

## CHAPTER 1 INTRODUCTION

### 1.1 General

This report presents the study results of the "Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic". This is in accordance with the Scope of Work for the Study agreed between the Preparatory Study Team organized by Japan International Cooperation Agency (JICA) and the Ministry of Agriculture and Forestry (MAF), of the Government of Lao PDR (GOL) dated June 30, 2000.

### 1.2 Background and Objectives

#### 1.2.1 Background of the Study

The Lao People's Democratic Republic (Lao PDR) covers 23.68 million ha and has an estimated population of 5.23 million in 2000. It is comprised mainly of mountainous and hilly areas with only about 10% available as farmland. However, the country's economy is dominated by the agriculture sector, which provides 52% of GDP while absorbing 80% of the labor force. The GDP per capita for 1997 is an estimated US\$ 400<sup>1/</sup> with a significant number of households depending on agriculture for subsistence. Since the New Economic Mechanism (NEM) was introduced in 1986, Lao PDR has been in transition from a centrally planned economy to a market oriented economy. In the agriculture sector, with the abolishment of the collective farm system and the introduction of farmer's cultivation rights in 1989, farmers were given the right to farm land for themselves. Another significant event that affects agriculture is Lao PDR joining ASEAN in 1997. It is expected that tariffs on goods from agriculture, forestry and fisheries will be sharply reduced by the year 2015.

Agriculture is characterized by three main farming systems: dry-land rice production by shifting cultivation in the northern and eastern mountain regions; paddy rice cultivation along the Mekong River and the cultivation of cash crop products in the southern highland region. Rice is the staple food crop, but production relies largely on rainfall, and thus its yield is unstable. Moreover, the poor geographical distribution of farmland and low rice productivity in mountainous areas has kept upland communities in a state of chronic food shortage. Although the country is blessed with many natural resources that are capable of

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<sup>1/</sup> Country Assistance Strategy for Lao PDR, World Bank, March 30,1999

supplying the whole nation's food needs, the stable supply of rice remains difficult due to inappropriate farming techniques, inadequate infrastructure and poor functioning of the marketing system as a whole.

The export of forest products, including timber, make up about 30% of total exports. It is estimated that forest cover was reduced by 4% over the last 20 years due to expansion of lowland agriculture and shifting cultivation. There has also been a degradation of forest areas due to over-exploitation of timber resources and poor forest management practices. Shifting cultivators account for 38% of the total number of households.

The agriculture sector has shown slow growth so far, leading the GOL to place increased emphasis on agricultural development in the Fourth Socio-economic Development Plan (1996-2000). This commenced with launching a development policy stressing three programs: ***stable food production; promotion of commercial agricultural and livestock products; and mitigation of shifting cultivation***. MAF also set up its basic development policy with the above-mentioned issues as the main themes. This policy is described in the "Vision for Agricultural and Forestry Development to the Year 2020" ("Vision 2020"). In addition, "The Government's Strategic Vision for the Agricultural Sector" ("Strategic Vision") formulated by MAF with assistance from the Asian Development Bank (ADB), defined a development strategy consisting of seven approaches. These are: (i) strengthening MAF and local institutions; (ii) developing human resources; (iii) adjustment to internal and external business regulations; (iv) establishing conditions for liberalized external trade; (v) ensuring food security and accelerated market-orientation of agriculture in flat land; (vi) promotion of environmentally sustainable development in sloping land including stabilization of shifting cultivation; and (vii) enhancing irrigation management.

These visions and strategies provide the direction and a framework for agricultural development in Lao PDR. However, neither of them indicate specific development plans or implementation programs for the goals to be realized. Thus, plans for related activities to achieve these visions, through the strategies, are urgently needed.

Considering the above background and based on the results of the JICA project formulation study made in March 1999, the GOL requested the Government of Japan (GOJ), in November 1999, to extend technical assistance for a Master Plan Study on Integrated Agricultural Development. In response to this request, GOJ

sent a Preparatory Study Team to Lao PDR in June-July 2000. The team examined the background to the request including the scope and contents of the required technical assistance. This resulted in Agreed Minutes of Meeting for the Scope of Work for the Study made between the Preparatory Study Team and the MAF of the GOL, dated June 30, 2000.

### 1.2.2 Objectives of the Study

The objectives of the Study are to:

- (1) formulate an Action Plan (A/P) and its implementation program that contribute to more effective promotion of agricultural development, based on the framework of Strategic Vision as the development strategy for the agriculture sector of Lao PDR, and of Vision 2020 recognized as the basic development policy;
- (2) identify priority programs and projects to be assisted by donor agencies including GOJ, through examining the A/P and formulating further additional studies and implementation programs and envisaging executing agencies to be responsible for implementation; and
- (3) transfer technology to counterpart personnel on investigation methods, planning procedures and formulation approaches in respective relevant fields.

## 1.3 Study Procedure and Work Progress

### 1.3.1 Study Procedure

The Study, covering the whole Lao PDR, was carried out in two phases over two consecutive fiscal years. In Phase I, the A/P was formulated in general terms to the year 2020 within the framework of the Vision 2020 and the Strategic Vision for the Agricultural Sector. The Study examined development programs implemented by the GOL with and without donor assistance, the process and performance of administrative decentralization, the policy for transition to a market economy, the present status of rural development, agriculture and farming conditions including shifting cultivation, rural infrastructural conditions, the environmental aspects and social and cultural aspects etc.

The A/P is formulated based on an examination of the above programs/policies and from comments made in the first workshop with representatives from the relevant internal and external agencies. In Phase II, supplementary data and information were collected based on the A/P formulated in Phase I. Following this supplementary data collection, implementation programs that could be supported by donor agencies including GOJ were formulated to the year 2010. The results are

presented at a second Workshop. This Final Report is prepared based on recommendations and results of the Second Workshop.

The study items in each fiscal period were as follows:

- (1) 1st year period (fiscal year 2000)
  - (a) 1st Field Work
    - Discuss Inception Report
    - Finalize Plan for Transfer of Technology
    - Collect information and data on socio-economic and natural conditions
    - Collect information and data for drafting the A/P until 2020 with analysis
    - Formulate draft A/P until the year 2020
  - (b) 1st Home Work
    - Discuss draft A/P and subsequent study approach with JICA Tokyo
  - (c) 2nd Field Work
    - Discuss draft A/P and program for the first Workshop with GOL
    - Conduct the first Workshop
    - Formulate A/P based on comments and suggestion in the first Workshop
    - Prepare Progress Report (1) and discuss it with MAF
  - (d) 2nd Home Work
    - Explain Progress Report (1) to JICA Tokyo
    - Prepare Interim Report and discuss it with JICA Tokyo
- (2) 2nd year period (fiscal year 2001)
  - (a) 3rd Field Work
    - Submit Interim Report
    - Discuss Interim Report with MAF
    - Collect supplementary data and information for the formulation of implementation programs
    - Formulate implementation programs based on A/P
    - Conduct initial environmental examination for priority programs and projects as necessary
    - Prepare Progress Report (2) and discuss it with MAF
    - Discuss program for the Second Workshop with MAF during the 4th Field Work
  - (b) 3rd Home Work
    - Submit Progress Report (2) and discuss it with JICA Tokyo

- Prepare Draft Final Report
- Prepare materials for the 2nd Workshop
- (c) 4th Field Work
  - Discuss Draft Final Report with MAF
  - Conduct the 2nd Workshop
- (d) 4th Home Work
  - Prepare Final Report
  - Prepare Performance Report on Technology Transfer

### 1.3.2 Study Progress

The following activities were completed during Phase I work and Phase II field studies:

#### Phase I Work

- (1) inception meeting between the Steering Committee and the Study Team on November 28 and 30, 2000;
- (2) orientation workshops at Vientiane on December 12, 2000 and at both Louangphrabang and Champasak on December 15, 2000;
- (3) collection of data for agriculture potential, GIS analysis including present land use, soil, topographic data, UXO data, etc. in December 2000;
- (4) collection of statistical data for socio-economic analysis including 1995 population census, 1997/98 household expenditure and consumption survey and 1998/99 agricultural census in December 2000;
- (5) baseline survey to collect and compile socio and agro-economic related data and information at provincial and district levels in December 2000 and January 2001;
- (6) provision of technical guidance for the Department of Meteorology and Hydrology (DMH) in installation of meteo-hydrological observation stations including site selection, design and construction supervision from December 2000 to March 2001;
- (7) socio-economic analysis based on population and agricultural census with regard to present farming systems, constraints and development direction, through categorizing all the districts into 10 groups in January 2001;
- (8) analysis of agriculture potential areas based on GIS processing with regard to paddy, upland, tree crops and grazing in January 2001;
- (9) formulate conceptual framework and approach to the action plan;
- (10) preparation of draft action plan on integrated agricultural development towards the year 2020 associated with formulation of proposed programs and projects that were listed through discussion with relevant departments and agencies of MAF and other concerned line ministries in January 2001;

