Introduction

The period covered by this report corresponds with that addressed by the Government of Lao PDR’s 7th National Socioeconomic Development Plan (NSEDP). The NSEDP is a multisectoral programme for the country’s development and the priorities of the Programme of Action for the Least Developed Countries for the Decade 2011-2020 were mainstreamed into the design of the NSEDP. It has recently been subject to a mid-term review and this report benefits from the findings of this review. It also benefits from analysis of progress in achieving the Millennium Development Goals (MDGs).

Progress and achievements under the Programme of Action for the Least Developed Countries are as follow:

Productive capacity

Infrastructure: Roads have been the principal focus in transport development, with developing links between national roads and those of neighbouring countries along the economic corridors of the Greater Mekong sub-region a priority. There has also been significant investment in district and rural roads, aimed mainly at improving access to market and services. Marine cargo transportation also increased and here has been strong development of air transportation services, with the number of domestic and international flights and passenger numbers and cargo volumes increased. Railways are seen as a priority with the intention of closing the remaining infrastructure gaps, mainly at the Lao-Thai border.

Energy: Nationally, more than 82% of households now have access to electricity. This high level of progress arises mainly because generation capacity has increased sharply as a result of major investments in hydropower, bringing installed capacity to 4,249 MW. Construction in progress of additional hydropower facilities will further raise production capacity to 17,263 MW, with most intended for export to Thailand, Vietnam, China and Cambodia. In addition, there is solar energy provision (with nearly 15,000 households supplied with solar energy) and further potential for development.

Science, technology and innovation: Budgetary funds for research focus on efficiency and biomass use in stoves and production of organic fertilizer. A Law on Intellectual Property Rights will shortly be approved and a Science and Technology Development Strategy 2013-2020 and visions to 2030 are under development, together with a draft Law on Science and Technology.

Private sector development: Firms’ profits and business confidence are rising, although there is a need to boost competitiveness, further improve access to finance and strengthen readiness for
the greater openness as Laos has become a full member of WTO and will be joining the ASEAN Economic Community by 2015. Boosting investments in training alongside the currently robust overall firm-level investment is also a priority, as are measures to prevent a shift of activities to the informal sector. This is being augmented by actions on the overall business environment, with impetus again being given by WTO membership and the AEC. Examples include streamlining business registration procedures and enactment of the Law on Investment Promotion. In addition, there is improved access to finance for SMEs through a fund established by the Lao Development Bank.

**Agriculture, food security and rural development**

Poverty rates have declined steadily, falling from 46% in 1992/3 to 27.6% in 2007/8, 20.5% in 2012/13 which, together with a steady reduction in the poverty gap and poverty severity, meaning the country is on track to achieving the MDG target. Poverty has declined across all population groups over the 15-year period, with efforts now to be strengthened in rural areas and other parts of the country which are particularly disadvantaged.

Policies for rural development and associated development of the non-resource sector are showing results, with policy targeting commercialisation through producer groups and extension advice provided by Agro forestry Technical Centres. This is also aimed at boosting prospects for those who gain least from these trends, particularly in the northern and southern regions.

Despite natural disasters, the global financial crisis, sharp price fluctuations and the rising oil price, agriculture has seen 3% growth annually in recent years, while rice production (at an average of 3.3 million tonnes per annum) meets domestic demand (at 300-350 Kg/person/year). There have also been increases in fruit and vegetable production, while the area under commercial plantation has grown. Livestock production has also expanded, benefitting from the use of new feeding methods and wider vaccination, together with an increase in animal numbers, notably in cows, buffaloes and pigs. Commercial agriculture is also creating new livelihood opportunities.

**Trade**

Improvements in the balance of payments continue to be driven by favourable developments in the resource sector and, from a deficit of over 21% of GDP in 2011, the current account is projected to improve in the long-term. The resource current account is forecast to move into surplus in 2016 with the maturation of mining and hydropower projects, while the non-resource current account deficit is expected to improve after 2018, principally due to the tightening of domestic policies. Private capital inflows in the form of FDI are expected to remain high for the next few years as large new projects get underway and this should help boost reserves above the current import coverage levels.

The global growth outlook is still sluggish, but spillovers for Lao PDR appear small given the country’s limited integration with global markets, continued growth in the main trading partners
(Thailand and China), and also because most hydropower contracts are long-term. The channel of future contagion from slower global growth would be through lower gold and copper export prices, as has recently been the case through falls in copper prices and their knock-on effects on budgetary revenues. Nonetheless, there is cause for optimism given that current resource sector investments are expected to lead to a boost in exports (mainly of hydroelectricity) after 2016.

