy” and will establish a “Green Growth Development Center” with a mandate to operationalize the strategy by incorporating the priorities defined by it in key planning and budgeting processes.

Strengthening country instruments for cleaner and resilient green growth financing

Our fiscal policy reforms will provide macroeconomic sustainability, as discussed above, but will also enable Lao PDR’s transition towards green and resilient growth. The GOL has taken preliminary steps to strengthen green fiscal policies. We are in the process of strengthening the Environment Protection Fund (EPF), one of Lao PDR’s key financing vehicles for environmental protection and rehabilitation. To this end, we have established an inter-ministerial governance mechanism that will strengthen EPF’s management and operations. We have also taken steps to increase EPF’s transparency by requiring that all income sources be deposited and debited through the National Treasury System, that EPF’s assets be recorded in the National Registry, and specifying the eligible revenue sources. To move forward with this agenda, we will adopt additional reforms, including expanding the revenue base of environmental taxes and ensuring that EPF’s resources are aligned with the country’s environmental management framework.

Shifting towards decision-making informed by priorities for environmental protection and climate resilience

Lao PDR is fully committed to mainstreaming green growth principles across key economic sectors, particularly through tools such as policy strategic environmental assessment (SEA) that use analytical work and public participation to strengthen the design and implementation of public policies. While the 2012 Environmental Protection Law introduced SEAs into Lao PDR’s legal framework, we recognize that additional steps were needed to ensure the effective use of SEAs. For this reason, in December 2016, the PM issued Decree No. 445/PMO, granting the
Ministry of Natural Resources and Environment (MONRE) the mandate to collaborate with all relevant sectors to conduct an SEA. Furthermore, MONRE adopted in February 2017 a Ministerial Instruction requiring SEAs to incorporate environmental and social sustainability considerations in the formulation of all policies and strategies. These reforms will be complemented with additional decisions defining concrete mechanisms to engage the public and to disclose key information during the SEA process.

We also recognize the need to better integrate environmental and social considerations in investment projects. Our Law on Environmental Protection introduced Environmental and Social Impact Assessment (ESIA) as a tool to identify, prevent, and mitigate the potential impacts of investment projects. After conducting a thorough review of Lao DPR’s and other countries’ experiences, we are in the process of developing an ESIA regulation that will incorporate international best practices in every stage of the ESIA process, including screening, scoping, public participation, information disclosure, assessment requirements, and criteria for approval of ESIA reports. To further increase accountability, transparency, and opportunities for improvement, we will establish a database and public information platform through which interested parties will be able to obtain relevant information on ESIAs submitted for government approval and on the government’s response.

Lao PDR’s active engagement in international climate change negotiations is evidenced by the submission of our Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change (UNFCCC) and our ratification of the Paris Agreement in September 2016. We have adopted ambitious and fair mitigation goals spanning several sectors. However, our Contribution also emphasizes that we will increase resilience of key economic sectors and natural resources to climate change and its impacts, as part of our climate change adaptation efforts. To this end, the MPI approved in February 2017 a decision to establish a public investment project (PIP) review process that takes into account climate and disaster risk considerations to select a project’s location and its engineering design. As a next step, we will focus on the transport sector, identified as a priority in our NDC because of its fundamental contributions to Lao DPR’s economy and its high vulnerability to climate hazards. In particular, we will adopt road maintenance procedures that specifically aim to enhance resilience to climate change and reduce risks from natural disasters, such as the identification of vulnerable roads and improved design standards. This process will be later enhanced by establishing detailed protocols to share hydro meteorological data through an information platform develop by MONRE and use it to inform PIPs.

