

Part 1: Master Plan Study

CHAPTER 1 INTRODUCTION

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1.1 Background of the Study

In accordance with the Scope of Works (S/W) and the Minutes of Meeting (M/M) agreed between both Laotian and Japanese governments on the 24th of November, 1997 the Study commenced in October 1998. Under Phase I Study, two Field Surveys were carried out where the dry season survey was conducted from November 1998 to February 1999 and the rainy season survey from June 1999 to July 1999. Phase I of the Study also included two months of home office work from July through August 1999. For Phase II of the Study another field survey was conducted from October 1999 to January 2000 and the home office work from January through March 2000. During the course of the Study, appropriate reports at each project stage, e.g. Inception Report, Progress Report (I) and (II), Interim Report, Progress Report (III) and Draft Final Report were submitted and outcomes were discussed with the executing agency. Since the commencement of the Study, six (6) meetings between the advisory committee and study team were held, where Study results were reviewed and directions for further study were discussed.

1.2 Objectives of the Study

The objectives of the study are originally designed as follows:

- To formulate the Master Plan for the Small Scale Agricultural and Rural Development Program, covering 12 districts in the 3 provinces of Bolikhamxai, Khammouane and Savanakheth, along the Mekong River. The Master Plan will focus particularly on stabilizing dry season agricultural production through the establishment of farmers' organization and revitalizing rural credit system to fund the construction of feasible irrigation structures needed to impel and stabilize dry season rice cultivation and improvement of traditional farming. The study also aims to identify the priority project(s), and conduct feasibility studies on the selected priority project(s) and
- To carry out technology transfer to counterpart personnel through on-the-job training.

1.3 National Economy and Development Plan

1.3.1 Present Economic Situation

As early as 1995, the Lao PDR has been experiencing through an inflation trend of 14 % to 19 %. Since 1998, the Laotian economy continued to invest in the potentials of export industries, more aggressively in irrigation and infrastructure improvement. And it was expected that the inflow of foreign money would cover domestic investments. However, the unexpected sharp depreciation of its currency, the Kip, caused by domestic inflation through imbalance in import and export and the side effect of Thai currency crisis the inflow of foreign investments stagnated.

Under such situations, the economy fell into the vicious cycle of swelling domestic currency and resulting higher prices. The higher prices weakened the kip and stagnated direct foreign investment. This in turn caused domestic currency to swell again, causing the hyper inflation experienced in the past few years.

Against these economic dislocations, the reaction of Lao monetary authorities was rather slow. The main measure taken was the issuance of savings lottery to absorb excessive liquidity. The delays in tightening and changing the controlled interest rates further aggravated the situation that the average annual increase rate of consumer price reached to 87.4 % in 1998. At the beginning of 1999, in spite of weak foreign exchange rate, it became clear that the export had slumped against the expected trend of export increase with currency depreciation. In addition, as the demand for US dollars and Thai Bahts accelerated, the vicious cycle was reinforced causing the consumer price index (CPI) of March to reach to a record high -167.1 % as compared with the same month of the previous year. At this point, the government implemented an emergency policy to squeeze credit. This measure resulted in the sudden recovery of foreign exchange observed as observed in September, and accordingly CPI dropped to a two-digit (94.3%) level in November. The exchange rate of Kip against US dollar dropped by 49 % in 1998 against that of 1997. In July, 1999 it recorded the lowest rate of 9,376 Kip/US dollar (monthly average). By the end of the year it closed at 7,600 Kip/\$, 44% lower than that of 1998, promising a tangible, though very slight, stability for the coming year.

The net GDP has grown by 4 % during 1998, a remarkable slowdown from 7 % from 1995 through 1997. About 5 % of growth is anticipated for 1999.

Basic Economic Indicators (average)

	1995	1996	1997	1998	1999				
					Mar.	July	Aug	Sept	Nov.
Liquidity(M2)	100	127	210	413	530	908	919	671	n.a.
CPI	99	112	131	248	462	639	670	668	642
Inflation rate (%)	19.4	13.9	19.3	87.4	167.1	135.7	140.2	122.6	94.3
Kip/US\$	925	954	2,152	4,238	4,798	9,376	9,350	6,810	7,700

CPI : December, 1995 = 100

(Source : BOL)

Kip/US\$: Commercial Bank middle rate at year end, but monthly average for 1999.

1.3.2 Socio-economic Development Plan

(1) 1999/2000 Plan

During the fourth session of National Assembly in the fourth legislation, held from September 30th until October 15th 1999, the performance of 98/99 Socio-economic Development Plan (hereafter “SEDP”) was evaluated and the new plan of SEDP of 99/00 (Oct. 1 '99 - Sept. 30 '00) was approved.

The two main characteristics of 99/00 SEDP are as follows;

- 1 Upon reflection of 98/99 hyperinflation, money supply targeting figures are planned.
- 2 As the year 2000 is the final year of five year plan of 95/96—99/00, the new visions for future are manifested.

At first, what was seen as money supply restrictions are the target of M2 increase (money balance of cash plus deposits including fixed deposits) (+32%, and secondly, the balanced budget, which intends to hold the expenses, excluding foreign assistance investments, within domestic income (1,410 billion kip for both). If these two targets are achieved, it might be said that the target rate of inflation (+60%) would be easily achieved (See Table 1-1).

The new visions for future, on the other hand, focused on the restrictions of investment to agriculture and forestry. As the five-year plan targets for rice production (2 million tons) was already achieved in 98/99, the emphasis on investments are remarkably shifted from former “infrastructure and agriculture/ forestry” to “infrastructure, society/culture and agriculture/ forestry”.