There has been marked progress in international and regional economic integration, mainly through accession to the WTO in 2013, which has already led to revisions to related laws and the regulatory regime. Trade integration will be further strengthened by the Asian Economic Community, with increased competition following the phased mandatory reduction of tariffs under the Free Trade Agreement (which forms part of the AEC).

Trade development overall has been guided by the National Export Strategy and the Diagnostic Trade Integration Study. This has been further underpinned, as noted, by major investments in the transport sector (particularly in road development), supported by national and international regulatory frameworks and encouragement of private sector delivery of transport-related services. Transit facilitation is recognized as a key factor for Lao PDR as a landlocked country in order to make border crossing easier, cheaper and faster. This is being supported through the roll-out of the ASYCUDA\(^1\) automated customs system and the ASEAN Single Window\(^2\).

**Commodities**

Over the last two years, the mining sector grew by 16%, based on copper, gold ore, lignite, anthracite and gypsum. Exceptionally high copper and gold prices underpinned growth in 2012, but prices have fallen back in 2013 and hence this stimulus has been lessened. The medium-term prospects for mining are nonetheless still favourable owing to recent expansion in the area mined.

**Human and social development**

Education and training: There has been good progress towards universal primary education and the 98% enrolment rate target for both girls and boys has nearly been achieved, although improving efficiency in the education system remains a priority. This will be particularly aimed further improvements in survival rate to grade 5, which moved from 48% in 1992 to 70% in 2012 and will give particular attention to rural areas without road access, children in the poorest quintile, and in children of mothers with no education. The transition rate from primary to secondary education has steadily increased, with the secondary gross enrolment rate increased from just above 20% in the early 1990s to 46% in 2012 (65% for lower secondary).

Population and primary health: the population of Lao PDR is small compared to that of neighbouring countries (less than 7 million), while 60% is aged below 25 years. Compared to Vietnam, Thailand and Cambodia, Lao PDR has the most youthful population. A large part of

---

\(^1\) http://www.asycuda.org/

the population (about 73%) lives in small rural villages, with some 42% of the urban population living in small towns ranging from 2,000 to 20,000 people. The rate of growth of the urban population suggests that there is substantial rural-urban migration.\(^3\)

Health service coverage has been expanded, especially in rural areas. Currently, there are 5 national hospitals, 16 provincial hospitals, 130 district hospitals, 3 specific treatment centres, and 894 health centres. Over 5,000 villages are equipped with medicine-boxes, with training given to village health volunteers on how to prescribe medicines. There are now 4 rounds of immunization per year at villages, schools and hospitals, combined with campaigns to encourage use of the ‘3 cleans’ principle.

There has been significant decline in the infant and under-five mortality rates and the under-five mortality rate MDG target will be achieved, providing the current rate of reduction continues. This has been achieved mainly because of the increasing number of children that now have access to high-impact child survival interventions, such as immunization and oral rehydration therapy. The maternal mortality rate has declined considerably (out of every 1,000 live births, about four women die during pregnancy, delivery, or within two months of childbirth), with this attributable to the increased proportion of births assisted by trained health personnel. The percentage of pregnant women who received antenatal care by health personnel also improved from 35% in 2006 to 54% in 2011-2012.

There is significant progress in contraceptive use, though further actions will be needed on the adolescent birth rate. HIV/AIDS prevalence remains low, while recent years have seen steep declines in malaria mortality and incidence, with incidence decreasing to 30% of 2000 levels such that the country has almost achieved its MDG target. Tuberculosis incidence, prevalence and mortality rates also show a steady decline, with both the detection and cure rates surpassing 2015 targets.

Youth development: The country’s demography presents a challenge in ensuring the availability of decent work employment opportunities, especially for young people. With the proportion of the working-age population expected to rise from 57% in 2005 to some 62% by 2020, Lao PDR is expected to have the highest labour force participation rate in ASEAN by 2020. Creating jobs will be challenging given that young people will be predominantly from rural areas, often with limited education or skills. Efforts continue to develop labour skills at provincial level in the 156 Labour Skills Development Centres.