Shifting towards Integrated and Sustainable Water Resources Management and Uses

Water is arguably one of the most valuable natural resources driving Lao PDR’s economic growth. Managing water resources more efficiently and sustainably is evidently needed to address the diverse economic activities, ecosystems, and social groups that depend on them, particularly because water demand will continue to grow while climate change will alter the hydrological regime. In response to this challenge, in 2015 MONRE’s Department of Water Resources formulated the National Water Resource Strategy to 2025 through a participatory process engaging concerned sectors at both central and local levels. The strategy constitutes a true paradigm shift for Lao PDR because it is informed by an integrated water resource management (IWEM) approach that will help overcome institutional constraints for the usage
and exchange of data and information among different agencies and stakeholders, formulate river basin management plans and issue water use certificates to define their rights and responsibilities of water users. Under our novel basin-centered approach, ecosystems will be recognized as an important water user. This approach is also aligned with our ongoing efforts to draft a revised Water Resources Management Law, which will provide the legal backbone to strengthen an integrated management of water resources. In addition, MONRE will adopt a ministerial decision establishing Guidelines for Water Resource Assessment in river basins to analyze water users (ecological flows, hydropower, irrigation, domestic water supply, and recreational use) and evaluate water quality using standard methods. Also, MONRE will formalize a ministerial decision with the Guidelines for River Basin Planning that will define institutional responsibilities, budgets, and milestones, among other key elements.

**Improving forest resources management**

Lao PDR’s forests resources contributed meaningfully to our rapid economic growth and were one of our main exports, reaching a value of US$ 1.67 billion in 2014. However, in the absence of an adequate regulatory and oversight framework, logging became a threat to our forests and the communities and biodiversity that depend on them. Infrastructure development in forested areas further aggravated this challenge. Protecting and restoring Lao PDR’s forest ecosystems is a priority, as recognized in our NDC, which includes relevant actions that will contribute to both climate change mitigation and adaptation. To tackle this urgent issue, the Government temporarily stopped wood trade. However, our aim is to use forest resources as a cornerstone of green, resilient and inclusive growth. Through Prime Minister Order No. 15, the Government defined parameters to regulate timber exploitation in infrastructure development areas, enhance forest area management and planning, and bolster enforcement. Additionally, we have adopted four regulations with provisions to intensify our fight against illegal logging and export, emphasize wood-processing and good manufacturing practice for the timber supply chain, and reform the National Wood Processing Industry Association and Lao Furniture Association to augment the value-added produced in Lao PDR.

Our next policy actions in this area include the development of a regulation instituting a timber legality assurance system that will introduce a definition of legality for forest products and a methodology for “legality acquisition findings” and “non-detrimental findings” that meet international standards. Building on these reforms, we will then establish, through regulations, an effective and transparent third-party Sustainable Forest Management certification procedure for Production Forest Areas that includes group certification. These reforms are also aligned with our ongoing efforts to draft a revised Forest Law, which will provide the legal backbone to strengthen controls over salvage logging, implement the forest certification scheme through third-parties and trained certified inspectors. Also, to ensure the inclusiveness of our reform agenda in the forestry sector, we will regulate logging in infrastructure areas by adopting a regulatory system based on the principles of good forest governance, rule of law, participatory management, tenure and benefits with communities. As part of our commitment to increase transparency in natural resource management, we will present a Report to the National Assembly showing progress on the control of logging in infrastructure areas and on the pilot third-party forest certification scheme.
We are also committed to take advantage of non-extractive uses of our forest resources as part of our green growth pathway. In particular, we envision the development of nature-based tourism as an economic activity that can enhance communities' livelihoods and generate incentives for biodiversity conservation. Realizing this vision calls for transformational reforms in our institutional set up, particularly to entrust specialized agencies with the responsibility of managing key ecosystems, as has been done in countries across the globe.

To begin this new era of natural resource management, we have adopted a decree turning the Nakai Nam watershed area into a national protected area, with higher conservation standing and under the responsibility of the Ministry of Agriculture and Forestry (MAF), in which nature-based tourism will be the predominant vocation and local communities will have clearly delineated roles and rights. We are now preparing to establish a new department or authority with the mandate to conserve national parks and wildlife. The organization and activities of this new authority will reflect international best practices on areas such as effective and centralized authority, delegated accountability, standardized and collaborative management, benefit sharing, and community-private ecotourism. These reforms will be complemented with the guidelines that the Director of Forest Resources Management DFRM/MAF will issue to provide technical guidance on field activity implementation in key areas, such as the organizational structure and responsibilities for national protected areas and wildlife management, and measurement criteria to assess national protected area and wildlife management effectiveness and conservation status.