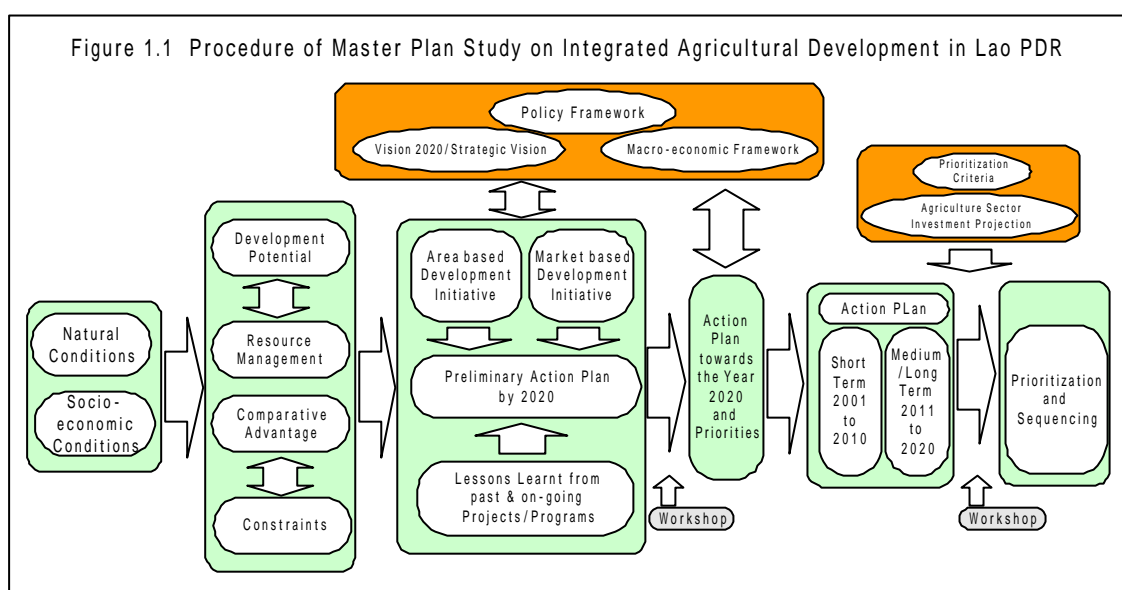
- (11) provincial workshops at Vientiane, Louangphrabang and Champasak, presenting the draft action plans and exchanging opinions with provincial representatives, on January 30, 2001;
- (12) steering committee discussion on draft action plan on February 8, 2001;
- (13) report on the interim results of the Study and an explanation of the draft action plan to JICA Headquarter in Tokyo by the Team Leader and Rural Development Expert from February 13 to 16, 2001;
- (14) first central workshop attending by the steering committee members, representatives of relevant GOL agencies, donors and NGOs to present draft action plan and receive comments and advice on March 1, 2001;
- (15) preparation and presentation of the Progress Report (1) to MAF on March 7, 2001;
- (16) finalization of the Action Plan on the basis of results during Phase I field studies;
- (17) preparation of an Interim Report;
- (18) participation in Workshop on the JICA Study “Macro-economic Policy Support for Socio-economic Development in Lao PDR” held in Vientiane on March 22-23, 2001;

#### Phase II Work

- (19) presentation of Interim Report to MAF on April 26, 2001;
- (20) provincial workshop in Vientiane presenting the Action Plan and exchanging opinions with provincial representatives on May 16-17, 2001;
- (21) collection of supplementary data and information for formulation of Implementation Program through field reconnaissance and discussing with various concerned agencies;
- (22) provision of technical assistance to DMH for the operation and maintenance of 15 meteo-hydrological stations newly installed in the year 2000/01;
- (23) additional study to review the feasibility study of Boloven Plateau Rural and Agricultural Development (1995/96) and formulating priority sub-schemes to be implemented, including farmers’ intention survey, topographic survey and groundwater investigation through local contracts;
- (24) lectures to MAF Counterpart personnel as a part of the technical transfer program on (i) the market economy, (ii) statistical analysis on agricultural setting and (iii) GIS analysis of agricultural potential in Lao PDR;
- (25) preparation and presentation of the Progress Report (2) to MAF on July 4, 2001;
- (26) meeting for the Progress Report (2) between the Steering Committee and the Study Team on July 10, 2001;
- (27) preparation of the draft final report;
- (28) presentation of Draft Final Report to MAF on August 28, 2001;

- (29) second central workshop attending by the steering committee members, representatives of relevant GOL agencies, donors and NGOs to present Draft Final Report and receive comments and advice on August 30, 2001; and
- (30) preparation of final report based on MAF's comments to Draft Final Report.

The procedure of the master plan study on integrated agricultural development is illustrated in Figure 1.1.



### 1.3.3 Technology Transfer

The Study Team transferred the technology to the following counterpart personnel in the course of the field study (Table 1.1).

The Study Team conducted the technology transfer to the counterpart personnel assigned during the field survey period basically applying the “on-the-job-training” method. Prior to the field work, the respective experts of the Team explained to their counterpart personnel about the purpose of the field investigation and formulation of development plan, methodology on those works, analytical method and how to apply the investigation results to the planning. At the workshops and steering committee meetings, technology transfer could be achieved through exchange of views and opinions among the counterpart personnel, personnel of central and local agencies concerned and the Study Team members. In addition, the Study Team

**Table 1.1 Name List of JICA Study Team Personnel and MAF Counterpart Personnel**

JICA Study Team		MAF Team	
Position	Name	Name	Department
Team Leader/Agriculture Policy	Mr. Yutaka Murai	Dr. Bounkouang Souvannaphanh	DOP/MAF
Agriculture Supporting Institution	Mr. Tetsunari Gejo	Mr. Phaidy Phanthavong	DOA/MAF
Administration/Decentralization	Mr. Hisashi Ikewada	Mr. Khamthieng Phomsavath	DOPP/MAF
Rural Capacity Building/Human Resources Development	Mr. Oudet Souvannavong	Mr. Khamthieng Phomsavath	DOPP/MAF
Marketing Economy/Statistics	Dr. Guy Motha	Mr. Somboon Rasamithong	DOP/MAF
Agro-processing and Marketing	Mr. Hiroshi Yasuda	Dr. Somphanh Chanphengxay	DOLF/MAF
		Mr. Sengdet Bouaravanh	MOTC
Rural Development	Mr. Makoto Ishizuka	Mr. Bounhong Anukoun	Rural Dev./MAF
Agro-forestry	Mr. Robert John Trethewie	Mr. Somphachanh Vongphasouvane	NAFRI/MAF
		Mr. Bounsuane Phongphichit	DOF/MAF
Society and Culture (1)	Mr. Mitsuru Sonoe		
Society and Culture (2)	Ms. Mariko Shiohata		
Rural Infrastructure/Operation and Maintenance	Mr. Shigeya Otsuka	Mr. Khamhou Phanthavong	DOI/MAF
Natural Environment	Mr. Keith Openshaw	Mr. Bandit Ramangkoun	NAFRI/MAF
Meteo-Hydrology	Mr. Shoichiro Ban	Mr. Manolot Soukhanouvong	DMH/MAF

made a seminar on the subjects in which the counterpart personnel were interested, i.e. the basic concept of the master plan study, methods of multivariate statistical analysis and GIS analysis.

#### 1.3.4 Homepage of the Study

The Study Team published the features and progress of the Study on its homepage established in the MAF's Website. This Website will be used for publishing agricultural statistics, related agricultural laws and regulations, information on projects, etc., publicly. The homepage of the Study was opened as a part of project information that the MAF was engaged in. The copies of homepage are presented in Appendix 20.



## CHAPTER 2 SOCIO-ECONOMIC BACKGROUND

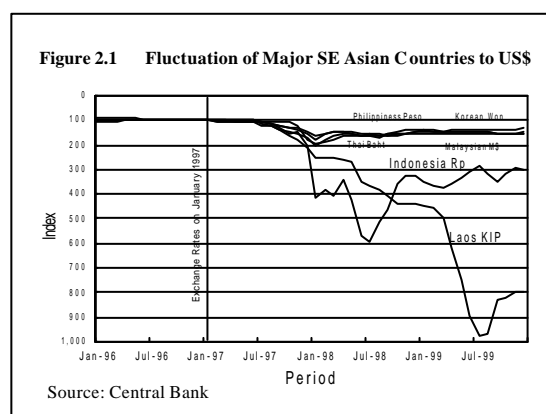
### 2.1 Socio-economic Development and Performance

#### 2.1.1 Overview of Macro-economic Performance

Landlocked Lao PDR is situated almost in the center of Indochina, bordered by Thailand, Cambodia, Vietnam, China and Myanmar, covering 236,800 km<sup>2</sup> with a 2000 population of 5.23 million growing at 2.6% per annum (as of the year 2000). Lao PDR is one of the poorest and least developed countries in the East Asia region with an estimated 1999 per capita GDP of US\$280. Agriculture remains the major sector of the economy, contributing 52% of GDP and employing over 80% of the labor force.

