

Government Report

On the Government's Implementation

Of

2009-2010 National Socio-Economic Development Plan and Formulation of 2010-2011 National Socio-Economic Development Plan and Budgetary Plan

Presented at

The Ninth Ordinary Session of the Sixth Legislature of the National Assembly

By H.E. Bouasone Bouphavanh, Prime Minister of the Lao PDR

(Vientiane Capital, 14 June 2010)

- Honorable Secretary General of the Lao PRP, President of the Lao PDR,
- Honorable President of the National Assembly,
- Honorable Leaders of the Party and State,
- Honorable Deputies of the National Assembly,
- Distinguished Guests and Members of the Diplomatic Corps,

In compliance with Article 70, Chapter VII of the Constitution of the Lao PDR and Article 7, Chapter II of the Law on the Government of the Lao PDR, I would like to present, on behalf of the Government, the report on the implementation of the national socio-economic development and budgetary plan for the first semester of 2009-2010, and the targeted tasks set for execution in the second half of this year. Thereafter, allow me to take the liberty to introduce the draft of the 2010-2011 National Socio-Economic Development Plan and Budgetary Plan for consideration of the Ninth Ordinary Session of the Sixth Legislature of the National Assembly as follows:

I. Situation on the implementation of the 2009-2010 National Socio-Economic Development Plan and Budgetary Plan.

a. Overall situation:

- The implementation of the 2009-2010 National Socio-Economic Development Plan and the Budgetary Plan has proceeded in mixed circumstances different from the previous fiscal years namely:

- The past financial and economic crisis spreading worldwide has had an impact on fallen revenue and profit of entrepreneurs-businessmen (especially large-scale units) as well as the decline in income tax and State-owned dividend.
- At the same time, the shaky rebound of the world economy has confined the increase of our nation's major export commodities; the number of tourist arrivals has also dropped due to the political turmoil that occurred in the neighboring country serving as a transit point to enter our country; moreover, the volatility of world oil prices and major currencies trading has affected our country's monetary stability to a certain extent.
- **For our country,** the overall situation has been favorable to people's livelihood and national development as well as foreign investment; but there remain some difficulties due to a series of natural disasters striking southern and central provinces and causing enormous casualties; in addition, we have had to exert every strength and effort for the preparation and organization of the 25th SEAGAMES as well as the construction of basic resettlement facilities for a number of our fellow countrymen returning home.

b. Achievements gained.

- In light of the above-mentioned environment, the Government as well as the Party Committee and local administration nationwide have uphold the spirit of ownership in leading-overseeing the implementation of policies and identified programs and projects which can be illustrated as follows:
 - 1) Exploiting overall strength to maintain stability and social tranquility while creating favorable conditions and building confidence for people's livelihood as well as for manufacturing-trading and investment of both local and foreign entrepreneurs.
 - 2) Implementing vigorously policies and actions to boost sustained economic growth with expectation that at the end of the current fiscal years, the GDP would increase at 7,8 % ; here, the agriculture-forestry sector foresees an increase of 3,2 % (covering 29 % of the GDP), 17 % in industry (25 % of GDP), 6,7 % in services (39,2 % of GDP) with an average GDP per capita of 8, 67 million kip or approximately USD 986/ per person.
- In parallel with the implementation of growth stimulus package, the Government has diligently and swiftly addressed the damages arising from Ketsana Typhoon in southern and central provinces through the utilization of 111 billion kip emergency reserve fund while mobilizing the donation and assistance from the whole society nationwide amounting more than 2 billion and 612 million kip, 116.579 USD, 71.240 Thai Bath, and in-kind contribution worth more than 774 million kip. Furthermore, we have also received aid from friendly countries, international organizations and NGOs worth more than 1 billion kip, 659.605 USD, 1 million Thai Bath and in-kind contribution of more than 1.789 million kip. In

addition, the World Bank has agreed to provide an aid worth 13 million USD for the rehabilitation of socio-economic infrastructure and people's livelihood.

On behalf of the Government, I would like to take this opportunity to express our sincere appreciation to the people from all walks of life, local and foreign entrepreneurs, diplomatic corps and friendly countries, international organizations for their timely donation and assistance.

