

Japan International
Forestry
Cooperation Agency
Republic
(JICA)

Ministry of Agriculture and
Lao People's Democratic

**MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**VOLUME III
APPENDICES**

OCTOBER 2001

Nippon Koei Co., Ltd.
KRI International Corp.

LIST OF REPORTS

VOLUME I MAIN REPORT

VOLUME II PROFILES FOR PRIORITY PROJECTS AND PROGRAMS

VOLUME III APPENDICES

- Appendix 1 Scope of Work and Minutes of Meeting
- Appendix 2 Socio-Economy and Government Strategies of Agricultural Development
- Appendix 3 Administration, Government Finance and Institution
- Appendix 4 Meteo-hydrology and Water Resource
- Appendix 5 Land and Forest Resources
- Appendix 6 Field Crops
- Appendix 7 Livestock and Fisheries
- Appendix 8 Shifting Cultivation, Agro-forestry, NTFPs and Related Livelihood Activities
- Appendix 9 Agriculture Supporting Services
- Appendix 10 Human Resources Development
- Appendix 11 Rural Finance
- Appendix 12 Marketing and Agro-Processing
- Appendix 13 Rural Development
- Appendix 14 Irrigation Development
- Appendix 15 Social Aspects in Agriculture and Rural development
- Appendix 16 International Cooperation and Assistance
- Appendix 17 Study on Priority Schemes in Boloven Plateau Agriculture and Rural Development Project
- Appendix 18 Environmental Issues
- Appendix 19 Past and Current Agricultural Development Projects
- Appendix 20 Website for the Master Plan Study on Integrated Agricultural Development in Lao PDR

CURRENCY EQUIVALENTS

US\$ 1.00 = Kip 8,220 = ¥ 114 as of 29th December 2000

Appendix 1
Scope of Work and Minutes of Meeting

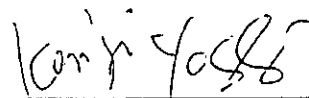
SCOPE OF WORK
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY

VIENTIANE, 30 JUNE, 2000



Mr. Phouvieng LATDAVONG
Permanent Secretary,
Ministry of Agriculture
and Forestry,
Lao People's Democratic Republic



Dr. Kenji YOSHINAGA
Leader,
Preparatory Study Team,
Japan International
Cooperation Agency (JICA)

I. INTRODUCTION

In response to the request of the Government of the Lao People's Democratic Republic (hereinafter referred to as "GOL"), the Government of Japan (hereinafter referred to as "GOJ") has decided to conduct Master Plan Study on Integrated Agricultural Development in the Lao People's Democratic Republic (hereinafter referred to as "the Study"), in accordance with the relevant laws and regulations in force in Japan.

The Master Plan aims at improvement of agricultural conditions and rural development of the Lao People's Democratic Republic.

Accordingly, Japan International Cooperation Agency (hereinafter referred to as "JICA"), the official agency responsible for the implementation of the technical cooperation programs of GOJ, will undertake the Study in close cooperation with the authorities concerned of GOL.

The present document sets forth the Scope of Work with regard to the Study.

II. OBJECTIVES OF THE STUDY

The objectives of the Study are ;

1. to formulate the Master Plan consisting of agricultural development action plans in the framework of "The Government's Strategic Vision for the Agricultural Sector" and "Vision for Agricultural and Forestry Development until the Year 2020", which were authorized by GOL.
2. to carry out technology transfer to Lao counterpart personnel through on-the-job training in the course of the Study.

III. STUDY AREA

The Study area shall cover an entire country of the Lao People's Democratic Republic.

IV. SCOPE OF THE STUDY

In order to achieve the objectives mentioned above, the Study shall cover the following.

1. to review and to analyze the following visions, strategies and projects;
 - a. The Government's Strategic Vision for the Agricultural Sector,
 - b. Vision for Agricultural and Forestry Development until the Year 2020,
 - c. Agricultural and/or rural development projects implemented by GOL and aid agencies.
2. to collect data and information, with interviews of governmental agencies concerned, private organizations and farmers, on the following aspects;
 - a. Administrative and management capacity of project implementation,
 - b. Agricultural conditions including marketing, post-harvesting technology and agro-processing,
 - c. Socio-economic and natural conditions including hydro-meteorological conditions,
 - d. Environmental and social constraints,

e. Others.

3. to formulate following agricultural development action plans until the year 2020 based on the studies 1. and 2. mentioned above;

- a. Food production,
- b. Commodities production,
- c. Stabilization / reduction of slash-and-burn shifting cultivation,
- d. Irrigation and drainage development,
- e. Agriculture and forestry research and extension,
- f. Human resources development,
- g. Other related rural development plans including fisheries.

4. to formulate prior projects to be implemented by the Central Government based on the action plans until the year 2010 including;

- a. Implementation plans with due consideration to the organizational set-up and the capacity building of GOL,
- b. Implementation schedule for institutional improvement of the Ministry of Agriculture and Forestry (hereinafter referred to as "MAF"),
- c. Estimation of the costs and the benefits,
- d. Initial environmental examination, if necessary.

5. to select priority areas and to formulate model projects to be implemented by Local Government undertaking;

- a. Selection of priority areas with due consideration to the action plans,
- b. Prioritization of projects in each selected priority area,
- c. Collaboration with implementation plans by the Central Government,
- d. Coordination with existing projects,
- e. Estimation of the costs and the benefits,
- f. Initial environmental examination, if necessary.

6. workshop

The Study should be implemented in close collaboration and consultation with central and local governmental agencies, other aid agencies, NGO's and private organizations in the field. In order to inform the concerned parties of the details of action plans and projects, and to get their opinions and comments, workshops should be held. Through the workshop, their comments should be incorporated into action plans and projects.

V. STUDY SCHEDULE

The Study will be carried out in accordance with the attached tentative schedule (See ANNEX).

VI. REPORTS

JICA shall prepare and submit the following reports in English to GOL;

1. Inception Report

Thirty(30) copies at the commencement of the Study.

2. Interim Report

Thirty (30) copies.



3. Draft Final Report
Thirty(30) copies after the home office work in Japan. GOL shall submit its comments to JICA on the Draft Final Report within one (1) month after receipt of the Draft Final Report.
4. Final Report
Sixty (60) copies within two (2) months after receipt of GOL's comments on the Draft Final Report.