Secondly, it expressed a sincere appeal to Laotian people to try to live less luxuriously in order to keep well-balanced economic figures. This implies that the ultimate target of the government is to graduate from LLDC (least among less developed countries) category, but actually it has become apparent that the equilibrium among various economic indications could not be ignored. The five-year plan target of GDP per capita (500 USD) has become despairingly unachievable due to recent sharp depreciation of own currency (2,693Kip/\$ in 97/98) to 6,222Kip/\$ (in 98/99), an average depreciation by 43%. In the plan for this fiscal year, the government urges people and bureaucrats to be more thrifty, to control expenditures, to minimize import and to make efforts to improve current account balance (CAB).

In terms of agricultural targets, the importance of rice production remains unchanged (target: 2.2 million tons (+10%)), but the production of cash crops is targeted to reach about 200 thousand tons, increased by 5%.

(2) Long-term Plan of Lao Government

The 20-year socio-economic development plan, targeting up to the year 2020, is now under preparation by State Planning Committee (SPC). The main features of the plan are as follows;

Completion of planning	: In year 2001
Basic target	: To graduate from LLDC
Concrete numerical targets	: GDP per capita 1,500 USD
Average GDP growth rate	7-7.5 %
-Agriculture	4-5 %
-Industry	10-12 %
-Service	10-11 %

Table 1-1 Summary of Economic Information & Plan of 1999/2000

	Unit	1997/98 implemented	1998/99		1999/00 Plan
			Plan	Estimated	
Population	Thousand	4,966	5,091	5,091	5,218
----- Growth rate	%	2.5	2.5	2.5	2.5
GDP					
----- GDP in 1990 price	Billion K	983.45	1,075.93	1,034.6	1,092.50
----- GDP of the year	- do -	3,745.32	4,500.00	8,700.00	14,000.00
----- GDP of the year in \$	Million \$	1,390.76	1,285.71	1,338.46	1,555.56
Net growth of GDP	%	4.7	7.0	5.2	5.6
----- Agriculture	%	4.5	5.0	5.0	4.3
----- Industry	%	8.4	10.0	7.5	8.5
----- Service	%	5.4	10.0	4.0	5.8
Money volume	Billion K	721	--	2,500	3,300
Inflation	%	61.38	25.0	140.0	60.0
Exchange rate	Kip/ \$	2,693	3,500	6,500	9,000
Average income per capita	\$	280.1	252.5	262.9	298.1
Budget balance	Billion K	-594.99	-680.00	-958.00	-1,364.00
----- Income	- do -	381.0	610.0	800.6	1,410.0
----- Expenses	- do -	976.0	1,290	1,758.6	2,774.0
Trading balance	Million \$	-347.6	-308.0	-226.0	-207.0
----- export	- do -	251.3	408.0	271.0	294.0
----- import	- do -	598.9	716.0	497.0	501.0
----- CAB	- do -	-250.0	-266.0	-103.0	-108.9
State investment in budget	Billion K	419	665	908.17	1,820.0
----- Internal fund	- do -	202	205	204.91	456.0
----- External fund	- do -	217	460	703.26	1,364.0
Foreign investment					
----- Project approved	Number	70		45	3
----- Amount approved	Million \$	122.3		99.6	1,500.0
----- Money flow through banks	- do -	56.0		59.0	129.0
Bank lending	Billion K			1,700.0	1,900.0
Aid from outside	Million \$	290.90	354.60	345.36	392.46
----- Grant aid	- do -	137.60	137.80	230.63	234.24
----- Loan	- do -	153.30	216.80	114.72	158.22
M2 / GDP	%	19.3		28.7	23.6
Budget income / GDP	%	10.0	14.0	9.2	10.1
Budget income (including wood sale) / GDP	%				12.0
Budget expenses / GDP	%	25.9	29.1	20.2	19.8
Budget shortage / GDP	%	15.9	15.1	11.01	9.7
Foreign trade balance/GDP	%	17.96	20.69	7.70	7.00
State investment / GDP	%	11.2	15.0	10.4	13.0
Domestic accumulation fund/GDP	%				
-----Official saving currency / Import	Month				3

(Source : State Planning Committee)

National Priority Policy: Under the plan, the following eight items are the priority targets:

(a) Food production (self-sufficiency in food), (b) Commercial production (from subsistence crops to cash crops), (c) Stabilization/ reduction of shifting cultivation, (d) Integrated rural development, (e) Infrastructure development, (f) Human resources development, (g) Improved socio-economic management and relation with foreign countries, (h) Development of government services.

(3) Agricultural Policy

The Government of Lao has formulated the “Vision on Agricultural-Forestry Development until year 2020” as her basic agricultural policy, which involves three (3) agricultural development programs of (a) food security and self-sufficiency in food (rice), (b) promotion of export oriented crops and livestock, and (c) farming stabilization and reduction of slash-and-burn cultivation. In addition, in view of rapid expansion of irrigation schemes covering the entire country after the severe 1995/96 floods, the Lao Government launched the “Irrigation Management Transfer (IMT)”, in which existing or new irrigation schemes constructed by using the government budget shall be transferred to farmers organizations (WUO). Under the basic frame of IMT program, the following process is envisaged:

- Before actual transfer of irrigation systems, responsible organization for operation and maintenance of IMT shall be established in the form of association, group or collectives, which will be provided with trainings to properly operate and manage irrigation facilities.
- Village development fund shall be set up to perform the duty to collect investment funds and to manage development budgets allocated for village development.
- After setting up the responsible organization and the village development funds, the irrigation system will be transferred to the communities of water users.
- The communities of water users are responsible for operation and maintenance of the irrigation system transferred.

The communities shall be responsible for collecting irrigation water fees from beneficiary farmers.