In 1986, GOL adopted a drastic policy reform from a centrally planned economy to a market oriented system, introducing the New Economic Mechanism (NEM). The reforms included price decontrol, liberalization of trade and payment systems, introduction of a two-tier banking system, freeing of all but agriculture-related interest rates, initiation of civil service reforms, introduction of a legal framework to support a market economy, and an extensive privatization program. Considerable progress has been achieved in structural transformation and macro-economic management, creating the basic foundations of an incentive driven economy that contributed to the growth of real GDP at the robust rate of 6.3% per annum over 1990-94. Per capita income rose at 3.2% per annum over the same period. Growth accelerated to 8.1% in 1994 and continued at 7.1% in 1995 and an estimated 6.9% in 1996, led by the strong recovery of agricultural production and a continued boom in manufacturing, construction and services. Lao PDR joined the Association of Southeast Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA) regional trade blocks in 1997.

In the latter half of 1997, the Asian Financial Crisis erupted shortly after the 6th Round Table Meeting (RTM) in Geneva in June 1997 that discussed the Lao PDR 1997-2000 socio-economic development. The crisis struck the economy seriously, and forced a sudden and drastic decline in GOL revenues and foreign investment inflows. The national currency, the kip, depreciated sharply in comparison with other ASEAN countries devastated by the



crisis as well, and inflation reached three-digit figures. Although the economic growth rate declined, real growth has been maintained at reasonable levels, supported in large part by the good results of the agricultural sector. However, the pre-crisis socio-economic development targets, recognized in the 6th RTM in Geneva, could not be achieved.

The effects of the crisis were significant, with real GDP growth in 1998 falling to 4% in contrast to rates of almost 7% in the previous two years. However, lowered GDP growth was not very serious in comparison with other countries, because the agriculture sector could maintain good performance

**Table 2.1 Comparative Real GDP Growth Rates**

Unit : % annum

Description	1996	1997	1998	1999	2000
Laos PDR	6.9	6.9	4.0	7.3	5.9
Indonesia	8.0	4.5	-13.7	0.5	3.0
Korea	6.8	5.0	-5.8	10.2	6.0
Malaysia	8.6	7.5	-7.5	4.9	4.8
Philippines	5.8	5.2	-0.4	2.9	3.5
Thailand	5.5	-1.3	-10.0	4.0	7.0
China	9.6	8.8	7.8	7.1	7.0
Vietnam	9.3	8.2	5.8	4.7	4.6

Source : Lao PDR's Document for RTM7 "Fighting Poverty through Human Resources Development, Rural Development and People's Participation

owing to relatively high prices of rice and other major crops. Paddy production increased by 18% between the year 1996 and 1998 thanks to increased irrigation by heavy investments for the National Pump Installation Management Project (NPIMP), while the GDP of the industrial sector, particularly the textile industry, dropped by half from 1996 to 1997. The best performing industrial sub-sector was hydropower whose output increased by more than 60% in 1998, while the construction sub-sector showed a 18% fall in 1998, obviously affected by the crisis.

In the service sector, banking, insurance and real estate were clearly under-performing. The transport, storage and communications sub-sectors showed some resilience with an annual growth rate of 6.5% in 1997 and 9.7% in 1999, while the hotels and restaurants sub-sector experienced rather sluggish growth with only 8.2% increase in 1998, with the situation remaining similar in 1999.

In the 7th Round Table Meeting (RTM7) held in Vientiane on November 21 to 23, 2000, the GOL showed that all the three sectors grew steadily since 1992, with the exception of 1997 to 1998, and demonstrated encouraging prospects, especially gradually increasing outputs from investments in hydropower. Furthermore, the GOL expressed that the basic investments in agriculture including irrigation, access roads to market, etc. would continue to contribute to enhance production. The GOL concluded in the RTM7 report that the medium-term outlook in terms of overall

economic growth would appear positive, but the challenge be addressed was equitable distribution of growth outputs through rural and regional development.

**Table 2.2 Economic and Financial Indicators 1992 - 2000 of Lao PDR**

Item - Breakdown	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
1. Total GDP Growth (%)	5.9	8.1	7.1	6.9	6.9	4	7.3	5.9
-Agriculture (Growth/Share)	2.7/56	8.3/56	3.1/54	2.3/54	7.0/53	3.1/53	8.2/52	4.4/51
-Industry (Growth/Share)	10.3/17	10.7/18	13.1/19	17.3/21	8.1/21	9.2/22	7.9/22	7.3/23
-Services (Growth/Share)	7.7/24	5.5/24	10.3/25	8.5/25	7.5/25	5.5/25	6.9/25	6.4/26
2. GDP at current prices (Kip)	951	1,109	1,419	1,726	2,201	3,745	8,700	13,780
3. GDP at constant prices (Kip)	722	781	836	893	955	983	1,035	1,157
4. Public Saving (% of GDP)	0.87	0.76	1.00	2.60	2.40	3.60	3.90	4.00
5. Budget* Revenues (Kip bill) per FY	113	136	159	217	238	367	961	1,680
Expenditures (Kip bill) per FY	171	259	294	364	421	847	1,651	2,705
6. Government revenues/GDP ratio	11.9	12.2	11.2	12.6	10.8	14.6	15.8	15.9
7. Government expenditure/GDP ratio	17.9	23.3	20.7	21.1	19.1	22.6	18.6	19.6
8. Fiscal deficit (as % of GDP)	6	11	9.5	8.5	8.3	12.8	9.97	8.53
9. Growth of money supply	64.4	32	16.4	26.7	65.8	113.3	136.7	61.14
10. Inflation (average annual rate)	6.3	6	19.4	13	26.4	142	108.3	11.9
11. Total value of exports (US\$ mill)	248	305	346	321	317	341	311	323
12. Total value of imports (US\$ mill)	432	564	589	690	648	553	525	540
13. Current account balance (US\$ mill)								
Deficit as of GDP (excl. official transfer)	- 146	- 264	- 200	- 306	-282	-129	-145	n.a
	11.1	17.1	11.4	16.5	16.3	11.53	12.58	11.81
14. Total foreign investment approved (US\$ mill)	1,538	2,597	804	1,292	154	141	155	33
-Number of approved projects	146	112	55	63	66	69	68	43
15. Direct foreign investment inflow (US\$ mill)	60	60	95	160	378	253	56	26
16. inflow (US\$ mill)	181	189	197	212	324	296	347	n.a
-of which * grants	104	125	100	71	186	196	245	n.a
17. Total debt services (US\$ mill)	n.a.	4.5	6.2	5.9	37.1	51.9	65.1	n.a

Source : Lao PDR's Document for RTM7 "Fighting Poverty through Human Resources Development, Rural Development and People's Participation

### 2.1.2 National and External Financing

The budget data provides an indication of the importance of external financing in the government expenditure. The table below provides details for the past four years and shows that foreign grants and loans account for a sizeable proportion of budget financing. On average, revenue accounted for only about one half of expenditure. In addition, domestic financing has only made a small contribution to budget financing.

**Table 2.3 1996-99 General Government Budget**

Unit: Billion Kip

	1995-96	1996-97	1997-98	1998-99
Revenue & Grants	274.9	298.2	557.0	1461.5
Of which Grants	57.6	69.9	200.0	532.3
Expenditure	364.4	412.2	864.6	1,719.0
Overall Balance excl. Grants	- 147.1	- 183.9	- 507.4	- 789.8
Financing				
Domestic	- 19.6	- 0.5	56.6	- 143.1
Foreign (Net)	109.1	113.5	223.2	393.3

Source : RTM7 documents

As far as the agricultural sector is concerned, donor commitments to foreign cooperation projects in the past few years indicate a heavy preference for irrigation and forestry activities, which together account for over 60% of agriculture funding as is seen in the following table.

**Table 2.4 Total Donor Commitments to Foreign Cooperation Projects in Agriculture**

Unit : US\$ million

	1997	1998	1999	Total	%
Agriculture	4.5	0.2	9.2	13.9	20
Livestock	1.8	4.4	2.0	8.2	12
Forestry	4.5	5.8	6.4	16.7	24
Irrigation	26.8	0.7	-	27.5	39
Meteorology	1.3	0.7		2.0	3
Other	0.5	1.2	0.4	2.1	3
Total	39.4	13.0	18.0	70.4	100.0

Source : MAF

A comparison with Five Year Plan targets indicates that foreign funds disbursed to agriculture have only been about half of the level originally indicated in the plan and it appears that there are large amount of un-disbursed funds.

The GOL's medium term Public Investment Program (PIP) and funding scenario envisages the PIP would average out at 12% of GDP. This is lower than the levels reached in 1998-99 and 1999-2000. However, the absolute amount committed to public investment would rise in real terms reflecting the expected high growth rates projected for future years.

**Table 2.5 Summary of PIP Actual Implementation 1996-2000**

Unit : Billion kip

Sector	1995-96	1996-97	1997-98	1998-99	1999-2000
Total	205.47	264.35	589.61	908.17	1701.00
Domestic	47.71	78.94	154.00	204.91	506.00
Foreign	157.76	185.41	435.60	703.26	1,195.00
Agriculture	23.35	34.02	128.90	120.10	212.61
Domestic	6.91	21.46	91.90	67.58	177.28
Foreign	16.44	12.56	37.00	52.52	35.33

Source : RTM7 documents

As distinct from the budget, the foreign component of the PIP has consistently amounted close to 80% of all investments, which has been a fairly uniform share since the early 90's. Sector allocation of foreign funding concentrated on transport and communication, which is in some ways a reflection of the government's priorities to improve the country's basic infrastructure.