VII. UNDERTAKING OF GOL

1. To facilitate smooth conduct of the Study, GOL shall take necessary measures ;
 - a. to secure the safety of the Japanese study team (hereinafter "the Team"),
 - b. to permit the members of the Team to enter, leave and sojourn in the Lao People's Democratic Republic (hereinafter referred to as "Lao PDR") for the duration of their assignment therein, and exempt them from foreign registration requirements and consular fees,
 - c. to exempt the members of the Team from taxes, duties, fees and other charges on equipment, machinery and other materials brought into and out of the Lao PDR for the conduct of the Study,
 - d. to exempt the members of the Team from income tax and charges of any kind imposed on or in connection with any emoluments or allowances paid to the members of the Team for their services in connection with the implementation of the Study,
 - e. to provide necessary facilities to the Team for the remittance as well as utilization of the funds introduced into the Lao PDR from Japan in connection with the implementation of the Study,
 - f. to secure permission for entry into private properties or restricted areas for the implementation of the Study,
 - g. to secure permission for the Team to take all data and documents (including photographs and maps) related to the Study out of the Lao PDR to Japan, and
 - h. to provide medical services as needed. Its expenses will be chargeable on the members of the Team.
2. GOL shall bear claims, if any arises, against the members of the Team resulting from, occurring in the course of, or otherwise connected with, the discharge of their duties in the implementation of the Study, except when such claims arise from gross negligence or willful misconduct on the part of the members of the Team.
3. MAF shall act as a counterpart agency to the Team and also as a coordinating body in relation with other governmental and non-governmental organizations concerned for the smooth implementation of the Study.
4. MAF shall, at their own expenses, provide the Team with the following, in cooperation with other organizations concerned ;
 - a. Available data and information related to the Study,
 - b. Counterpart personnel,
 - c. Suitable office space with necessary equipment in Vientiane, and
 - d. Credentials or identification cards.

VIII. UNDERTAKING OF JICA

For the implementation of the Study, JICA shall take the following measures;

1. to dispatch, at its own expense, the Team to the Lao PDR, and
2. to pursue technology transfer to the Lao counterpart personnel in the course of the Study.

IX. CONSULTATION

JICA and MAF shall consult with each other in respect of any matter that may arise from or in connection with the Study.

TENTATIVE SCHEDULE

Month	1	2	3	4	5	6	7	8	9	10	11
Works in the Lao PDR											
Workshop in the Lao PDR											
Works in Japan											
Reports	▲ Ic/R				▲ It/R				▲ DF/R	○	▲ F/R

(Remarks)

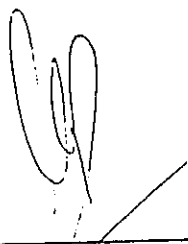
- Ic/R : Inception Report
- It/R : Interim Report
- DF/R : Draft Final Report
- F/R : Final Report
- : Comments on DF/R by Lao side



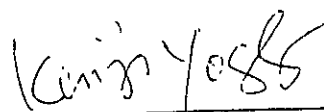
MINUTES OF MEETING
ON
SCOPE OF WORK
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY

VIENTIANE, 30 JUNE, 2000



Mr. Phouvieng LATDAVONG
Permanent Secretary,
Ministry of Agriculture
and Forestry,
Lao People's Democratic Republic



Dr. Kenji YOSHINAGA
Leader,
Preparatory Study Team,
Japan International
Cooperation Agency (JICA)

The preparatory study team (hereinafter referred to as "the Team") organized by Japan International Cooperation Agency (hereinafter referred to as "JICA"), and headed by Dr. Kenji YOSHINAGA, visited the Lao People's Democratic Republic from 26 June to 4 July, 2000 for the purpose of discussing and exchanging views in relation to the Scope of Work for Master Plan Study on Integrated Agricultural Development in the Lao People's Democratic Republic (hereinafter referred to as "the Study") with the officials concerned of the Government of the Lao People's Democratic Republic (hereinafter referred to as "GOL").

As a result of the discussions, GOL and the Team mutually agreed to the Scope of Work for the Study.

The following was noted as minutes of meeting to confirm main issues discussed and matters agreed upon by both sides. The list of participants in a series of meetings is attached as ANNEX.

1. Both sides confirmed that Ministry of Agriculture and Forestry (hereinafter referred to as "MAF") shall act as a counterpart agency to the team to be dispatched for the Study (hereinafter referred to as "the Study Team") and also as a coordinating body in relation with other governmental and non-governmental organizations concerned for the smooth implementation of the Study, and that Ministerial Cabinet would coordinate organizations of MAF.

2. A Steering Committee (hereinafter referred to as "S/C") will be established at the beginning of the Study to discuss and to coordinate the outcome of the Study. The members of S/C will include the representatives from following organizations.

MAF Permanent Secretary as chairperson
SPC (State Planning Committee)
CIC (Committee for Investment and Cooperation)
MCT (Ministry of Commerce and Tourism)
MIH (Ministry of Industry and Handicraft)
APB (Agriculture Promotion Bank)
Central Leading Committee for Rural Development
Lao National Mekong Committee
All Departments of MAF
Major Provincial Governments
(Vientiane province, Savannakhet province, Luanpabang province,
Champasack province, Oudomxay province and
Vientiane municipality)
JICA

3. Both sides confirmed that field survey by the Study Team would be conducted under the secure of safety. If security problems should occur, the field survey area could be restricted.

4. MAF will make necessary arrangements to provide counterpart personnel from relevant organizations to the Study Team to facilitate the execution of the Study.

5. MAF shall provide suitable office spaces with necessary number of desks, chairs, electricity and telephone-lines to the Study Team.
6. Final reports of the Study will be made public.
7. Both sides confirmed that the Study would be conducted with close cooperation and coordination with "Macroeconomic Policy Support for Socio-Economic Development in the Lao PDR" that was launched recently by JICA.
8. Both sides confirmed that observation systems of hydro-meteorological conditions needed to be improved. Existing systems will be reviewed, and model systems will be set up in high potential areas in the course of the Study.
9. MAF requested that vehicles for the Study Team should be arranged by JICA. The Team will convey the request to the Government of Japan.
10. MAF requested the counterpart training in Japan in relation to the Study to facilitate an effective technology transfer. The Team will convey the request to the Government of Japan.

LIST OF PARTICIPANTS

【Ministry of Agriculture and Forestry】	
Dr. Bounkuang SOUVANNAPHANH	Deputy Director General DOP
Mr. Pheng PIENGPANYA	Deputy Director General DOMH
Mr. Chanthaneth SIMAHANO	Deputy Director of DICI PSO
Mr. Kham PHALAKHONE	Deputy Chief of Planning Division DOP
Mr. Viengsavanh MANIVONG	Deputy Head of Planning Division NAFRI
Mr. Somphanh CHANPENGXAY	Head of Planning Division DOLF
Mr. Somchay SANONTY	Deputy Head of Planning Division DOF
Mr. Viengnakhone OUDOMSONE	Deputy Director of Planning Division DOI
Mr. Bounlouane DOUANGNGEUN	Cooperation Official DOA
Mr. Yasunori ARAKI	JICA Expert PSO
Mr. Mitsukuni WATANABE	JICA Expert DOI
Mr. Sakio NISHIYAMA	JICA Expert DOMH
Mr. Noriyoshi KITAMURA	JICA Expert DOF
【Preparatory Study Team】	
Dr. Kenji YOSHINAGA	Leader, Agriculture Policy
Mr. Mitsuo NAKAMURA	Sub-Leader, Cooperation for Agricultural Development
Prof. Motoyoshi SUZUKI	Rural Society and Organization
Mr. Hiroyuki HATORI	Reduction of Slash-and-Burn
Mr. Tomoyuki MASE	Cultivation and Agro-Forestry Study Planning
【JICA Laos Office】	
Mr. Hiroshi HIDAKA	Assistant Resident Representative
Ms. Mayuri HIRATA	Project Formulation Advisor
Ms. Sirixai PHANTHAVONG	Prospective Program Officer
Ms. Rinako KUSACHI	Research and Study Consultant