Shelter: Average household size is nearly 6 people and, nationally, the average housing area is 44 sq.m (68 sq.m in Vientiane), with a high level of house ownership by both urban households (90%) and rural households (98%). The policy of the Ministry of Public Works and Transport is to: (i) encourage, through regulation, construction of hygienic and stable shelter appropriate to local conditions; (ii) integrate international best practice in construction; (iii) promote the production and use of local construction materials; and (iv) manage and control construction through regulations on the survey, design and construction of dwellings and other buildings in compliance with safety, aesthetic, convenience and resistant standards.

\(^3\) Estimates show population growth in Vientiane of nearly 5% per annum and over 4% per annum in smaller towns, far in excess of Lao PDR’s overall population growth rate of 2.2% in 2010.
Water and sanitation: There is steadily increased access to safe drinking water, with 83% of the population now having access to clean water, with actions being taken to accelerate this in order to achieve the 2015 target. Both urban and rural areas have made progress, although an urban-rural gap remains. The coverage of improved sanitation has increased three-fold from the 1990s and, if trends continue, the MDG target of 60% of households will be achieved. Urban sanitation coverage has progressed rapidly and a high coverage of 88% has been achieved, although renewed efforts are needed on rural coverage.

Gender equality and empowerment of women: Gender parity has steadily improved in all levels of education and the country is on track to achieve parity between boys and girls in primary education. Other levels of education also show progress, with actions aimed at children from the poorest quintile and amongst those whose mothers have no education. Initiative are also being taken on literacy rates to improve levels of female illiteracy, which are already showing improvements given higher female school enrolment rates in recent years. The share of women in wage employment in the non-agricultural sectors has increased from around 20% in 1990 to 34% by 2010, while Lao PDR has amongst the highest proportion of women in national parliament in the region.

Social protection: Social security coverage is mainly through two social security schemes, together with a community-based health insurance scheme and a number of health equity funds. The Social Security Organization is a contributory scheme for employees in both private and state-owned enterprises with 10 of more employees. It is currently implemented in four provinces and will soon be expanded into others. The State Authority for Social Security is a contributory scheme for civil servants.

Multiple crises and other emerging challenges

Economic shocks: There are moves to increase the current reserve coverage (around 2 months of imports) as a way of dealing with shocks, while rapid credit expansion is under review in order to ensure that it stimulates exports rather than leading to imports and to prevent threats to banking sector soundness. There is also agreement that any revenue over performance or under spending, together with a higher share of mining revenue should be saved. The vehicle for this will be a State Accumulation Fund to be managed by the Ministry of Finance, with the Fund intended to be used in the event of natural disasters or if the need for counter-cyclical policies arises.

Climate change and environmental sustainability: Climate-change related policy documents and legal instruments have been developed under the UN Framework Convention on Climate Change. They include the First National Communication on Climate Change (2000); the Lao National Programme of Action to Climate Change Impacts (NAPA, 2009); and the Second National Communication (2013). In addition, the government also recently developed two strategy documents— the National Strategy on Climate Change (2010) and the National Action

---

4 Contingencies covered by the two schemes are similar: health; pensions; maternity; family allowance and sickness, as well as housing allowances for contributors and their families.
Plan on Climate Change (NAPCC, 2013). These have encouraged integration of climate considerations into national laws and policies, including new laws on agriculture, water resources, and land use policy, and many sector strategies.

Among actions to date, efforts are being made to improve climate change forecasting and scenario development. A variety of community-based adaptation technologies have been introduced, including resilient crop varieties and species, diversified farming systems, better water management, soil improvement, off-farm income-generation, and improved facilities for domestic water supply. Emphasis on climate change mitigation is gaining ground in order to reverse the country’s shift from a net sink to a net producer of greenhouse gas emissions over the past decade. Reduction in forest cover remains a concern, although the rate of deforestation has slowed. This is likely to have additional benefits in preserving the country’s rich biodiversity with the coverage of National Biodiversity Conservation Areas and the areas under provincial and district protection enabling this.

Disaster risk reduction: In 2012 the National Disaster Management Office, which serves as secretariat for disaster response coordination, completed the draft National Disaster Management Plan. A National Risk Profile and Hazard Risk Assessment and Vulnerability Mapping, along with provincial-level risk profiles for high risk provinces have also been prepared. Efforts have continued to strengthen coordination and, in 2013, the first Inter-Agency Contingency Plan for disaster response was finalised. This revitalized sector cluster groups for shelter, water and sanitation, food security, nutrition, health, early recovery, communications and education to help coordinate response activities. In 2011, the Department of Natural Disaster Management and Climate Change was established under the new Ministry for Natural Resources and Environment. As part of the restructuring, the government also decreed that the National Disaster Management Office should move to the ministry, with the aim of consolidating climate change and disaster management in a single ministry.