For the medium term PIP to 2003, the sectoral allocation and total PIP have been targeted by the government and the planned total of 7,305 billion kip for the three year period with 2,005 billion kip in 2001, 2,500 billion kip in 2002 and 2,003 billion Kip in 2004. The GOL's priorities are in the social sectors and rural development with the relative share for the transport and communication sectors decreasing over time.

The long term government expectation is for the PIP to continue to have a ratio of 20:80 for domestic and foreign funding sources. In other words, for the three year PIP program ending 2003, the government expects to raise 1,461 billion kip through its own resource mobilization while 5,844 billion kip (US\$ 730.0 million has to be secured from donors).

### 2.1.3 National Development Challenge

There are three pillars guiding the Government's development agenda: poverty reduction, particularly in the rural and multi-ethnic areas; infrastructure development; and human resources development (HRD). The GOL's overarching development goal is to liberate the country from the group of least developed countries (LLDC) by the year 2020 through sustainable and equitable development, or to attain a GDP per capita of US\$885 (defined by DAC in 2000 constant prices) by year 2020. The national development challenge is seen in the context of wide spread poverty, weak fundamentals of the economy and a lack of capacity and resources. This commitment and recognition has led the GOL to take two distinct development approaches: growth with equity as "internal challenges"; and active participation in the region and gradually in the world economy as "external challenges".

**Internal challenges** are aimed at poverty reduction and livelihood improvement through equitable development. The main problem in the development process in Lao PDR is the lack of capacity at every level of society. The GOL considers capacity and institutional building as well as human resource development, as the major challenges and priorities for years to come, facing the fact that implementation of policies has been in most cases hampered by a lack of capacity.

Every development program or project should devote to an important component to capacity building and human resource development. Linked to the gap in capacity and human resources development, the technology and digital divide is an important issue that needs to be bridged, especially with respect to information, production and management technologies. Besides these challenges, there is the other issue of ensuring that every section of the nation has an equal access to development opportunities related to reducing the income gap and lessening rural/urban inequalities, specifically, bridging the distinct socio-economic gap between rural areas in the Mekong plains and mountainous areas.

There are large discrepancies in income per capita between regions. Social services and access to income-generating activities are limited in many parts of Lao PDR and this is a major element explaining continued income disparities. The GOL's policy in this context, therefore, is that the bulk of investments will be used to benefit the poor regions first, with a smaller part going to enhance the better-off regions, and this will be reflected in future investment programs. However, a controversial issue is how to allocate monetary resources between capital investment (for social infrastructure development) and current expenditure (for sustaining socio-economic services like education, health, agricultural extension, research, etc.) when about 80% of the budget is from external funding. Despite comments by donors in the RTM7 about putting a greater share towards current expenditure, the GOL urged donors to understand the need to maintain higher investments in infrastructure to accelerate the transition to a market economy.

**External Challenges** are primarily concerned with promoting access for national commodities access to the large ASEAN market since Lao PDR became a member of ASEAN and AFTA in 1997. This will strengthen the roles of Lao PDR as a land-link country in the center of the Greater Mekong Sub-region (GMS). As a member of ASEAN, however, Lao PDR has committed itself to the agreement on Common Effective Preferential Tariff (CEPT); implementation started in January 1999 and has to be accomplished by 2008.

Secondly, Lao PDR has to play an important role as a regional and national development interface, particularly in development programs within the GMS, taking full advantage of its location at the center of the Indochina region. This will enable it to narrow the socio-economic gap between itself and other countries of the region. Another external challenge is to improve the balance of payments in general, and the trade balance in particular. Exports have been based primarily on the use of vast natural resources, especially water for hydropower and forests for timber

exports; this reflects the weak fundamentals of the Lao economy. A particular challenge is to ensure that its economic integration in the Region should provide the capability to produce a diverse range of goods and services to improve the balance of payments and the trade balance.

## 2.2 Socio-economic Development Strategy for 2010-2020 and Five-year Socio-economic Plan V (2001-2005)

The seventh Party Conference of Lao PDR held in March 2001 approved the Fifth Socio-economic Development Plan for the five year period from 2001 to 2005. It evaluates the socio-economic development of the last 25 years, and discusses the basic development strategies towards 2010 and 2020. The five year development plan is established in the context of the past performance and the medium/long term strategy. The Fifth Socio-economic Development Plan is briefly summarized below.<sup>1/</sup>

### 2.2.1 Basic Development Strategy towards 2010-2020

The macro-objectives for socio-economic development in 2010 and 2020 are set up as follows:

	Year 2010	Year 2020
National population	6.7 million	8.3 million
GDP per capita (current price)	US\$ 700-750	US\$ 1,200-1,500
Literacy rate (over 15 years old)	84%	90%
Life expectancy	67 years	70 years

To achieve the above objectives, the Fifth Socio-economic Development Plan estimates that the GDP has to grow at an average rate of 7% per annum with total investment of 25 - 30% of GDP. Public investments have to cover 12 - 14% of GDP, while private investment should cover 13 - 16%. Investments have to be supported by increased national saving of at least 15% of GDP in the year 2020. The respective sectoral strategies are: human resource development through education reform; modernization of the basic infrastructure; expansion of electricity network; production mainly focusing on small to medium scale and traditional handicraft industries; strengthening of international market competitiveness; Government's effort through the process of globalization and regionalization in such bodies as ASEAN, WTO, ASEAN, etc; and a reasonable investment to strengthen technology for industrialization.

<sup>1/</sup> Summary text of Fifth Socio-economic Development Plan is presented in Appendix 2.

## 2.2.2 Fifth Five-year Socio-economic Development Plan (2001 - 2005)

### (1) Objectives of Socio-economic Development

The main targets of the socio-economic development plan for 2001-2005 are: to ensure the progress towards social security and political stability; to foster a climate for continued economic growth; to reduce by half current poverty levels by 2005; to achieve food security; to solve the problem of slash and burn cultivation and to strictly prohibit opium growing by allocating new permanent jobs for affected people; to enhance national savings; to pay critical attention to both state and private enterprises reforms; to develop human resource in various areas; and to support modern industry development. The objectives for the five year socio-economic development plan (2001-2005) are set as follows:

- 7-7.5% annual GDP growth;
- Sectoral GDP annual growth of 4-5% for agriculture, 10-11% for industry, and 8-9% for service;
- Sectoral product share in GDP of 47% by agriculture and forestry, 26% by industry and 27% by services;
- Single digit annual inflation rate and stable exchange rate;
- Increased annual budget revenue with 18 % of GDP during 2004-2005 and maintaining budget deficit at around 5% of GDP;
- Reduced trade deficit to 6% of GDP;
- Public investment at 12-14% of GDP and saving at about 12% of GDP in 2005; and
- GDP per capita at US\$ 500-550 in 2005 with population of 5.9 million.

### (2) Targets of Agriculture Sector and Related Sub-sectors

The specific development plans and targets for agricultural sector and its related sub-sectors are set as follows:

#### Food production

The 2005 food production target of 3 million tons including 2.7 million tons of rice grown on 770,000 ha comprising of 620,000 ha in the rainy season and 150,000 ha in the dry season. Large animal production is promoted. With a targeted growth rate of 4-5% per annum, the combined production of meat, fish, egg and milk will be around 200,000 tons in 2005.

#### Commodity production

Commodity crop production will be promoted, focussing on maize, cassava, soybean, green bean, peanut, sugarcane, cotton, sugar palm fruit, sesame, vegetables, and fruit depending upon the regional potential and market



requirements. After satisfying domestic consumption, export of livestock will be promoted with targets of 44,000 cows, 45,000 buffalo, 150,000 pigs, 5,000 tons of fish and 3,000 tons of miscellaneous by-products, by 2005

#### Elimination of slash-and-burn cultivation

Slash-and-burn cultivation should be practically eliminated by 2005. The focus will be on provinces where slash-and-burn cultivation exceeds 10,000 ha, such as Louangphrabang, Oudomxai, Phongsali, Louangnamtha and Xiangkhouang. In addition, the opium cultivation should be stopped completely by 2005, in particular focusing on the northern provinces such as: Louangphrabang, Oudomxai, Phongsali, Louangnamtha, Xiangkhouang, Houaphan and Xaignabouri. In addition, there will be a program for land and forestry reallocation under the urban plans law, land law and forestry law.

#### Irrigation

It is planned to increase the irrigated area in the wet season to 400,000 ha and in the dry season to 300,000 ha by 2005.

#### Research and experiment in agriculture and forestry sector

Various improvement activities will be promoted, namely agricultural technical centers, training centers, seed production units, agricultural machinery units, enhanced provision of credit to farmers and cooperatives and the enhancement of information both the macro and micro levels, such as land use and production standards.