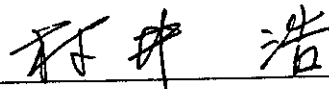
**MINUTES OF MEETING
ON
INCEPTION REPORT
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY**

VIENTIANE, 30 NOVEMBER, 2000

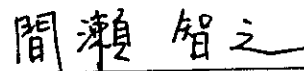


Mr. Anonth KHAMHUNG
Director General
Department of Planning
Ministry of Agriculture and Forestry,
Lao People's Democratic Republic



Mr. Yutaka MURAI
Leader
Study Team
Japan International Cooperation Agency
(JICA)

Witnessed by



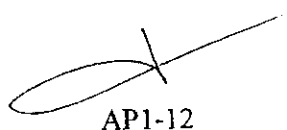
Mr. Tomoyuki MASE
Advisory Team
Japan International Cooperation Agency
(JICA)

In accordance with the Scope of Work (S/W) for "Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic" (hereinafter referred to as "the Study"), the Government of Japan dispatched through Japan International Cooperation Agency (hereinafter referred to as "JICA") the Study Team headed by Mr. Yutaka MURAI and the Advisory Team headed by Mr. Tomoyuki MASE for commencing the Study to Lao People's Democratic Republic (hereinafter referred to as "Lao PDR").

The meeting on the Inception Report was held between the Steering Committee for the Study (hereinafter referred to as "the S/C") and the JICA Study Team on November 28th, 2000. The meeting was chaired by Mr. Anonth KHAMHUNG, Director General, the Department of Planning, the Ministry of Agriculture and Forestry (herein after referred to as "MAF"). After the presentation by the JICA Study Team on contents of the Inception Report to the attendants at the meeting, various discussions were made between the S/C and the JICA Study Team, and the Inception Report was accepted by the S/C. The both sides agreed to proceed to the next stage of the Study in accordance with the approaches and the plan of operation stipulated in the Inception Report.

- (1) The S/C remarks that the Study has to be conducted, referring to two sets of information, i.e. macro-economic frameworks and sectoral papers that are available in CIC and SPC. The S/C also points out that the Study needs to focus on the existing sector strategies with prioritization so as to formulate realistic master plan, keeping close contact with the relevant agencies.
- (2) The orientation workshop for the representatives of all the Provinces will be held at separate places at least before December 15th, 2000. Its schedule including times and places will be decided in detail between MAF and the JICA Study Team. MAF will make necessary arrangements for inviting the provincial representatives.
- (3) MAF will make necessary arrangements to obtain any necessary data and information including digital GIS data handled by Ministries and agencies concerned.
- (4) Both sides agree to establish web-site for the Study within MAF in principle.
- (5) MAF forms a Working Group headed by Dr. Bounkuang SOUVANNAPHANH, the Deputy Director General, Department of Planning, MAF, functioning as the counterpart team that provides counterpart personnel for each expert of the JICA Study Team in accordance with the assignment schedule. MAF will prepare the member list of the Working Group by December 5th, 2000.
- (6) MAF provides the JICA Study Team with suitable office spaces with necessary number of desks, chairs, electricity and telephone-line at the Head Quarter of MAF in Vientiane by December 3rd, 2000.
- (7) MAF will take necessary actions at their discretion for further steps towards the implementation stage based on the outputs of the Study.

The attendants of the meeting are listed in ANNEX-I, and the member of the S/C are listed in ANNEX-II as attached hereto.



ANNEX-I

List of Attendants

Steering Committee

Mr. Anonth KHAMHUNG	Chairperson of S/C, DG of DOP, MAF
Dr. PhouangParisak PRAVONGVIENGKHAM	Vice-Chairman, Deputy Permanent Secretary, MAF
Mr. Thexong SAVANGTONG	Deputy Director General, Department of Personnel, MAF
Mr. Phetsamay VONGKHAMMOUNTY	Deputy Director General, DOF, MAF
Mr. Thanouxay OUNTHUANG	Deputy Director General, DOI, MAF
Mr. Pheng PIENGPANYA	Deputy Director General, DOMH, MAF
Mr. Mahanakhone SOURIYA	Deputy Director General, DOLF, MAF
Mr. Bounthong BOUAHOM	Deputy Director General, NAFRI
Mr. Khame PHALAKHONE	Deputy Chief, Planning Division, DOP, MAF
Mr. Vilaysouk KHENNAVONG	Head of Division, DOA, MAF
Mr. Khamphet VONGDALA	Officer, Institute for Trade and Tourism, MCT
Mr. Arounyadeth RASPHONE	Technical Officer, CIC
Mr. Phylavanh NASOLIKTHIM	Deputy Chief of Division, CLCRDO
Mr. Chanthaneth SIMAHANO	Deputy Director, International Coop. Division, MAF

JICA Experts of Ministry of Agriculture and Forestry (MAF)

Mr. Yasunori ARAKI	JICA Expert, PSO, MAF
Mr. Mitsukuni WATANABE	JICA Expert, DOI, MAF
Mr. Sakio NISHIYAMA	JICA Expert, DOMH, MAF

JICA Advisory Team

Mr. Tomoyuki MASE	Project Coordinator, Agricultural Development Study Division, Agriculture, Forestry and Fisheries Development Study Department, JICA Headquarter
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JICA Study Team

Mr. Yutaka MURAI	Team Leader / Agriculture Policy
Mr. Hisashi IKEWADA	Administration / Decentralization
Mr. Oudet SOUVANNAVONG	Rural Capacity Building / Human Resource Dev.
Mr. Hiroshi YASUDA	Agro- Processing and Marketing
Mr. Makoto ISHIZUKA	Rural Development
Mr. Mitsuru SONOE	Society and Culture (1)
Mr. Shigeya OTSUKA	Rural Infrastructure / Operation and Maintenance
Mr. Shoichiro BAN	Meteo-Hydrology

JICA Laos Office

Mr. Hiroshi HIDAKA	Assistant Resident Representative
Ms. Mayuri HIRATA	Project Formulation Advisor
Ms. Sirixai PHANTHAVONG	Prospective Program Officer

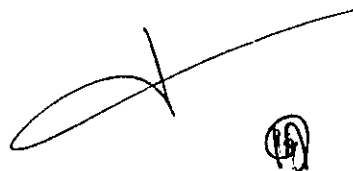


ANNEX-II

Members of Steering Committee for Master Plan Study on Integrated Agricultural Development in Lao PDR