3) The Government has paid a diligent attention to implementing financial-monetary policy as illustrated hereunder:

3.1. The implementation of budgetary plan during the first semester of 2009-2010

On the revenue side:

The total budget revenue capitalization for the first semester 2009-2010 has reached 5.315,68 billion kip equal to 49, 90 % of the fiscal plan in which the central government's revenue contribution amounted to 4.519,60 billion kip equal to 50,75 % of the fiscal plan whereas the local revenue contribution stood at 796,08 billion kip equal to 45,54 % of the fiscal plan.

- The local revenue collection has reached 3.963,05 billion kip equal to 48,83 % of the fiscal plan.

On the expenditure side:

The budget expenditure for the first semester has reached 5,494,11 billion kip equal to 44,06 % of the annual plan.

Balance of payment:

The total balance of payment has reached 991,61 billion kip equal to 54,56 % of the annual plan. Judging from the result of the implementation of the budgetary plan during the first semester, it is expected that the implementation of the 2009-2010 budgetary plan will be able to reach the target endorsed by the National Assembly.

3.2 In parallel with the effort exerted in implementing the said budgetary plan, the Government has paid due attention to monetary control in particular in containing the inflation rate from overheating with a growing trend from - 1,1 % in October 2009 up to 4,89 % in March 2010. Such an increase is due to both subjective and objective causes namely the volume of money in circulation has increased 14,8 % if compared with 09/2009 (the plan allows an increase of less than 10 %), major expenditures on addressing the impact posed by Ketsana Typhoon and SEAGAMES, credit disbursement to stimulate economy and the hike in oil prices, gold, food, luxury goods such as: alcohol-tobacco and others.

- The value of the kip during the first semester has appreciated +0,66 % against the US dollar and depreciated - 4,80 % against the Thai Bath. But overall, the national currency (kip) remains stable and fluctuate within the established range of +- less than 5 %. At the same time, although the foreign reserve as of 03/2010 has dropped 1,8 % if compared with 09/2009, it can secure the import of more than 6 months.

4) The export has increased 8,48 % if compared with the same period of last year, amounting to 580 million kip equal to 55,5 % of the annual plan. The import has reached 526 million USD equal to 50,4 % of the annual plan with a decline of 23,7 % if compared with the same period of last year.

5) The Government has continued to address people's poverty with a focus on building new settlement areas and permanent livelihood in conjunction with handling people's migration in 6 major provinces namely: Luangprabang, Houaphan, Xiengkhouang, Bokeo, Vientiane and Bolikhamxay. The execution of rural development programs and the promotion of broad-based commercial production and household income generation is progressing well namely the target cluster village development project, the policy bank's credit operation project, the implementation of the 7th cycle of Poverty Reduction Fund project, and the rural development program supported by Nam Theun 2 project and other projects financed by the village fund with a total amount of more than 257 billion kip.

6) The Government has continuously implemented socio-cultural development programs in association with the prevention and solution of negative phenomena and social-related problems. The national education system reform has been carried out as planned namely the increase of learning grades, the teachers' training and the provision of text books and teachers' hand books. The Government has organized labor skill training in connection with job creation in a total number of 6.877 positions. Furthermore, it has increased pandemics surveillance and control, immunization for mothers and children in tandem with health education activities and the broad expansion of community-based healthcare services. Furthermore, the Government has diligently addressed the impact posed by natural disasters through timely donation and aid to the affected people. The Government has also organized a series of activities on environmental protection campaign as well as natural variety and biodiversity including forest rehabilitation, expansion of green area coverage and sanitation works aimed at raising public awareness and their wide participation in particular among the youth.

7) The Government has amplified advocacy campaign on law awareness for the people through organizing primary legal training for village target group living in provincial cluster villages nationwide. Moreover, the Government has expanded village arbitrary unit which is an important mechanism to establish an atmosphere of solidarity and harmony while taking charge of the maintenance of drug and crime free village in parallel with the eradication of negative phenomena prevailing in the society.

8) The Government has made an assessment on its annual administrative operations as well as of each line ministries and agencies in order to address the shortcomings and enhance work efficiency. Furthermore, it has hold monthly cabinet meeting and complied with the reporting system before the relevant authorities on a regular basis. The Government has also focused on improving its mandate, operations, organization and personnel of some ministries, State administration at the district level in association with the expansion of one stop service scheme.