#### Rural development and poverty reduction

During the next five years, rural development will be undertaken, focussing on the poorer areas in conjunction with poverty reduction, eliminating slash-and-burn and opium production. The GOL is to conduct data and information collection, surveys and studies to monitor the poverty reduction strategy. Its result will be incorporated into the implementation of national priority projects.

#### Finance and banking

To attain annual tax revenue 18 % of GDP in 2005 and to maintain budget deficit at around 5% of GDP, a tight budget policy will be implemented, and consequently unreasonable subsidies have to be abolished. The banking system will be managed based on implementing effective laws, which aims to facilitate fair competition. These laws should create the conditions and flexible mechanisms for all commercial banks to undertake the mobilization of funding

from society and then to provide more loans to the business sector. Concurrently, the problem of non-performing loans will be solved step by step in each commercial bank as well as the improved efficiency in commercial banks.

#### Foreign Economic Cooperation

By the year 2005, foreign grants and loans will be mobilized at US\$ 1.8-1.9 billion, comprising of US\$ 1.1 billion in grants and US\$ 700-800 million in loans. The foreign direct investment is anticipated to be US\$ 1.5 – 2.0 billion over the next five year period, and will be directed to the development of hydropower, the promotion of commodity production, agro-processing, livestock, processing industry, handicraft, mining and services based mainly on utilizing domestic raw materials and the labor force.

#### Human resource development

During the next five years, the main objectives for staff development include: 450 post graduate level; 3,500 under graduate level; and 7,500 associate diploma level. The number of staff at the certificate and vocational level will be greatly increased each year both by local authorities and government assistance in terms of providing qualified teachers, curricula and funds. Leading officers, managerial staff and professional staff of various related fields will be intensively trained and upgraded.

#### Investment requirement

To fulfil the five year development objectives, the capital requirement is anticipated at around 32,500 billion Kip in total during 2001-2005 or around US\$ 4 billion equivalent. It consists of 14,400 billion Kip of public investment and 18,100 billion Kip mobilized through foreign and private domestic investments. The expected public investment is five times larger than in the last five year period (1996 - 2000). The sectoral share and fund sources are expected as follows:

<b>Sectoral share</b>		
- Infrastructure sector	8,500 - 9,000 billion Kip	(60 - 65%)
- Social sector	3,500 - 4,000 billion Kip	(25 - 30%)
- Others	1,440 billion Kip	(10%)
<b>Fund sources</b>		
- Domestic	6,800 billion Kip	(47%)
- Foreign	7,600 billion Kip	(53%)

## 2.3 Trade in Global Setting

### (1) Pattern of Trade

Total imports (CIF) by Lao PDR have been consistently more than exports (FOB) resulting in a negative trade balance ranging from US\$368 million to US\$214 million annually for the last four reported years (1996 - 1999). Major items of export are garments, wood and wood products, hydropower and coffee, which accounted for 85% of exports amounting to about US\$311 million in 1999. The principal import items in 1999 totaling US\$525 million were bicycles and motorcycles, rice, sugar, paper and electric power.

In 1999, total exports decreased by 8.8% caused by an import slowdown by trading partners and intense foreign competition. In 1999, imports also decreased by 5.1% of which imports of materials for the garment industry, machinery and consumption goods decreased. Agricultural exports comprising wood and wood products and food items accounted for about 34-37% of total export value in 1996 - 1999. Wood and wood products, were the largest items, followed by coffee, maize and peanuts. In terms of imports, agricultural inputs, comprising rice mills, water pumps, tractors and agricultural implements, fertilizers and animal feed account for about 3% of the total import value and food items accounted for 12-15% of total imports in these years.

### (2) Structure of Trade Protection in Lao PDR

Tariffs are relatively low. The highest tariff is on motor vehicles and consumer imports that are classified as luxury goods. Import substitution industries also receive substantial protection. The duty exemption scheme allows import of inputs used in production for export at zero tariffs. There is also a subsidiary tariff exemption scheme that operates somewhat arbitrarily. Thus a variety of exemptions have been granted by a number of agencies and authorities. The average effective rate is 8.55% as shown in Table 2.6.

**Table 2.6 Summary of Tariff Ranges by Major Groups**

Sector	Product	Existing Tariff (%)
Agriculture	Seeds	5
	Fertilizer	5
	Other	5-40
Fisheries		5-40
Livestock	Feed	5
	Others	5-30
Consumer Goods	Luxury Foods	10-30

Source : Ministry of Commerce and Trade

The larger problem is non-tariff barriers (NTB's). There are a number of quantitative restrictions on imports and exports, a two-tier system of licenses and permits and a system of conventions that involve individual agreements between

the government and trading firms. These conventions allow firms to import and export specified products free of taxes, including tariffs, business taxes and profit taxes in return for payment of a negotiated sum. There was a high degree of arbitrariness in this process although some changes have been made in recent years to address this problem.

### (3) ASEAN and Common Effective Preferential Tariff (CEPT)

As a member of ASEAN, Lao PDR has to implement the CEPT. The implementation of CEPT scheme means bringing down the tariff rates to 0 - 5% for the AFTA regional trade block over a ten year period ending 2008. The Lao PDR accession to AFTA will impact in two ways: (i) through tariff reductions and market access resulting from the CEPT scheme; and (ii) from an increased focus that AFTA is likely to bring to trade matters in general. CEPT establishes a preferential trade agreement amongst Asian economies based on the following four product lists:

<b>Inclusion List (IL)</b>	Where products are subjected to tariff adjustments immediately to bring them into a range of 0-5% by the year 2003. Additional conditions are that (i) non-tariff barriers (NTB's) have to be eliminated within five years of inclusion of the item; (ii) quantitative restrictions (QR's) are to be eliminated immediately on inclusion; and (iii) exchange restrictions and customs surcharges are also to be eliminated.
<b>Temporary Exclusion List (TEL)</b>	TEL includes items temporarily excluded from tariff reductions. Items on this list could be included in the Inclusion List between 2001 and 2006 and have two years after 2006 to be reduced to 5%.
<b>Sensitive List (SL)</b>	SL relates to unprocessed agricultural products. These may be moved to the Inclusion List at any time within a seventeen-year period beginning 1998.
<b>General Exemption List (GEL)</b>	GEL contains items permanently excluded from tariff reductions for security or moral reasons.

Lao PDR has taken initial actions in the move to comply with AFTA accession. Initially, the tariff cuts proposed by Lao PDR were of a too long duration as most agricultural commodities were excluded from tariff reductions. The 2001 CEPT Package, however indicates that 1,673 tariff lines or about 47% of the total number of tariff lines have been transferred to the Inclusion List. This means that not only would the tariff rates for this group be down to 0-5% by 2003, but other actions such as removal of non-tariff barriers and all quantitative restrictions and customs surcharges need to be eliminated. The Package also includes the tariff reduction schedule from 2001-2008 for this Inclusion List. The list includes many agricultural products but excludes rice, live cattle/buffaloes and tobacco. These continue to be on the General Exemption List or the Sensitive List. Although it is estimated that unrecorded trade in live cattle is very large, cattle have continued to remain on the sensitive list. Rice too remains on the sensitive list. Most important export trade

commodities such as all vegetables and fruit, live fish, coffee, and all cereals now have been placed on the Inclusion List. However, a very selective process has been worked out especially in the area of vegetables and fruit. For example, while most vegetables have been placed on the IL, cabbage and onions have been selectively excluded. Milk and eggs have not been moved to the Inclusion List.

The Temporary Exclusion List covers 1,716 tariff lines from the total of 3,551. These items are placed on the TEL due to the need for revenue from import duties, domestic production protection or for ‘infant industry’ reasons. These can be excluded from tariff reduction for a maximum of eight years and have to be transferred to the IL after the fourth year. The Sensitive List currently has 88 tariff lines. The general Exemption List has 74 items.

In the short to medium term, the impact of AFTA on the agricultural sector is likely to be small. Policies on self sufficiency, regulation of trade, rural development, product diversification, the cost of inputs and the exchange rate regime are likely to be more significant factors affecting the competitiveness of Lao agriculture than tariffs alone. The reduction in tariffs is small for most commodities that are likely to figure in foreign trade.

As tariffs are reduced across ASEAN, the effect will be to drive each country to towards producing and exporting products that have a competitive advantage. Phasing tariffs early would acclimatize businesses and producers to increased competition. Many studies have indicated that Lao PDR has a comparative advantage in the production of vegetables, groundnuts, soybeans, lemons, pigs, live cattle, buffalo, coffee, sugar cane, maize, beans, indigenous fruit, and plantation grown wood.

Examination of the tariffs on agricultural items produced and exported by Lao PDR alongside its Asian partners indicate that there are areas where products have been placed on the Temporary Exclusion Lists when the same product has been placed on the Inclusion List by another ASEAN country. The effect of this is to deny Lao PDR access to any rate reductions below the Most Favorable Nation (MFN) rate by the other country. Until Lao PDR places certain items on the Inclusion List, it will not receive the benefit of preferential access to the Thai market for these products. The main areas where Lao PDR has not yet taken advantage of potential tariff preferences with Thailand are shown in Table 2.7.