Mr.Anonth KHAMHUNG	DG of DOP, MAF Chairman
Dr.Phouang Parisak PRAVONGVIENGKHAM	Deputy Permanent Secretary, MAF Vice-Chairman
Mr.Thexong SAVANGTONG	Deputy DG, Department of Personnel, MAF
Mr.Bounliep CHOUNTHAVONG	Deputy DG, DOA, MAF
Mr.Phetsamay VONGKHAMMOUNTY	Deputy DG, DOF, MAF
Mr.Thanousay OUNTHOUANG	Deputy DG, DOI, MAF
Mr. Pheng PIENGPANYA	Deputy DG, DOMH, MAF
Mr.Mahanakhone SOURIYA	Deputy DG, DOLF, MAF
Mr.Bounsom PHOMMAVIHAN	Deputy DG , Department of Economy MOFA
Mr.Silisamphan VORACHITH	Deputy DG of Economy, Trade and Tourism Research Institute, Ministry of Commerce and Tourism
Mr.Latsamy KEOMANY	Deputy DG of Office International Cooperation CIC
Mr.Songhua VANGVONGXAY	Deputy DG, Rural Development Committee Office

Remark : The Committee has to communicate and cooperate with the organization concerned in order to prepare for the Study by the Japanese Team.



**MINUTES OF MEETING
ON
PROGRESS REPORT (1)
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY**

Vientiane, 7 March, 2001



Mr. Anonth KHAMHUNG
Director General
Department of Planning
Ministry of Agriculture and Forestry,
Lao People's Democratic Republic

Mr. Yutaka MURAI
Leader
Study Team
Japan International Cooperation Agency
(JICA)

In accordance with the Scope of Work (S/W) for "Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic" (hereinafter referred to as "the Study"), the Government of Japan dispatched through Japan International Cooperation Agency (hereinafter referred to as "JICA") the Study Team submitted Progress Report (1) presenting the results of Phase I field activities including summaries of three workshops; (i) orientation workshops on December 12/15, 2000, (ii) first provincial workshops on January 30, 2001, and (iii) first central workshop on March 1, 2001. The meeting on the Progress Report (1) was held between the Ministry of Agriculture and Forestry's (MAF's) Working Group for the Study and the JICA Study Team on March 7, 2001. The meeting was chaired by Mr. Chanthaneth SIMAHANO, Deputy Director of International Cooperation and Investment Division, Permanent Secretary Office, MAF.

1. After the JICA Study Team outlined the Progress Report (1) to the attendants at the meeting, various discussions were made between the Working Group and the JICA Study Team, and the Progress Report (1) was accepted by the Working Group, subject to the conditions mentioned below:
 - (1) MAF will review the Progress Report (1), and inform the Study Team in Tokyo of MAF's comments by March 20, 2001, so that the Interim Report be finalised taking the MAF's comments into consideration;
 - (2) The Study Team will review the past projects in the course of preparing implementation programs of priority projects in Phase II work, so that lessons learnt from the past projects be incorporated in the formulation of priority projects;
 - (3) The Study Team will re-examine the priority of project titled "DOP Strengthening of focusing on Planning and Statistical Capacity at the National Level" (page A-21 in Annex 2) on the basis of written comments by MAF that will be available for the Study Team by March 15, 2001; and
 - (4) The executing agency for the project titled "Agricultural Development Project" (page A-36 in Annex 2) should be read as the Department of Planning (DOP)/MAF.

2. The Working Group and the JICA Study Team confirmed the following issues:
 - (1) MAF's Web Site (home page) will be publicly opened at least by the end of March 2001 upon a clearance within MAF; and
 - (2) The JICA Study Team requests MAF to ensure the continued assignment of counterpart personnel for Phase II field studies, since the respective members of the JICA Study Team will need more frequent field reconnaissance in the Phase II work.

3. The attendants of the meeting are listed in ANNEX-I.



ANNEX-I

List of Attendants

Working Group, MAF

Mr. Chanthaneth SIMAHANO	Deputy Director, International Coop. Division, MAF
Mr. Khamé PHALAKHONE	Deputy Chief, Planning Division, DOP, MAF
Mr. Somphachanh VONGPHASOUVANE	NAFRI/MAF
Mr. Bounlam KHONESAVANH	Rural Development Project/MAF
Mr. Thongphanh PHANTHALANXY	DOF/MAF
Mr. Phaidy PHLAXAYXARAKHAM	DOA/MAF
Mr. Somphanh CHANPHENGXAY	DOLF/MAF
Mr. Khamthieng PHOMSAVATH	DOPS/MAF
Mr. Khamhou PHANTHAVONG	DOI/MAF

JICA Experts, MAF

Mr. Yasunori ARAKI	JICA Expert, PSO, MAF
Mr. Mitsukuni WATANABE	JICA Expert, DOI, MAF

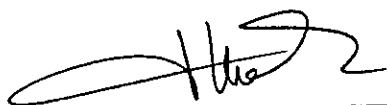
JICA Study Team

Mr. Yutaka MURAI	Team Leader / Agriculture Policy
Mr. Tetsunari GEJO	Agriculture Supporting Institution
Mr. Hisashi IKEWADA	Administration / Decentralization
Mr. Oudet SOUVANNAVONG	Rural Capacity Building / Human Resource Development
Mr. Hiroshi YASUDA	Agro- Processing and Marketing
Mr. Makoto ISHIZUKA	Rural Development
Mr. Robert John TRETHERWIE	Agro-forestry
Mr. Mitsuru SONOE	Society and Culture (1)
Ms. Mariko SHIOHATA	Society and Culture (2)
Mr. Shigeya OTSUKA	Rural Infrastructure / Operation and Maintenance
Mr. Keith OPENSHAW	Natural Environment
Mr. Shoichiro BAN	Meteo-Hydrology

**MINUTES OF MEETING
ON
INTERIM REPORT
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY**

April 27, 2001
in Vientiane



Mr. Anonth KHAMHUNG
Director General
Department of Planning
Ministry of Agriculture and Forestry,
Lao People's Democratic Republic

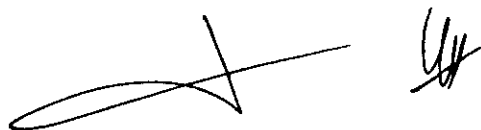


Mr. Yutaka MURAI
Leader
Study Team
Japan International Cooperation Agency
(JICA)