9) The Government has vigorously pursued its foreign policy and diplomatic engagement while taking charge of the implementation of the country's integration strategy with the sub-region, region and the world over. In doing so, the country has been able to mobilize ODA worth more than 257 million USD as of March 2010 equal to 46,7 % of the annual plan. The FDI for the first semester has a total volume over 549 million USD.

- In summary, the achievements made in the execution of the above mentioned activities have made the nation further enjoyed solid political stability, social tranquility and order with an improved country's profile. The Government is gratified to note that the key results gained are attributed to the vast contribution of the people from all social strata nationwide to the cause of national safeguard and development. This is also due to the involvement of all local Party Committee and administration as well as Party/State line ministries and agencies and Party members for their guidance and leadership, and their perseverance while executing policy guidelines and work plan. The support and efficient assistance of friendly countries and international organizations are also highly appreciated to this end. In this regard, I would like to take this occasion to express, on behalf of the Government of the Lao PDR and the Lao multi-ethnic people, my profound gratitude and appreciation for the said support and assistance.

- Honorable Party/State Leaders,

- Honorable Deputies of the National Assembly and Distinguished Guests,

- While recognizing that the key results gained are of utmost importance for building the confidence and keeping the momentum so as to advance towards the realization of the 2009-2010 national socio-economic development plan and budgetary plan, the Government is aware that there remain some challenges and problems to be overcome:

1/ Although the economic growth has been able to reach 7,8 %, there remain some issues to be addressed such as:

- The growth base is limited and vulnerable, the promotion of manufacturing and services remain weak and lack harmonized system, the agricultural growth as a key sector is not strongly tied to intensive agricultural-based orientation.

- - There remain loophole and leakage over revenue collection to the State budget, growing debt accumulation from extra-budgetary plan which is due to the violation of planning and financial discipline.
- The money volume growth is beyond the set-forth objective; the speculation of oil prices and major currencies trading, increased prices of imported goods, gold and food could be a threat to trigger high inflation.
- 2/ The management of State sponsored projects as planned has not been strictly observed, the end-result from the utilization of socio-economic infrastructure has fallen below expectation.
- 3/ There are some aspects of the development in the socio-cultural field that do not follow the established norms and fall short from the identified target including in the education, health and human resource development, and labor skills responsive to the development needs. The handling of social ills has been done inconsistently and lacked the mobilization of all stakeholders' involvement.
- 4/ With regard to socio-economic management of central and local administration, there are some aspects that can not be held accountable for and lacks synergy due to loose coordination. Capacity building at the district level is progressing slowly as the apparatus restructuring (office merger) still remains an issue and the additional dispatch of civil servants to the district remains limited, the handling of overlapping practices existing in regulations and administrative institution including the practice of corruption, wasteful spending, negative phenomena in the apparatus and the government official cadres remain indecisive and lenient.
- **- Honorable Delegates,**
- **Distinguished Guests,**
- To further develop the achievements made, and overcome the above mentioned challenges and problems during the last semester of 2009-2010, the Government will further deploy its efforts to implement a number of target tasks as follows:
 - 1. First and foremost, the Government will give due attention to maintaining stability and tranquility nationwide with a focus on addressing negative phenomena and the root causes of social disorder through the utilization of collective forces towards this end.
 - 2/ The Government will strive to attain an economic growth rate of 7,8 % in conjunction with increased surveillance on ensuring stable macro-economic management. It will also pursue the mobilization of both local and foreign private sector investment to reach at least 8.500 billion kip, and the people's investment in the range of 2.575 billion kip (including bank credit). Furthermore, the Government will further mobilize ODA as planned while undertaking pro-active promotion to boost manufacturing and services in a focused manner.

Among others, the Government will vigorously address the impact from overseas and phase out domestic bureaucratic constraints with a view to efficiently implementing directives and outlined economic stimulus package.