**Table 2.7 Preferential Market Entry Opportunities in Thailand for Lao PDR**

Item	Tariff Line	MFN Rate	Thai Tariff under Inclusion List	Margin of Preference to be given up
Starchy roots	714.10	60	25	35
	714.20	60	25	35
	714.90	60	25	35
Potatoes	710.10	60	20	40
	710.90	60	20	40
Tomatoes	702.00	60	25	35
Cucumbers	707.00	60	25	35
Cabbages	704.90	60	25	35
Onions	703.10	60	25	35
Beans	708.20	60	25	35
Nuts, excl. Cashews, C' nuts	802.00	60	25	35
Coffee	901.00	60	25	35

Source : Ministry of Finance

It is recommended that the overall approach to AFTA and trade with ASEAN countries be to:

- (a) move agricultural items to the Inclusion List where Lao PDR tariffs are already low i.e. at the 5% level, which is the target for this list. The objective of AFTA is to build up the size of the Inclusion List;
- (b) move items to the Inclusion List where an agricultural item has been identified as having a competitive advantage for produce of the same quality. High tariffs for products that are competitive discourage investment in new technology and quality improvements;
- (c) establish schedules for reductions for all other tariffs so that producers are aware of government intentions and could therefore plan accordingly;
- (d) monitor tariff reductions and preferences in AFTA countries and make these known to prospective enterprises to take advantage of export opportunities; and
- (e) reduce tariffs on imports of farm inputs.

## 2.4 National Administration Structure and Decentralization

### (1) General

The highest executing body of the Government is the Council of Ministers, the chairman of which is the Prime Minister. The provincial governors, district chiefs and village chiefs are the chief executive officers at the respective level of the governments. The Prime Minister appoints governors and district chiefs. Governors appoint village heads after selection by the villagers among endorsed candidates.

Every ministry has its function based on decrees from the Prime Minister. Their main functions are concerned with technical matters, while the Prime Minister, governors, district chiefs and village heads are concerned with the political affairs of people in their jurisdictions. The policies of government are performed through an administrative line from the Prime Minister, governors, district chiefs and village chiefs with technical assistance from line ministries.

According to the Prime Minister's Decree No.1 on decentralization, provincial governments are defined as the strategy-making units of development. District governments are defined as the planning and budgeting units of development. Village organizations are the implementing units of development projects. At present, however, the provinces control the major part of development budgets for roads, water supply, sewerage and irrigation. These bodies decide the annual and 5-year development plans, the annual budget, the appointment of personnel in mass organizations at the provincial level, and evaluate projects, etc. Departments or units of line ministries provide consultative services to the heads of provincial governments. Governors, department or units of line ministries implement their policies through village organizations headed by a village chief, and rarely work directly with villagers.

## (2) Development Planning and Budgeting Process

The development planning process begins with the issuance of policy directives and guidelines, including an indicative spending ceiling, to each line agency from the Council of Ministers. Then the Prime Minister gives instructions on national policies, targets, priorities, and guidelines to the ministers and provincial governors in preparation of the five-year and annual plans in the forthcoming plan period. These instructions are circulated to the district chiefs with additional provincial guidelines from governors in preparation of the district plans. Then the district chiefs give detailed instructions to village chiefs in the preparation of village plans. Based on the instructions, and with assistance from district line ministries, the villages prepare and submit their development plans to district chiefs. The plans are then prioritized and forwarded to the governors. Governors consolidate the district plans and review the inter-sectoral needs and set priorities in consultation with the provincial planning departments.

The sectoral plans derived from the province plans are separately forwarded to the ministers of line ministries, which make nationwide sectoral plans. The provincial plans are reviewed during three regional meetings. Based on the regional discussions and ministerial plans, the SPC prepares the Public Investment Plan

(PIP) and then forwards the PIP to the ministry of finance for the preparation of the state budget framework. The draft state budget framework with options for adjustment of deficits will be forwarded to the council of ministers for review and revision. The ministry of finance makes a detailed draft state budget based on the state budget framework. The council of ministers reviews and endorses the draft state budget, and sends the draft to the National Assembly for consideration and approval. After the National Assembly approves the state budget, the council of ministers prepares detailed implementation instructions for each province according to the final approved resource allocations and other specifications of the National Assembly.

The implementation guidelines for state budgets are stipulated in the Prime Minister Decree No. 192 on Nov. 1999. The principles rules on the state budgets are as follows:

- The State budget is an expected plan for the annual expenditures and incomes. The State Budget is a consolidated budget from legislative, judicial, executive, province, municipality, special-zones, party and mass organizations.
- The collection of incomes for the budget through tax, customs, duties, fees must be defined by law. Neither public organizations nor public sectors are permitted to regulate the collection of separate income in order to over-turn the budget or expenditures.
- All collected income should be turned over to the State budget. It is not permitted to deduct collected money to use for specific task or to use directly for expense without first handing over the money to the State budget.
- The budgetary expenditures should exist in the budget plan, which are approved by the National Assembly in compliance with the related laws and rules.
- The Government is responsible to the National Assembly concerning the implementation of the State budget under the directions and recommendations of the Prime Minister. The Financial Minister is responsible for establishing and summarizing implementation of the State budget plan.
- The summary report of annual budget implementation is considered and approved by the National Assembly.

Not all income is not remitted to the central government. Some parts are kept or transferred between provinces. Some well-off provinces keep 40% of collected revenues for their own use and submit 60% to the central government. If collected revenues are in excess of their assigned targets, the provinces may retain 50% of the



well-off for their own use. Four provinces/areas are classified as surplus; Vientiane Municipality, Savannakhet, Champasak, and Khammouan.

Other provinces that are normally self-sufficient or in deficit may keep 100% of revenues collected in excess of their assigned targets. The use of surplus funds is according to the central government plans. Only half the provinces have so far been granted such authority.

### (3) Present Conditions in Decentralization in Public Administration

The Prime Minister decree No. 1 dated on March 1, 2000 is the legal basis for decentralization in the country. This decree delegates the central government responsibility for planning and budgeting to local governments, especially to villages in conformity with the new policy of turning towards a market economy. The decree is very general and vague, but important points are the acknowledgement of villages as independent economic entities with the rights of revenue mobilization, plan formulation and the implementation of their plans, under the regulations of and guidance from district authorities. The detailed implementation plans for decentralization have been prepared by the departments of planning and finance in each province.

The Minister of Finance issued a decree on village revenue on November 24, 2000, No. 1823/FM, in connection with decentralization. The decree stipulates the detailed guidelines for the management of village revenues. The main points of the decree are as follows. A village treasurer and assistants are selected by the district finance department. After obtaining approval from the village authorities such as the village chief and the village committee, a treasurer and assistants are appointed by the district chief. The district authority decides on sources of revenues from the following lists: land taxes according to land use types; tax on resources; tax on gross income by entrepreneurs, with gross income less than 12 million kip per year; tax on navigation; animal registration fees; fees for issuing village documents; income from the rent of equipment (bulldozers, tractors, trucks, which have not been registered) owned by the people within the village; income from construction enterprises, and private buildings within the village; income for water fees from irrigation; other taxes officially authorized by the district; and market tickets.

The shares of collected revenues by village are as follows:

- Villages locate in highly developed economic areas receive 4% of the total money collected.

- Villages locate in medium developed economic areas receive 6% of the total money collected.
- Villages locate in normally developed economic areas receive 10% of the total money collected.
- Villages locate in poorly developed economic areas, according to season and in remote areas receive 15% of the total money collected.
- Villages locate in dangerous, remote or mountainous areas, receive 50% of the total money collected.

In addition, revenue from irrigation fees is treated separately. Villages can retain part of revenue as follows: 80% for gravity irrigation; 85% for electrical pump; and 90% for diesel pump.

Villages can spend a share of the revenue under the guidance of district chiefs. As decentralization has just started in December 2000, many provinces are holding workshops and giving seminars to provide guidance and training to district and village officials on decentralization.

## **2.5 Socio-economic Setting in Rural Area**

### **2.5.1 Rural Social Structure**

Lao rural society is characterized by semi-independent villages engaged in subsistence agricultural production. Ethnic, geographic, and ecological differences create variations in the pattern of village life from one part of the country or even from one part of a province to another. Except near the larger towns and in the rich agricultural plains such as in Vientiane and Savannakhet Provinces, villages are spaced several kilometers apart and the intervening land is variously developed as rice paddy, swidden fields and sometimes maintained as buffer forest for gathering NTFPs (cardamom, benzoin, rattan etc.).

Ethnicity differentiates the villages and there are both ethnically homogenous villages and villages including more than two distinct groups. Ethnic mixing has resulted from different groups migrating to a new settlement site at the same time, or a larger village at a crossroads or river transit point developing into a minor trading center.