In accordance with the Scope of Work (S/W) for "Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic" (hereinafter referred to as "the Study"), the Government of Japan dispatched through Japan International Cooperation Agency (hereinafter referred to as "JICA") the Study Team submitted Interim Report presenting the results of Phase I study including the Action Plan. The meeting on Interim Report was held between the Steering Committee for the Study and the JICA Study Team on April 26, 2001. The meeting was chaired by Mr. Anonth KHAMHUNG, Director General, Department of Planning, MAF. After the JICA Study Team outlined the Interim Report and the Team's response to comments on Progress Report (1), discussion was subsequently made between the Steering Committee and the Study Team. The Interim Report was accepted by the Steering Committee, and the both sides agreed to proceed to the Phase II study, taking the following points into consideration:

- (1) Since the respective departments of MAF have mandate programs in each area, e.g. that there are different process in seed multiplication programs in DOA between rice and maize, the Study has to specify the project/program activities in each area through discussion with the related departments;
- (2) Some of projects/programs identified in the Action Plan are existing ones which have been in operation as the long span programs, and therefore the Study has to give clear programs and activities in the respective phases of those projects/programs;
- (3) Some wording in the part of Institutions and Organisation have to be adequately reconsidered, as well as correction of wrong spelling in map and descriptions;
- (4) The Study Team will arrange programs for transfer of technology on particular issues; and
- (5) The members of Steering Committee are to forward further comments on Interim Report in writing to the Study Team through the Department of Planning of MAF by May 25, 2001.

The attendants of the meeting are listed in ANNEX-I.



ANNEX-I

List of Attendants

Steering Committee/Ministry of Agriculture and Forestry

Mr. Anonth KHAMHUNG	Chairperson of S/C, DG of DOP, MAF
Mr. Langsy SAYVISITH	DG of DOI, MAF
Mr. Singkham PHONVISAY	DG of DOLF, MAF
Dr. Bounkouang SOUVANNAPHANH	DDG of DOP, MAF
Mr. Bounliep CHOUNTHAVONG	DDG of DOA, MAF
Mr. Pheng PIENGPANYA	DDG of DOMH, MAF
Mr. Phetsamay VONGKHAMMOUNTY	DDG of DOF, MAF
Mr. Khamthieng PHOMSAVATH	H.R.D. Division, Dep of Personnel, MAF
Mr. Kham PHALAKHONE	Deputy Chief, Planning Div., DOP, MAF
Mr. Soulivanthong KINGKEO	Director of Research Management Div., NAFRI
Mr. Chanthaneth SIMAHANO	Dep. Dir. Inter.Cooperation Div., PSO, MAF
Dr. Ketkeo PHOUANGPHET	SO, DOA, MAF
Mr. Southod SODACHANH	Dept. Chief, MOF
Mr. Sirisamphanh VORACHITH	DDG, Trade Institute, MOCT
Mr. Phylavanh NASOUKHUM	Dept. Chief, Planning Div., CLCRDO
Mr. Bounsy THANOUSING	FR & P Dept., APB

JICA Experts of Ministry of Agriculture and Forestry (MAF)

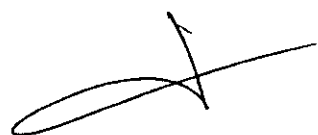
Mr. Yasumori ARAKI	JICA Expert, PSO, MAF
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JICA Laos Office

Mr. Hiroshi HIDAHA	Assistant Resident Representative
Mr. Masatoshi KAIMASU	Project Formulation Advisor

JICA Study Team

Mr. Yutaka MURAI	Team Leader / Agriculture Policy
Mr. Makoto ISHIZUKA	Rural Development
Mr. Oudet SOUVANNAVONG	Rural Capacity Building /Human Resource Dev.
Mr. Robert John TRETHERWIE	Agro-forestry
Mr. Tetsunari GEJO	Agriculture Supporting Institution
Ms. Mariko SHIOHATA	Society and Culture (2)
Mr. Shigeya OTSUKA	Rural Infrastructure / Operation and Maintenance
Mr. Shoichiro BAN	Meteo-Hydrology




**MINUTES OF MEETING
ON
PROGRESS REPORT (2)
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY**

July 11, 2001
in Vientiane



Mr. Anonth KHAMHUNG
Director General
Department of Planning
Ministry of Agriculture and Forestry,
Lao People's Democratic Republic



Mr. Yutaka MURAI
Leader
Study Team
Japan International Cooperation Agency
(JICA)

The JICA Study Team submitted thirty (30) copies of the Progress Report (2) to MAF in accordance with the "Scope of Work (S/W) for Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic" (hereinafter referred to as "the Study") agreed upon between MAF and JICA on June 30, 2000.

The meeting on the Progress Report (2) was held between the Steering Committee for the Study and the JICA Study Team on July 10, 2001. The meeting was chaired by Mr. Anonth KHAMHUNG, Director General, Department of Planning, MAF. The attendants of the meeting are listed in ANNEX-1

After the presentation by the JICA Study Team on contents of the Progress Report (2) to the attendants at the meeting, various discussions were made between the Steering Committee and the JICA Study Team, and the Progress Report (2) was accepted by the Committee with the mutual confirmation on the following points:

- (1) The JICA Study Team will give consideration to the comments made by the Steering Committee on the following issues:
 - Consistency of area based potential classification proposed by the JICA Study Team with provincial and district boundaries, watershed, etc.
 - Careful evaluation of implementing capacity of provinces and districts as a result of decentralisation and reorganization.
 - Consistency of team's estimates on agriculture growth with the government's estimate.
 - Inclusion of a radar network for the weather forecasting system to be considered in the action plan.

- (2) Including the above issues, MAF's working group will review the Progress Report (2), and convey the official comments on the Progress Report (2) to the JICA Study Team by August 10, 2001 at the latest. The comments will be taken into consideration in preparing the Draft Final Report.



ANNEX-I

List of Attendants

Steering Committee

Mr. Anonth KHAMHUNG	DG of DOP, MAF
Dr. Phouang Parisack PRAVONGVIENGKHAM	Deputy Permanent Secretary, MAF
Mr. Langsy SAYVISITH	DG of DOI, MAF
Dr. Bounkouang SOUVANNAPHANH	DDG of DOP, MAF
Mr. Thexong SAVANGTHONG	DDG of Department of Personnel, MAF
Mr. Mahanakhone SOURIYA	DDG of DLF, MAF
Mr. Phetsamay VONGKHAMMOUNTY	DDG of DMH, MAF
Mr. Pheng PIENGPANYA	DDG of DMH, MAF
Mr. Somnuck THIRASACK	DDG of DLF, MAF Cabinet
Mr. Bounliep CHOONTHAVONG	DDG of DOA, MAF
Mr. Lasamy KEOMARY	DDG of DIEC, SPC
Mr. Bounsouane PHOMMAVIHANE	DDG of MFA
Mr. Sirisamphanh VORACHITH	DDG of Trade Institute, MOC
Mr. Khamthieng PHOMSAVATH	Chief of Personnel Div., Dep. of Personnel, MAF
Mr. Somphanh CHANPHENGXAY	Chief of Planning Division, DLF, MAF
Mr. Savanh HANEPHOM	Chief of Statistics Division, DOF, MAF
Mr. Phaydy PHIAXAYSARAKHAM	Chief of Regulation Division, DOA, MAF
Mr. Sengdeth BOULAVANH	Chief of Division, MOCT
Mr. Khame PHALAKHONE	Deputy Chief of Planning Division, DOP, MAF
Mr. Nhoungthong	Deputy Chief of Planning Division, DLF, MAF
Mr. Bounsouane PHONGPHICHITH	Staff of DOF, MAF
Mr. Khamhou PHANTHAVONG	Staff of DOI, MAF