- To prepare forces and essential elements to cope with and timely address the danger posed by emerging natural disasters (drought or flood).
- 3/ To fulfill the revenue collection plan at 19, 69 % of the GDP in which the local revenue must reach 15 %, the expenditures should remain within the range of 23,05 % and the deficit at 3,36 % of the GDP.
- To confine annual average inflation rate to a single digit and below the economic growth rate. To reduce the money volume (M2) in parallel with the bank credit control that should follow the orientation of promoting commercial production and services for stimulating economic growth. To end credit disbursement for newly proposed infrastructure development projects and slow return on investment projects or high risk projects.
- 4/ To strive to realize socio-cultural goals namely the goals set in education, health, labor, poverty alleviation in association with resettlement and permanent livelihood and higher income alternative employment opportunities than shifting cultivation for the people.
- 5/ To further improve State administration namely coordination mechanism and work plan of line ministries-agencies and localities. This aims to realize the identified activities based on a unified and harmonized coordination between central and local administrative bodies. To sensitize government officials with the spirit of rendering the best services to the people.
- 6/ To enhance the sense of ownership in executing Government's foreign policy and realizing sub-regional, regional and international cooperation/integration projects while efficiently honoring its obligations made in the agreements with foreign countries and international organizations
- 7/ To press forward the competitive mood of the movement " Loving the Nation and Development " as called for by the national award competition meeting in association with practical activities undertaken by line ministries-agencies and localities. To strive for excellence in the run up to welcome the 9th Party Congress and important days of the Party and the Nation.

II. Socio-economic Development Plan for the fiscal year 2010-2011

Honorable Members of the Presidium,

Distinguished Delegates and Guests,

- I would like to inform you that the Government, at the present time, is adjusting the 7th Five Year National Socio-economic Development Plan (for the period of 2011-2015) to further present to the National Assembly. This 7th Five Year Plan is the plan for executing the resolutions of the IX Party Congress. It is a plan to determine directives aimed at ensuring that our country achieve its key development goals, such as:

+ Enhance and strengthen stability

+ Maintain an economic growth at least 8% every year; ensure stability and balance in macroeconomic system; build foundation for industrialized and modernized transformation and sustainable development.

+ Achieve Millennium Development Goal of the United Nation in 2015 and lift our country from the least developed country status by 2020.

+ Integrate our economy to Greater Mekong Sub-region, ASEAN and international in a dynamic manner.

Therefore, the Socio-economic Development Plan and State Budget Plan for fiscal year 2010-101, which is the first plan for implementing 7th Five Year plan as well as resolutions of the IX Party Congress, must be in the same line with 7th Five Year (2011-2015) as follows:

1/- Socio-economic Development Plan for fiscal year 2010-2011

The 7th Five Year National Socio-economic Development plan is a continuation of the breakthrough plan or plan to stimulate economic growth to transform our country toward industrialization and modernization, and to achieve sustainable development, therefore the development plan for 2010-2011 must demonstrate initial breakthrough steps that are feasible in reality so as to build confidence in this undertaking for the upcoming years.

2/- Targets in Each Sector

2.1. Create strong sustainability and constructive environments that facilitate development, improve people's livelihood as well as investment and international cooperation.

2.2. Macroeconomic Target

- In the fiscal year 2010-2011, ensure GDP increases 8-8.5% and create value added at current price of 61,300 billion kip; achieve GDP per capita 9.6 million kip or 1,130 US dollar, of which:

+ Agriculture sector increases 3.5%, which comprises of 29.0% of GDP

+ Industry sector increases 17.3%, which comprises of 26.5% of GDP

+ Service sector increases 6.7%, which comprise of 39% of GDP

- Maintain macroeconomic stability such as inflation to a single digit and less than GDP growth, control M2 to increase in an appropriate level.

- Maintain foreign reserves to be able to cover imports for more than 6 months.

- Continue to implement foreign exchange rate policy through market mechanisms and Government supervision; maintain foreign exchange rate stability and ensure the appreciation or depreciation of the Kip be in the range of 5 percent against major foreign currencies.