Occupational specialization in the rural area is low; virtually everyone is a farmer first. Some may have special skills in weaving, blacksmithing, or religious knowledge, but these skills are supplementary to the basic task of growing sufficient food for the family. Social and economic stratification tends to be low

within one village. Status accrues with age, wealth, skill in specific tasks, and religious knowledge. Factions based on kinship or political alliance might exist in a village, but this usually does not obstruct the overall village cooperation and governance. Still, one of the most certain indicators of socioeconomic status within villages is the amount of paddy land held or number of livestock possessed by each household.

It is important to understand the internal power structure in the villages since it is not appropriate to consider the village *community* as one unit. The huge varieties of social systems are determined by many factors such as ethnicity and ecological realities and this is essential in designing agricultural and rural development programs.

### 2.5.2 Consumption, Income and Employment in the Rural Sector

About 83% of the population in Laos reside in rural areas and among them, 66% are relying on subsistence agriculture. Thus there are approximately 668,000 families dependent on agriculture, of which 492,000 families are reliant on subsistence agriculture (based on 1995 Population Census). The average consumption pattern of the households in the rural area are totally different from those in urban areas as Table 2.8 shows. The dependency on self-produced food in rural areas without road access is as high as 72%.

**Table 2.8 Share in percent of total consumption by area 1997/1998**

Item	Urban Area	Rural Area with Road Access	Rural Area without Road Access
Food Consumption	51	61	68
Rice	16	30	35
Transport	13	11	8
Imputed rent, housing	18	4	3
% of self-produced	18	60	72

Source: Lao Expenditure and Consumption Survey 1997/98 (LECS 2)

As Lao Expenditure and Consumption Survey 1997/98 (LECS 2) tells, 60% of income in rural area comes from agriculture, followed by business (12%), wages (12%), and transfers (10%). This indicates that most farmers' cash income is derived from the sale of livestock, with significant income from non-farm and other sources of income. Households with any income from business in rural area are 44% on average. Meanwhile, many farms are involved in subsistence rice production with the majority of households experiencing rice deficits in certain periods each year.

As the urban-rural dis-aggregated data in employment are not available, the distribution of households for employment by activity is unclear. But by looking at the time spent on income generating activities by rural adults, it can be deduced that most time is spent on agricultural production.

**Table 2.9 Adults Time Use on Income Generating Activities in Rural Area**

Item	Urban Area (%)	Rural Area with Road Access (%)	Rural Area without Road Access (%)
Work as employed	35	9	6
Own business	33	12	6
Agriculture	21	52	52
Firewood, water, hunting, fishing	6	19	28
Handicraft	5	8	8
Total	100	100	100

Source: Lao Expenditure and Consumption Survey 1997/98 (LECS 2)

### 2.5.3 Some Key Social Indicators

Overall, in rural areas, access to markets, schools and health facilities is seriously limited. Only around 50% of national roads and less than 2% of provincial roads are paved, and inaccessibility becomes more during the wet season. Poor rural road access is a nation-wide problem. As for water supply, less than 50% of the rural population has access to safe drinking water. Inaccessibility to water supplies is more serious in mountainous areas than the lowlands. The average literacy rate in rural areas is 64% (89% in urban areas), and the literacy gender gap is very biased: 49% of female are literate in rural area while 82% in urban area can read and write. Only 5% of existing schools are in good physical condition in the rural area. The electrification rate is also rather low in rural area. Only 8% of rural households are connected to grid electricity. Without grid connection, people have to pay a relatively high price for battery recharge.<sup>2/</sup> Some other important key social indicators are summarized in the table below.

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<sup>2/</sup> All figures are based on FAO (1999), Promoting Sustainable Rural Development, Vol. V, Working Paper 5

**Table 2.10 Key Social Indicators**

	Urban Area	Rural Area
<b>General</b>		
Life expectancy at birth (male)	52	
Life expectancy at birth (female)	50	
Infant mortality rate (per 1,000 live births)	125 (1995-1999)	
<b>Health</b>		
Access to piped water or protected well*	77%	45%
Without toilet*	25%	80%
Immunization coverage**	95%	86%
% village with pharmacy	--	36%
<b>Education</b>		
Complete primary school**	60%	42%
Textbook un-availability**	67%	83%
Mean years of schooling	5.5	3.0
Female literacy rate	82%	49%
Male literacy rate	96%	79%

Note: \* % of households, \*\* % of villages

Source: Lao Expenditure and Consumption Survey 1997/98 (LECS 2)

## 2.6 Social Issue

### 2.6.1 Ethnicity

Although Laos is an ethnically diverse country, ethnic identity is not immutable. Some highland Lao (*Hmong, Tibeto-Burman, Yao*) and midland Lao (*Mon-Khmer*) individuals have adopted lowland Lao (*Tai-Kadai*) behavior and dress patterns or have intermarried with lowland Lao and have acculturated to lowland society. It is important to understand the internal power structure in the villages since it is not appropriate to consider a village “community” as one unit. The huge varieties of social systems are determined by many factors such as ethnicity and ecological realities and this is an essential consideration in designing agricultural and rural development programs. It is important to understand the internal power structure in the villages since it is not appropriate to consider the village “community” as one unit.

### **Box 1 Sensitivity to ethnicity with regard to agriculture development**

In ADB/MAF Agriculture Strategy Study Working Paper, some important issues of sensitivity to ethnicity with regard to agriculture development are pointed out. It should be noted that these issues do not affect the development programs per se, but they must be taken into consideration at the implementation stage. These issues are summarized as follows:

- a) For most ethnic groups in remote and mountainous areas, it may take more time and effort to gain their confidence in a market-oriented economy, especially with extension efforts which deal with new technologies, behaviors, method of decision-making, etc;
- b) Research must be undertaken on the existing agricultural systems particularly on the different types of shifting cultivation so that meaningful improvements can be realized. As much as possible, proposed innovations should be made to *fit* into the existing agricultural livelihood systems. Thus, on-farming testing, or learning by doing is crucial;
- c) In extension activities, demonstration should be undertaken within a specific cultural context. For example, extension staff should be made up of the major ethnic groups with the prerequisite language and cultural sensitivity skills, or various ethnic group staff should be hired as extension staff; and
- d) The indigenous knowledge system should be embraced with scientific innovation for the solution of problems.

Source: ADB/MAF(1998) Agriculture Strategy Study Working Paper No.6, Some Key Issues Related to the Agriculture Strategy Study: Upland/Highland Agriculture Systems, Ethnic Minorities and Resettlement, p.14

#### 2.6.2 Gender Issues

The status of women in Lao PDR varies among ethnic groups. In the lowland men and women inherit land equally, land owned by women before marriage remains as her property and does not convey to joint property with marriage following customary practices. However, it is different in upland and midland areas and women in these areas are likely to have a lower status and less access to resources than those in lowlands.

Women play an important role in the economy, particularly in the agricultural sector, a role bolstered by the previous socialist regime that called for greater participation of women in food production, animal husbandry and in the preservation of forests and natural resources. Of those employed in agriculture and fisheries 54% are women, while in the other activities 52% of those employed are women<sup>3/</sup>. They provide labor for such activities as land clearing and preparation, rice planting, spreading manure and chemical fertilizer in the fields and contributing to the construction of irrigation systems and reservoirs. In the rice sub-sector, women are responsible for transplanting and weeding paddy as well as transporting paddy to

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<sup>3/</sup> FAO (1999) Promoting Sustainable Rural Development, A Review of the Rural Sector Volume IV-Working Paper 4

threshing areas. Women are responsible for feeding and rearing small animals such as pigs and poultry. In the horticulture sector they are also responsible for vegetable growing, while in forestry they are responsible for minor forestry products, mainly for home consumption, including bamboo shoots, mushrooms, leaves, wild fruit, medicinal herbs and small animals. However, the number of women of agricultural and irrigation extension workers visiting field sites are fewer than men. This is partly because extension workers may have to work away from the family in distant locations.

Lao women of different ethnic groups are known for their fine traditional artistic talents, especially in silk, cotton, basket weaving, and embroidery and have contributed to generating additional household income. As the women's role in collection and use of NTFPs is recognized, there are more cases where gender perspective are incorporated in development activities including forest conservation and land use planning projects.

While there are no specific programs targeted at women in the overall Government's agricultural development strategy<sup>4/</sup>, the government has been active in providing a legal framework to enhance the role and benefits for women in development. The constitution enacted in 1991 ensures equal rights to both genders in political, social, economic and cultural affairs. In addition, a number of laws and decrees have been enacted since January 1992 including poverty reduction, insurance, inheritance, labor, family, land and election laws that provide a framework for action to enhance women's participation.

There are a number of donor-supported projects and project components under implementation that have been specifically designed to support women in development. Implementation of these programs at the grass roots level is mainly assisted by foreign NGOs. The Lao Women's Union (LWU) is the local entity responsible for assisting these foreign NGO's in implementation. It is women's mass organization with membership of about 25% of the country's female population. Still, the main constraint in formulating gender specific national policies or programs is considered as the general lack of gender dis-aggregated data.

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<sup>4/</sup> In Strategic Vision for the Agricultural Sector, gender issue is not included.

Since the LWU is a party's mass organization, the government will create a national commission under the Prime Minister's Office, endowed with the responsibility for promoting gender equality, by the end of 2001.