JICA Expert of Ministry of Agriculture and Forestry (MAF)

Mr. Yasunori ARAKI	JICA Expert, PSO, MAF
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JICA Laos Office

Mr. Masatoshi KAIMASU	JICA Laos Office
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JICA Study Team

Mr. Yutaka MURAI	Team Leader / Agriculture Policy
Mr. Tetsunari GEJO	Agriculture Supporting Institution
Mr. Hisashi IKEWADA	Administration / Decentralization
Mr. Oudet SOUVANNAVONG	Rural Capacity Building/ Human Resource Dev.
Dr. Guy MOTHA	Marketing Economy/ Statistics

Mr. Hiroshi YASUDA

Mr. Makoto ISHIZUKA

Mr. Robert John TRETHERWIE

Mr. Mariko SHIOHATA

Mr. Shigeya OTSUKA

Mr. Keith OPENSHAW

Mr. Shoichiro BAN

Agro-processing and Marketing

Rural Development

Agro-forestry

Society and Culture (2)

Rural Infrastructure/ Operation and Maintenance

Natural Environment

Meteo-hydrology

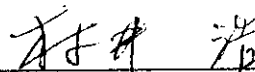
**MINUTES OF MEETING
ON
DRAFT FINAL REPORT
FOR
MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**AGREED UPON
BETWEEN
MINISTRY OF AGRICULTURE AND FORESTRY
AND
JAPAN INTERNATIONAL COOPERATION AGENCY**

August 31, 2001
in Vientiane

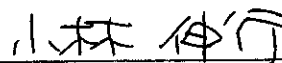


Mr. Anonth KHAMHUNG
Director General
Department of Planning
Ministry of Agriculture and Forestry,
Lao People's Democratic Republic



Mr. Yutaka MURAI
Leader
Study Team
Japan International Cooperation Agency
(JICA)

Witnessed by



Mr. Nobuyuki KOBAYASHI
Advisory Team
Japan International Cooperation Agency
(JICA)

In accordance with the Scope of Work (S/W) for "Master Plan Study on Integrated Agricultural Development in Lao People's Democratic Republic" (hereinafter referred to as "the Study") agreed upon between MAF and JICA on June 30, 2000, the JICA Study Team submitted thirty (30) copies of Draft Final Report

The meeting on the Draft Final Report was held between the Steering Committee for the Study and the JICA Study Team on August 28, 2001. The meeting was chaired by Mr. Anonth KHAMHUNG, Director General, Department of Planning, MAF. The attendants of the meeting are listed in ANNEX-I.

After the JICA Study Team outlined the contents of the Draft Final Report to the attendants at the meeting, discussions took place between the Steering Committee and the JICA Study Team, and the Draft Final Report was basically accepted by the Steering Committee with the mutual confirmation on the following points.

1. The JICA Study Team will consider the following comments made by member of the Steering Committee in the preparation of final report.
 - (1) The more proper terminology for area based agricultural and rural development proposed by the JICA Study Team will be applied;
 - (2) The agriculture extension, especially National Agriculture and Forestry Extension Agency (NAFEA) will be refined in the Section 3.2.2 "Institutions and Organisations";
 - (3) The definition of "Area-based Integrated Development Program" and "Village-led Agriculture Development Initiative in Remote Rural Area" will be clarified; and
 - (4) The prioritization of the proposed projects/programs will be reconsidered.
2. The Steering Committee requested the JICA Advisory Team to take actions to monitor and follow the action plan proposed by the Study. The JICA Advisory Team replied that the Advisory Team is not in the position to receive such request. However, the Advisory Team will convey this request to the JICA Head Quarters in Tokyo.
3. The Steering Committee requested the JICA Advisory Team to change cover design in the final report. The JICA Advisory Team will confirm JICA's guideline on the preparation of the report and the result will be conveyed to MAF later on.
4. The Steering Committee will review the Draft Final Report and convey the official comments on the Draft Final Report, including the comments mentioned in para 1 hereof, to the JICA Tokyo office not later than September 30, 2001. The comments will be taken into consideration in preparation of the Final Report.



ANNEX-I

List of Attendants

Steering Committee/Ministry of Agriculture and Forestry

Mr. Anonth KHAMHUNG	Chairperson of S/C, DG of DOP, MAF
Dr. Phouang Parisak PRAVONGVIENGKHAM	Deputy Permanent Secretary, MAF
Dr. Bounkouang SOUVANNAPHANH	DDG of DOP, MAF
Mr. Bounliep CHOUNTHAVONG	DDG of DOA, MAF
Mr. Ladsanivong MARATHITHADA	DDG of AFEA
Mr. Mahanakhone SOURIYA	DDG of DOLF, MAF
Mr. Thanousay OUNTHAVONG	DDG of DOI, MAF
Mr. Phetsamay VONGKHAMMOUNTY	DDG of DOF, MAF
Mr. Chanthaneth SIMAHANO	Dep. Dir. Inter.Cooperation Div., PSO, MAF
Mr. Khamthieng PHOMSAVATH	H.R.D.Division, Dep of Personnel, MAF
Mr. Sengpaseuth MATHOUCHANH	Head of Adm Div, DOP, MAF
Mr. Somchay SAMONTY	Director of Planning Div, DOF, MAF
Mr. Oukham PHIATHEP	Tech Officer, DOP, MAF

JICA Experts of Ministry of Agriculture and Forestry (MAF)

Mr. Yasunori ARAKI	JICA Expert, PSO, MAF
Mr. Mitsukuni WATANABE	JICA Expert, DOI, MAF

JICA Laos Office

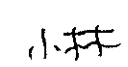
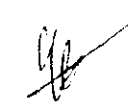
Mr. Hiroshi HIDAKA	Assistant Resident Representative
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JICA Advisory Team

Mr. Nobuyuki KOBAYASHI	Deputy Director, Agricultural Development Study Division, Agriculture, Forestry and Fisheries Development Study Department, JICA
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JICA Study Team

Mr. Yutaka MURAI	Team Leader / Agriculture Policy
Dr. Guy MOTHAS	Marketing Economy/Statistics
Mr. Oudet SOUVANNAVONG	Rural Capacity Building /Human Resource Development
Mr. Tetsunari GEJO	Agriculture Supporting Institution
Mr. Shigeya OTSUKA	Rural Infrastructure / Operation and Maintenance