2.3. Economic Sector Targets

- Achieve rice production of 3.38 million tons.
- Achieve electricity production of 9,087.75 million KWH
- Exports to the term of US\$1,229.73 million
- Attract 2.22 million tourists to Laos and generate income of US\$288 million

2.4. Social Sector Targets

- Reduce poverty rate to 24% of total population and poor household rate to 19% of total households by the end of 2011.
- Ensure 25% of children aged 3-5 years old attend kindergartens.
- Net rate of students studying primary school reaches 95%; rate of remaining students in year 1 to year 5 reaches 80%; Rate of student studying junior high school reaches 68% and high school reaches 40%; Ensure literacy rates of age 15 and above reaches 83% and literacy rate between those aged 15-40 to reaches 90%.
- Rate of providing clean water to people reaches 80%; Rate of people using latrine facilities reaches 54%; Rate of vaccination to children is not below 85%; Rate of pregnant women having medical check ups before giving birth is 56.6%; Rate of contraceptives use reaches 51%.
- Provide training and skill labor development to 44,136 people and create new jobs for 55,365 people; The Government will expand its social welfare system for the whole country, ensure 20% of the total population receives medical insurance and provide benefits to people who have contributed to the betterment of the country to reach 11,119 people.
- Number of culturally preserved villages to total 125; increase area of radio and television coverage to 80% of the country.

2.5. Environment and Natural Resource Targets

- Forest rehabilitation reaches 2.83 million hectares and forest plantation reaches 357.36 thousand hectares; survey 23% of total forest to categorize 3 forest types; increase forest covered areas to 55% by the year 2011.
- Create model for environmental protection in 4 major cities: Vientiane Capital, Luang Prabang district, Kaison Phomvihanh district and Pakse district, to make sure they become green and clean cities.
- Participate in activities against global warming and climate change, reduce greenhouse affect, protect mineral resources (in order to maintain substance deposits area of more than 65% of total mineral sources by 2015); Protect prosperity of land, river and air.

2.6. International Cooperation Targets

- Negotiate the agreement on service trade promotion and openness under AFTA framework; hence the agreement can be signed in the 36th standing committee meeting.
- Organize the 6th round of the task force meeting on the negotiation process of WTO accession; continue to complete adjustment of related draft decrees and regulations by 2010.

- Execute the cooperation plans under bilateral, Greater Mekong Sub-region and multilateral framework; organize a round table discussion to raise external fund to contribute to the implementation of the 7th Five Year National Socio-economic Development Plan (2011-2015); Implement the master plan on CLV agreement and other international agreements and treaties.

3/- Investment

To attain the target of at least 8% economic growth, the Government must invest 32% of GDP, totaling 19,610 billion kip, of which the state investment comprises of 10.87% of GDP or approximately 6,665 billion kip. The funds for state investment derives from internal fund of 1,595 billion kip and external fund of 5,100 billion kip; Domestic and foreign investment is expected to reach 10,600 billion kip; Credit from banks to reach 2,345 billion kip.

According to the characteristic of this year's plan, state investment will focus on priority work aimed at implementing projects under the 7th Five Year Plan continuously and efficiently.

Starting from this fiscal year, the Government will allocate 30% of budget to the economic sector, 35% to social sector and 35% to roads and infrastructures.

4/- State Budget For Fiscal Year 2010-2011

4.1. General Directives

Directives for the State Budget Plan are enhancing effectiveness of revenue management and collection, expenditure management as planned, saving and transparency; strengthen financial discipline; increase liquidity of state budget; restrict creation of ambiguous and off plan debt and reduce debt. This aims to gradually create firm, strong and adequate financial and state budget system in order to contribute to achieving macroeconomic stability. The Government will put more effort to improve financial policies in order to integrate with regional and global economic and financial systems.

4.2. Budget Targets

(1) Revenue:

The target is to collect total revenue of 12,600.74 billion kip which is an increase of 18.28% compared to fiscal year 2009-2010 or equal to 20.56% of GDP; The domestic revenue will total 9,381.24 billion kip which is an increase of 15.59% compared to fiscal year 2009-2010 or equal to 15.30% of GDP (where GDP is 61,300 billion kip).

These set targets are quite high compared to last fiscal year and actual revenue collection.