Mobilizing financial resources for development and capacity-building

Domestic resource mobilization: Macroeconomic policies remain sound, with the fiscal deficit declining to the pre-global financial crisis average due to expenditure restraint, buoyant mining and hydropower revenues, and VAT revenues exceeding the budget target (following expansion in the number of registered taxpayers). The fiscal deficit is projected at 2.5% of GDP in FYs 2012 and 2013 as a result of higher revenue collection and reduction in off-budget capital spending. The fiscal stance is seen as broadly appropriate but, for the medium term, the government’s domestic revenue goal of 16–17% of GDP would require an additional tax effort of 1% of GDP, which is achievable if the current strong revenue momentum is maintained.

Official development assistance: Within a total commitment of over US$1 billion, the Asian Development Bank, the Government of Japan, and the World Bank account for approximately 50% of ODA commitments. Over the FY 2010/11, total financial disbursements amounted to approximately US$ 630 million from a total of 32 development partners. Of the disbursements, the highest recipients were the Ministry of Public Transportation (23%), the Ministry of Health
External debt: There has been a marked down of the risk of debt distress from high to moderate risk as a result of strong performance of the economy, improvements in institutional capacity and fiscal consolidation. This was augmented by the government’s commitment to reduce public external debt to below international standard by 2015, coupled with tight macroeconomic policies to ensure that inflation converges to key trading-partner levels to avoid nominal exchange rate depreciation. In addition, debt service is relatively low due to its highly concessional nature. The authorities have put a ceiling on new debt commitments for non self-financing expenditures equal to 25% of revenues, while borrowing for commercial projects would only be considered if the internal rate of return exceeds 9.5%. Overall ceilings on borrowing will also be established once the draft Law on Public Debt is enacted.

Foreign direct investment: Foreign direct investment has increased sharply, mainly for hydropower, thereby providing coverage for about 70% of the 2011 current account deficit. In addition, there has been investment in mining and processing factories for aluminium, as well as mining and processing of gold, copper and other minerals. There has also been extensive investment in agriculture, mainly in plantations. Investment in services includes hotels, golf courses, shopping malls, apartments, resorts, conference venues, sports centres and telecommunications systems. The Investment Promotion Department, under the Ministry of Planning and Investment, administers the foreign investment system and reviews investment applications in accordance to the 2009 Investment Promotion Law. Activities comprise the promotion of investment opportunities through the development of ‘calling lists’, offering incentives, screening investment proposals, collecting investment data and monitoring investment practices in order to improve the quality of investments.

Remittances: Most Lao migrant workers go to Thailand, with estimates of 250-300,000 Lao migrant workers in Thailand, of whom only 30% are registered. The median remittance over the previous two years was 26,000 Baht, (slightly more than Baht 1,000 per month). However, given that the median migrant family’s monthly income before the migration was 1,750 Baht (nearly US$60/month), an additional 1,000 Baht represents a significant increase in family income. Although they earned less than men, women remitted higher sums, while most remittances are spent on daily needs and only 7% was used for investment (mainly in agriculture).

**Good governance at all levels**

Recognizing the need to better coordinate actions in State building, the strategic plan on governance outlines four priorities for 2011-2012: public service improvement, rule of law, people’s participation and public financial management.

In the legal sector, a national framework for implementation of the Legal Sector Master Plan has been established and a number of international treaties ratified and legislation enacted. These include ratification of the Convention against Torture and Other Cruel, Inhuman and Degrading Treatment or Punishment, thereby making Lao PDR a party to seven out of nine international
human rights instruments. Legislation to strengthen anti-corruption and crime prevention has also been enacted and there have been organizational improvements in justice departments in provinces and districts.

People’s participation: Recent years have seen improvements in the enabling environment for civil society (including subordinate legislation to provide the legal framework for civil society organizations) and, to date, more than 100 non-profit associations have been registered. The National Assembly has also played a significant role and, in 2012, it passed laws on extradition and on law making (with the latter providing for more transparent procedures and institutionalising public consultation for law making). Further, it has implemented measures to promote citizens’ interaction with the National Assembly, including hotlines during sessions, a public petitions mechanism, constituency visits by parliamentarians and committees, a website, and a newsletter.