Appendix 2
Socio-Economy and
Government Strategies of
Agricultural Development

**MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

VOLUME III

APPENDIX-2

**SOCIO-ECONOMY AND GOVERNMENT STRATEGIES OF
AGRICULTURAL DEVELOPMENT**

Table of Contents

	<u>Page</u>
CHAPTER 1 SOCIO-ECONOMIC DEVELOPMENT STRATEGY FOR 2010 - 2020 AND FIVE YEAR SOCIO-ECONOMIC PLAN (2001 - 2005)	AP2-1
1.1 Contents of Fifth Socio-economic Development Plan	AP2-1
1.2 Summary of Fifth Socio-economic Development Plan.....	AP2-2
CHAPTER 2 TRADE IN GLOBAL SETTING	AP2-11
2.1 Pattern of Trade	AP2-11
2.2 Structure of Trade Protection in Lao PDR.....	AP2-12
2.3 ASEAN Free Trade Association (AFTA)	AP2-12
CHAPTER 3 GOVERNMENT'S STRATEGIES FOR AGRICULTURAL SECTOR	AP2-17
3.1 Vision 2020	AP2-17
3.2 Strategic Vision.....	AP2-20

**MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**VOLUME III
APPENDIX-2
SOCIO-ECONOMY AND GOVERNMENT STRATEGIES OF
AGRICULTURAL DEVELOPMENT**

**CHAPTER 1 SOCIO-ECONOMIC DEVELOPMENT STRATEGY FOR
2010 - 2020 AND FIVE YEAR SOCIO-ECONOMIC PLAN (2001 - 2005)**

1.1 Contents of Fifth Socio-economic Development Plan

“Socio-economic Development Strategy for 2010 - 2020 and Five Year Socio-economic Plan (2001 - 2005)” (the Fifth Socio-economic Development Plan) was endorsed by the 7th Party Conference held in March 2001. Its contents are as follows:

Table of Contents of the Fifth Socio-economic Development Plan

Part I	Evaluation of Socio-economic Development of Lao PDR over 25 years
1.1	National Economy
1.2	Production
1.3	Communication, Transportation, Post and Construction (*)
1.4	Macro-economic Management (*)
1.5	Human Resources Development (*)
	(1) Education (*)
	(2) Health services (*)
	(3) Culture (*)
	(4) Labor and social welfare (*)
1.6	International Cooperation and Foreign Direct Investment
1.7	State Administration (*)
1.8	Constraints in Development Process
Part II	Basic Development Strategy towards 2020 and 2010
2.1	Basic Development Strategy towards 2020
	2.1.1 International Environment (*)
	2.1.2 Actual Situation of Lao PDR (*)
	2.1.3 Direction, Strategy, Vision and Objectives for 2020
	(1) Development Direction (*)
	(2) Objectives and Goals for 2020
	(3) Main Sectoral Strategy
2.2	Struggling Objectives towards 2010
	2.2.1 Targets for 2010
	2.2.2 Strategy for 2010 (*)

Part III Fifth Five Year Socio-economic Development Plan (2001 - 2005)

3.1 Major Targets and Macro Objectives

3.2 Direction, Function and Tasks of Each Sector

3.2.1 Production Sector

(1) Agriculture and Forestry

- Food production
- Promotion of commodity production
- Elimination of slash and burn cultivation and permanent job allocation for people
- Irrigation
- Research and experiment in agriculture and forestry sector

(2) Industry and Handicraft (*)

(3) Rural Development and Poverty Reduction

(4) Regional Development (*)

3.2.2 Service Sector

(1) Communication, Transportation, Post and Construction (*)

(2) Trade and Tourism (*)

(3) Finance and Banking

(4) Science, Technology and Environment (*)

3.2.3 Foreign Relation and Foreign Economic Cooperation

(1) Foreign Economic Cooperation

(2) Foreign Direct Investment

3.2.4 Human, Culture and Social Development

(1) Staff Development

(2) Education (*)

(3) Health (*)

(4) Sport (*)

(5) Culture and Information (*)

(6) Labor and Social Welfare (*)

3.2.5 Improvement of State Management and Structure (*)

(1) Improvement of State Management Structure (*)

(2) Macro-economic Management (*)

(3) State Management based on Law Enforcement (*)

3.2.6 Investment Direction

3.2.7 Implementing Measures (*)

Note : (*) : Summary description is omitted in the subsequent Sub-section 1.2.

1.2 Summary of Fifth Socio-economic Development Plan

The Fifth Socio-economic Development Plan is summarized below with regard to the Agricultural Development discussed in this Master Plan Study.

Part I Evaluation of Socio-economic Development of Lao PDR over 25 years

1.1 National Economy

The national economy has continuously expanded and developed over the time as indicated below.

Structure of GDP

Sector	1985	1990	1995	2000
Agriculture and Forestry (%)	70.7	60.7	54.3	51.3
Industry (%)	10.9	14.4	18.8	22.6
Services (%)	18.4	24.9	26.9	26.1
Total (%)	100	100	100	100
GDP per Capita (US\$)	414	211	380	350

1.2 Production

The rice production has reached the target of 2.2 million tons in 2000, and thus the country achieved self-sufficiency. Some basic industries have increasingly been developed. The electricity production reaches the target of 1,576 million MWhr, an increase of around 6.4 times compared to 1976. The first Lao cement factory was established in Vang Vieng with a capacity of 80,000 tons per year. The number of garment factories has significantly increased to 52 factories and employs around 22 thousand workers. Nine organic fertilizer factories were also established and are able to produce 56,000 tons/year. An output of 10,000 ton/year is produced by a chemical factory. Additionally, altogether there are 22 animal food-processing factories in the provinces. Their total capacity is approximately 90,000 tons per year.

1.6 International Cooperation and Foreign Direct Investment

The value of grants and loans from other countries and international organizations has satisfactorily increased over time. During the period of implementing national five years plan V (1996-2000), it was supported by oversee grants and loans with an amount of US\$ 1,715 million.

1.8 Constraints in Development Process

The Government faced various difficulties in implementing the development plan as explained below.

- (1) Relatively low-level socio-economic development during the last 25 years compared to the potential and comparative advantages of the country.
- (2) Unsatisfactory level accomplishment of programs and projects under the Government's policy resulted in failure to achieve macro economy targets as directed in the Fourth Socio-economic Development Plan.
- (3) Development of economic structure rather focussing on the service sector than agriculture and industry.
- (4) Poor, inconsistent and flimsy performance of macro policy with lack of accountability of central and local authorities for implementing a plan.
- (5) Slow and unsatisfactory translation of eight priority programs into specific projects.
- (6) Government's weakness in promoting and mobilizing the people's capability for boosting the economy in both the public and private sectors.
- (7) Poor state's management to follow principles and rules and to correct mechanism to abide by existing laws.
- (8) Insufficient progress of human resources development both in quantity and quality.