### 2.6.3 Resettlement

Shifting cultivation stabilization programs aim to protect the forests and natural resource base by providing sedentary settlements and new villages for households practicing slash and burn. Since 1994, the government has promoted the Focal Site approach for rural development. While some villages remain in the original location and are integrated into Focal sites, other villagers are invited to move to Focal Sites. This is due partly for financial reasons; it is less expensive to move villagers to services than to bring services and their supporting infrastructure to villagers in remote areas. It should be noted that this is closely related to the land allocation issue, since these resettlements affect the movement of people from the mountains to the lowlands; from less populated to more densely populated areas, and it might contribute to land pressures in certain areas.

At the same time, in the case of resettlement, voluntarily or otherwise, the availability of paddy land has usually been the incentive for moving. In this context, security of the people's livelihood through the increase in sedentary agricultural production should be emphasized more than the forest protection aspect. The main principle will be the increased performance of agriculture systems. This indicates that shifting cultivation may not be eradicated in the near future, but that it will be reduced and made more sustainable. This process should be undertaken on a gradual basis with the consent of concerned families and communities.

There is no government legal policy framework regarding resettlement, thus in cases where economic activity results in involuntary resettlements, e.g. through agricultural development by the private sector, there is a possibility that villagers concerned will not be appropriately compensated in the foreseeable future. Thus, the establishment of a legal framework and the formulation of government guidelines for resettlement is desired.



### **Box 2 Resettlement in Hinboun District, Khammouan Province**

When the Theun Hinboun Dam was constructed in Khammouan Province in 1998, Nam Sanam village was resettled and it was integrated into the Khounkham-Konglor Focal Site where the Theun Hinboun Power Authority is based.

Village people were consulted about resettlement because of gradual flooding but their residential area was the only land involved as their cultivation areas remained unaffected. While it was easier for the younger generation to move to a new location, which is approximately 1 km away from the old village, elder people preferred to stay. There are divided families; some older family members stayed in the old house while their children and grandchildren moved to a new village where a primary school was constructed by the Power Authority. Children visit the parents house. Older people say they cannot move because they have fruit trees that need tending. One of the incentives for young generation to resettle was electricity supply, as the Power Authority was committed to electrify the new village. But electrification is still to be achieved. Villagers go to the nearby power station to recharge their batteries. Nevertheless, Ban Nam Sanam is one of the most privileged villages in the Khounkham-Konglor Focal Site area due to the presence of the Power Authority. Now a health service is available and there is a regular visit of a health officer from the Power Authority Health Center. One villager said he would continue to visit his aged parents until they would agree to join his family in the new location. The younger generation is more receptive to the idea of moving and more favorable even to a radical change in their way of life, while older people feel more attached to their traditional values and lifestyle.

Source: Interview in Nam Sanam Village

#### 2.6.4 Poverty Alleviation

Poverty is measured either by consumption or income. If measured by income poverty is measured as the percentage of individuals in the population whose incomes fall below a pre-determined poverty line. If measured by consumption per capita, real consumption of food and non-food items is used based on a poverty line constructed using nutritional requirements. Poverty measured by consumption has the advantage of presenting a more stable result than income due to less annual variation and is also more precise. Measured by consumption, 45% of the Lao PDR population lived in poverty in 1992-93, whereas in 1997-98, the percentage of poor fell to 39%.

The incidence of poverty varies substantially between regions and provinces. The Northern region has the highest percentage of the poor at 58% in 1992-93 and declined to 53% in 1997-98. In contrast, the incidence of poverty in Vientiane municipality is the lowest: 24% in 1992-93 down to 12% in 1997-8. There are also differences in poverty between provinces. Houaphan in the northern region is identified as the poorest province with 75% living in poverty.

**Table 2.11 Percentage of Poor by Regions and Provinces- 1992-93 and 1997-98**

Region/Province	1992-93	1997-98	Annual Growth Rate
Vientiane Municipality	24.4	12.2	-13.9
<b>Northern Region</b>	58.4	52.5	-2.1
Phongsali	68.7	64.2	-1.3
Louangnamtha	60.3	57.5	-1.0
Oudomxai	51.1	73.2	7.2
Bokeo	63.5	37.4	-10.6
Luangphrabang	62.7	49.4	-4.8
Houaphan	78.4	74.6	-1.0
Xaignabouri	30.1	21.2	-7.0
Central Region	39.5	34.9	-2.5
Xiangkhouang	57.3	34.9	-9.9
Vientiane Province	28.1	24.3	-2.9
Borikhamxai	10.6	25.8	17.8
Khammouan	43.7	41.6	-1.0
Savannakhet	45.7	37.1	-4.2
Xaisomboun-SR		55.0	
Southern Region	45.9	38.4	-3.6
Saravan	36.7	39.6	1.5
Xekong	65.9	45.7	-7.3
Champasak	43.6	35.6	-4.1
Attapu	72.2	45.3	-9.3
<b>All Laos</b>	<b>45.0</b>	<b>38.6</b>	<b>-3.1</b>

Source: RTM7 documents

Of the 18 provinces, five had a poverty incidence exceeding fifty percent in 1997-98. Of these five, four are located in the northern region, namely Phongsali, Louangnamtha, Oudomxai and Houaphan. In three provinces namely Oudomxai, Borikhamxai and Saravan, the incidence of poverty increased between the two periods.

The urban-rural poverty disparity is large. In 1997-98 for urban areas the poverty incidence was 27% while for rural areas it was 41%. Large differences in the percentages of the poor between urban and rural areas occur between regions and provinces.

**Table 2.12 Incidence of Poverty by Regions and Rural and Urban Areas**

Region	Urban Areas		Annual Growth Rate	Rural Areas		Annual Growth Rate
	1992-93	1997-98		1992-93	1997-98	
Vientiane Municipality	22.5	16.7	-5.9	30.1	4.5	-38.2
North Region	48.9	43.3	- 2.5	60.4	53.5	-2.4
Central Region	37.4	27.6	-6.1	39.9	35.9	22.1
Southern Region	27.6	35.8	5.2	49.6	38.7	-5.0
Laos	33.1	26.8	-4.2	48.6	41.0	-3.4

Source: RTM7 documents

Rapid Poverty Assessments undertaken in 1997 and consumption expenditure surveys establish the characteristics of poor rural farmers. A significant number of households do not produce enough rice to feed themselves throughout the year and more than 80% of villagers report that the most important crop is eaten not sold. The degree of rice self-sufficiency is the primary determinant of poverty. Off-farm activities are an important factor to supplement household incomes. About 20% of rural households had to supplement their farm income with off-farm sources such as handicrafts or NTFPs to be able to meet all their food needs. The households deficient in food were due to the low-input/low-output system where irrigation is rare, double cropping scarce with land holding on average of only 1.4 hectares. The reasons for the low productivity are a combination of supply and demand factors. Lack of arable land (both paddy and swidden), livestock disease, poor health, need to hire labor, and lack of technical knowledge and skills, lack of accessibility (especially roads) and poor housing were determinants of poverty. Access to funds and the lack of credit for ploughing were identified as the main credit need followed by credit for forest activities. Absence of credit facilities as well as a lack of confidence in loan procedures for group loans were given as important factors for low productivity. While extension services were available, the quality of the service was considered to be poor, as visits were mainly to monitor production targets.

The Rapid Poverty Assessments of 1997 showed that it was widely accepted by farmers that facilitating access of the poorest people to agricultural extension services would have a critical bearing on the social impact of agricultural change and modernization and consequently on poverty alleviation. In addition, most Lao farmers do not use modern inputs such as fertilizers and pesticides. These problems are reflected in the low level of marketing – 50% of Lao villages do not market any of their three most important crops.

The most important policy related objective in the government's overall agricultural development strategy is rural poverty alleviation and the development of household food security. In this regard, further analysis in the World Bank's poverty study showed that the higher the level of education of the household head, the lower the incidence of poverty. Poverty declines with the age of the household head and poverty in female-headed households was less than in male-headed households. The findings also show that in many areas, the integration of rural people into the market economy is marginal and that there are limited opportunities for diversification. Improving the standard of living of the rural population requires development of rural infrastructure, particularly access roads, increased public sector investment to support agricultural development and actions to foster rural

market development. In keeping with these objectives, the top priorities among agricultural investments from the point of view of poverty alleviation are:

- (1) Resolution of rice cultivation issues, in particular, increasing the amount of production land. This could be achieved, amongst others, through implementation of enforceable tenure rights for land and forest resources,
- (2) Increase in livestock holdings, solving livestock disease problems, and providing funding mechanisms for increasing livestock holdings;
- (3) Reliable production of cash crops;
- (4) Access to rural factor markets; specifically, lifting any restrictions on the free movement of people within Lao PDR to develop efficient rural labor markets; and
- (5) Access roads development.

In addition, the following objectives should be pursued:

- (1) Human resource development in matters of extension services regarding farming systems and livestock to respond to farmers needs;
- (2) “Trial and error” experimentation in the upland areas, where poverty is most acute and identification of the most appropriate farming systems; and
- (3) Support for small-scale farmers in market driven lowland areas.