(2) Expenditure

Based on the actual domestic revenue collection and external funds, total expenditure will not exceed 14,739.13 billion kip which is an increase of 18.19% compared to fiscal year 2009-2010 or equal to 24.04 % of GDP. Total Expenditure comprises of administrative expenditure 40.09%, debt repayment 14.99%, investment expenditure 43.57%, Government reserves and savings 1.35% of total expenditure. In the fiscal year 2010-2011, the Government will place emphasis on implementing policies such as benefits on social welfare, benefits for officials in poor remote areas, resettlement and stable jobs for local migrants.

In addition, the Government will increase administrative expenditure such as electricity, water supply and telephone.

(3) Sources of Fund For Deficit Balancing

Based on the above mentioned revenue and expenditure plan, Budget for fiscal year 2010-2011 will be deficit in an amount of 2,138.58 billion kip or equal to 3.49% of GDP (the target deficit is set to be not more than 4%). The fund for balancing deficit is from:

- ODA and Loans from overseas to the amount of 1,878.57 billion kip which is an increase of 23.35% compared to last fiscal year.
- Issue Treasury bonds to the amount of 260 billion kip which is an increase of 30% compared to last fiscal year.

- Honorable President of the National Assembly,

- Honorable Members of the Presidium, Deputies of the National Assembly

- Distinguished member of the National Assembly and guests

The Government has already outlined directives, projects, detailed plans and measures for implementing the Socio-economic Development Plan and State Budget Plan for fiscal year 2010-2011 in the development plan and state budget plan. Therefore, I would like to encourage members of the National Assembly to study those documents in order to provide additional comments and suggestions to improve the plans and to approve the plan with high considerations.

- After the National Assembly has given the seal of approval to the Socio-economic Development Plan and State Budget Plan, the Government will immediately and actively implement measures as follows:

(1) The Government will quickly issue Decree, Instruction and regulations on the implementation of this Development Plan and State Budget Plan; widely advise and disseminate plans to target groups at both central and local levels; put more attention on giving directions and to closely follow up and monitor its implementation. In addition, the Government will rigorously implement planning and financial disciplines and take corrective actions when violation of discipline occur; improve rules and mechanisms to ensure better support and coordination between ministries-organizations in central level and between central and local organizations in implementing the plan.

(2) The Government will continue to implement policy on promoting and encouraging public and private sector, domestic and foreign businesses including small, medium and large enterprise to participate in production and providing services by creating favorable conditions and environment, ensuring equality and fairness in doing business. This is to stimulate growth and achieve set targets.

(3) More attention will be placed on social and culture sector development to be in parallel with economic development by ensuring target implementation to increase investment in this sector and solving problems in education, public health, labor and social policy in a high accountable manner. In addition, the Government will increase its leading role and support the works on rural development and poverty reduction together with eliminating slash and burn cultivation and stop disorderly movement of people by strengthening implementation of village cluster development project in the focus areas.

(4) Continue to improve public governance to enhance rigorousness and effectiveness of laws and regulations; increase accountability in project implementation in locality together with increasing support and following up and monitoring divisions of ministries in the provinces; expand good service system to create favorable condition for people to receive public services; emphasis on disseminating laws and regulations and provide guidance to ensure effective implementation.

(5) Implement foreign policy of the Party and the Government in an active manner; enhance efficiency of collaboration and cooperation with foreign countries and international organizations; enhance credibility and trust worthiness of being cooperation partners by increasing pro-activeness in implementing obligations and agreements with foreign countries and international organizations.

Honorable President of National Assembly,

Distinguished members of the National Assembly and guests,

I have briefly reported on the implementation of Socio-economic Development Plan and State Budget in the first 6 months of fiscal year 2009-2010 and main focus tasks for the remainder of this fiscal year. Furthermore, I have presented some important details of the plan and budget for the fiscal year 2010-2011. I hope this would be the basis for members of National Assembly to consider and provide comments. If you require more detailed information, I would like to ask Minister of Planning and Investment, Minister of Finance and related Ministers to give more explanation and clarification.

I truly wish to hear comments and recommendations from the members of the National Assembly which can be applied to improve the Socio-economic Development plan and State Budget Plan to be more appropriate, correct and complete. The plans can then be approved and be implemented effectively.

Finally, may I wish the Sixth Ordinary Session of the Ninth Legislature of the National Assembly a resounding success .

- Thank You -