Executive: Launched in 2012, pilot implementation of Sam Sang (also known as the ‘3 Builds’ initiative) is the centrepiece of efforts to improve delivery of public services. Although still evolving, it will define the distribution of roles and functions between the central and the sub-national administration. Complementary to Sam Sang, there are consultations on, and a review of, the laws on government and local administration. Decrees on the organization and operation of ministries and other State organizations have been promulgated, accompanied by laws and regulations on civil service management, a code of conduct for civil servants, and regulations for the establishment of municipalities.

### Challenges and the way forward

GDP growth of 8% was achieved in 2012 despite monetary and fiscal tightening, global uncertainty, and natural disasters in Lao PDR and the main trading partner, Thailand. Activity was buoyed by mining and hydropower investments and by construction, while expansion in the services sector was indicative of resilient domestic demand. In parallel, reforms under the umbrella of WTO accession and the ASEAN Free Trade Agreement are paving the way for an improved business climate that will enhance the competitiveness of the non-resource sector.

Improvements in poverty, child and maternal mortality, as well as higher levels of gender equality, have led to better human development outcomes. Future actions will however need to address sharp variations in human development and poverty across country, as well as pockets of poverty (both urban and rural) which arise due to interlinked factors, including geography, ethnicity, livelihoods, farm productivity, ownership of land and livestock, transport, infrastructure, access to markets and credit, migration patterns and urbanization. The legacy of the Vietnam War has also contributed, with one-in-six rural villages affected by unexploded ordinance (UXO), with strong efforts being made on UXO clearance. Renewed efforts are also needed to boost human development through overcoming low productivity in agriculture, stimulating domestic job creation and encouraging labour movement out of agriculture into higher productivity and higher wage jobs.

---

5 ‘Building the Province as a strategic unit, building the District as a strengthening unit, and building the District as a development unit.'
This will, in turn, needed to be underpinned by diversification of the economy to promote more equitable and inclusive growth, such that the large rural population can obtain gains. As elsewhere, micro, small and medium-sized enterprises are expected to play a key role and accordingly, actions are required to ensure the availability of entrepreneurial and technical skills, financing, and an appropriate regulatory environment. This will need to be backed by tailored interventions for the poorest groups, including measures to increase their access to resources and markets, prevent child malnutrition, protect against health shocks, and provide education and skills training, alongside on-going efforts to improve access and infrastructure. And while, climate change is increasingly being mainstreamed into national development actions, particularly in the seven target sectors (agriculture, forestry, water resources, public health, infrastructure and urban transportation, and public finance), further efforts to implement policy and strategy priorities are essential.

There has been considerable success in mobilizing FDI. This is substantially for the resources sector (principally for hydropower and mining) and has had major impacts on budgetary revenues and exports. ODA is also substantial. Debt management and debt sustainability have improved significantly and have contributed to the country’s reclassification from high to moderate debt risk. But monitoring of credit expansion and a build-up of reserves to provide a buffer against shocks will be essential if the economic gains are not to be prejudiced.

Much has been achieved in improving governance particularly at the sub-national level, with the division of responsibilities between the national and sub-national administration in the process of being defined. In parallel, building the capacity of the National Assembly is a priority so that it can better review draft laws, scrutinize the budget and monitor the implementation of legislation.

In conclusion, in order to achieve the national ultimate goal of graduating from LDC status by 2020, the Lao PDR has set out the following overall targets:
(1). Strive to maintain economic growth in a stable and progressive manner at more than 8% per year. (2). Continue to improve the development and capacity building to achieve MDGs by focusing on poverty reduction and social development, especially in education and health, agriculture development through the promotion of food security and nutrition with an objective to reduce child and maternal mortality and child malnutrition, preparation for full integration with the ASEAN Community by 2015, develop a diverse economic foundation to help country graduate from LDCs by 2020. (3) Ensure sustainable development by integrating economic development with socio-cultural development and environment protection to the nation’s advantage. (4). Ensure political stability, fairness, and order in the society; maintain public security; and support regional and international integration, create enabling environment for mobilizing development resources to ensure a quality and inclusive growth as well as ensuring the attainment of MDGs towards LDC graduation.

Furthermore, it is reaffirm that the Government of the Lao PDR will continue its commitment in implementing the IPOA by continue mainstreaming into the 8th 5 years National Socio-Economic Development Plan (2016-2020). To effectively implement the Government ultimate goal, it is required a continuing and strong supports and commitments by development partners.