Leveraging green growth policies to control non-point source pollution

Reducing pollution is a priority element of our green growth pathway. Pollution affects Lao PDR's population through multiple channels, including by causing premature deaths and increased illnesses, loss of income, and decreased productivity. The impacts are particularly dramatic among the poor and other vulnerable groups, including young children, women, and the elderly. The impacts of pollution on children can have lifelong consequences and rob them of opportunities for personal advancement. Agrochemicals are a pollution source of particular concern to Lao PDR, both because of their effects on human health and ecosystems, and because their unregulated use has economic consequences and reduces our competitiveness, as illustrated by recent bans on our agricultural exports. Our country does not produce any pesticides, which means that they are introduced from neighboring countries, often without adequate control.

Lao PDR is determined to address this source of environmental health risks and promote cleaner production, as demonstrated by the National Assembly's adoption of a national Law on Chemicals establishing clear provisions regarding management, monitoring, and inspection of chemicals. The Assembly also approved a national Law on Plant Protection that constitutes the legal backbone for phytosanitary management, including concrete provisions on pest management. Building on these legislative achievements, MAF is currently developing procedures for pesticide registration and licensing, along with the sanctions that will be applied to those that fail to comply with them, both of which will be included in a ministerial decision to be issued soon. In addition, MAF is elaborating ministerial decisions on manufacturing, processing, import, distribution, and use of pesticides, as well as on inspection and disclosure of registered, prohibited and banned pesticides.
Lao PDR is also taking resolute actions to confront other types of pollution that pose severe threats to our population, including air pollution, exposure to lead and arsenic, and inadequate water supply, sanitation, and hygiene. Air pollution, including in outdoor environments and within households, caused an estimated 6,820 deaths in 2015, while limited water supply, sanitation and hygiene was directly associated with 2,347 deaths more. Together, air and water pollution caused almost 35 million days of illness that same year. Lead is poisoning our children and poses the risk of causing multiple and long lasting impacts, including learning disabilities, and mental and behavioral disorders that would limit children’s opportunities to contribute to our nation’s green growth when they grow up. In 2015, lead exposure caused a loss of 330,000 IQ points among children and 4.3 million days of illness among adults.

We have undertaken several actions to tackle these urgent challenges, which will also contribute to SDGs No. 3 “Good Health and Well-Being” and No. 6 “Clean Water and Sanitation” and to the Lao INDC. Through MONRE, the Government has issued a ministerial decision establishing air quality standards, water quality standards, and vehicle emissions standards, including threshold parameters for air pollutants, chemical, and toxic substances in surface and underground water, and maximum concentration of lead in air and water. These instruments include an annual air quality standard for fine particulate matter (PM2.5) of 0.010 mg/m³, as recommended in the World Health Organization’s Air Quality Guideline, based on the negative effects of air pollution on human health. We also adopted a one-year lead air quality standard of 0.15 µg/m³, based on scientific evidence indicating that lead can harm children even at very low exposure levels.

As part of our next steps, MONRE will issue a ministerial decision to regulate standard methods for sampling and analysis of air and water quality data, which is essential to monitor compliance with the recently established pollution standards. We will center our efforts to tackle pollution in the geographic areas where environmental health risks are higher, and to that end, MONRE will issue a ministerial decision defining identification criteria of Priority Pollution Watch Sites (PPWS) and establishing public disclosure mechanisms to share the results of PPWS monitoring with potentially affected communities and other stakeholders. Also, to reduce exposure to lead poisoning, MONRE will issue regulations phasing out manufacturing, import, sale and use of lead-containing paints and children’s products coated with lead-containing paints.

Sincerely yours,

[Signature]

Somdy Douangdy
Deputy Prime Minister
Minister of Finance
of the Lao People's Democratic Republic