Part II Basic Development Strategy towards 2020 and 2010

2.1 Basic Development Strategy towards 2020.

2.1.3 Direction, Strategy, Vision and Objectives for 2020

(2) Objectives and Goals for 2020

The main national objectives include: poverty reduction; economic growth at the most appropriate rate; progressively and greatly developing/production in agriculture, industry and the standard service sectors improving living standard in term of both physical and mental well-being step by step; disseminating the education and health service throughout the country; enlarging of national culture's attractiveness; providing social welfare; increased capacity of white and blue color labor; keeping of peaceful society; political stability under strong leadership of Lao PDR; broadly opening up for international cooperation and integration into the world's changing environment.

In 2020, the expected population for Lao PDR is estimated at around 8.3 million people, with average growth rate of 2.2% annually. In order to release from the poverty, the government therefore needs to accomplish the struggling the following objectives:

- GDP per capita US\$ 1,200-1,500 /;
- 90% literacy rate (over 15 years old);
- Life expectancy 70 years;
- Development of a basic infrastructure;
- Increased GDP share for industry and service sectors; and
- Improved and upgraded people's living standard both physically and mentally by creating employment.

To reach these objectives, the average GDP growth should be around 7% annually, with total investment of 25-30% of GDP. Besides, the public investment should cover about 12-14% of GDP and private investment will be approximately 13-16% of GDP. In parallel with increased investment, the government needs to add the national saving of at least 15% of GDP in 2020. In addition, higher productivity in each sector and part of the country needs to be always emphasized through utilizing advanced technology, valuable resources, efficient state management.

(3) Main Sectoral Strategy

To achieve the mentioned objectives, the government needs to follow the following strategies:

- 1) Human resource development under the education reform in the region particularly primary education, vocational education and informal education;
- 2) Modernization of the basic infrastructure development for smooth progress of national development and moving toward global and regional integration;
- 3) Expansion of electricity network to all part of country;
- 4) Production mainly focusing on small sized, medium sized and traditional handicraft industries in environmentally sustainable manner;
- 5) Strengthening of international market competitiveness in response to the promoting of regional export and tourism service;
- 6) Government's effort in the process of globalization and regionalization such as ASEAN, WTO, ASEAN and; and
- 7) Reasonable investment for strengthening technology for the movement of industrialization in Lao PDR.

2.2 Struggling Objectives towards 2010

2.2.1 Targets for 2010

In 2010, the population of Lao PDR will be approximately 6.7 millions with average growth of 2.4% annually. The estimated average GDP growth is 7%, US\$ 700-750 / in per capita GDP. The development of a basic infrastructure and human resource should be seriously enhanced at a certain level as being a condition in facilitating the development in each stage. The literacy rate (over 15 years of age) in 2010 will be about 84% and there will be a successful reduction of various dangerous tropical diseases such as: malaria and diarrhea by introducing the effective health programs. Therefore, the life expectancy of Lao citizen will reach at least a target of 67 years.

Part III Fifth Five Year Socio-economic Development Plan (2001-2005)

3.1 Major Targets and Macro Objectives

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

- (1) 7-7.5% annual GDP growth;
- (2) 4-5% annual growth for agriculture;
- (3) 10-11% annual growth for industry;
- (4) 8-9% annual growth for the service sector;
- (5) Agriculture and forestry products cover 47% of GDP;
- (6) Industrial product covers 26% of GDP;
- (7) Service covers 27% of GDP;
- (8) Single digit annual inflation rate;
- (9) Stable exchange rate;
- (10) Increased annual budget revenue and the budget revenue should be 18 % of GDP during 2004-2005; budget deficit should be around 5% of GDP;
- (11) Reduced trade deficit to 6% of GDP;
- (12) Public investment covers 12-14% of GDP and Saving is about 12% of GDP in 2005; and
- (13) In 2005, the population will be around 5.9 millions and GDP per capita will be US\$ 500-550

3.2 Direction, Function and Tasks of Each Sector

3.2.1 Production sector

(1) Agriculture and Forestry

From now to 2005, the main objective is to promote a continued agriculture and forestry production growth, which is able to supply food for whole society effectively and procure sufficient raw materials for the processing industry and export. The major task and target for the next five years in the respective sub-sectors are stated below.

1) Food production

The government will attempt to reach the food production of 3 million tons, which includes 2.7 million tons for rice production in 2005. The paddy land for rice production will increase to 770,000 ha, which comprises of 620,000 ha for rainy season rice production and 150,000 ha for dry season rice production. Especially, the emphasis will be placed on integrated agriculture in seven major flat zones where irrigation system exists will be mainly emphasized. In addition, the government will also accelerate the rice production in 42 small plateaus of upper land zones by introducing improved seed that contributes high productivity of 70-80% of rice field. Large animal production will grow at about 4-5% per year. Furthermore, the production of meat, fish, egg and milk altogether will be around 200,000 tons in 2005. Flat lands and large towns should promote pig, poultry, fish and cattle feeding by organizing on integrated and mixed farming industry. Rural areas should promote all animal breeding in particular, large animal breeding such as cattle in parallel with small animal breeding by farmers such as fish.

2) Promotion of commodity production

Agriculture and forestry sector should significantly be a key and significant sector to encourage various commodity productions. For the next five years, the promotion of commodity production will focus on the following:

- According to each region's potential and market requirement, the main crop production such as rice, maize, cassava soybean, green bean, peanut, sugar cane, cotton, sugar palm fruit, sesame, vegetables, fruits and others should be strongly emphasized;
- Encourage all kinds of animal breeding/rearing for domestic consumption and export with the focus on the large animal rearing such as cattle. Animal production for domestic consumption should be based on chickens, laying hens, pigs and fish. In 2005, the government aims to export 44,000 cows, 45,000 buffalo, 150,000 pigs, 5000 tons of natural fish and 3000 tons of parts of animals such as horn, skin, bone and so on, to the neighboring countries; and

- The tree plantation and forestry products should be promoted. From now to 2005, 134,000 ha of forestry will be planted in seven specific strategic areas by organizing a specific program and applying proper effective policy. In addition, the government needs to allow enterprises to involve in the actual development of forestry. Concurrently, the government should also put emphasis on the forestry survey, forestry allocation, forestry reservation, forestry for soil protection, maintenance of water sources, biotic reservation and the improvement of wood processing industry consistent to wood supply from the forestry.

3) Elimination of slash and burn cultivation and permanent job allocation for people
The struggling target for these issues is to stop slash and burn cultivation at the certain level. Particularly, a problem of slash and burn cultivation needs to be solved in the provinces where have over 10,000 ha of farming land areas such as Luangphabang, Oudomxay, Phongsaly, Luangnamtha and Xiengkhum. The slash-and-burn cultivation and permanent job allocation for people projects should be definitely organized in those provinces by closely supervising and gaining technical assistance from the Ministry of Agriculture and Forestry, and allowing the local authority to undertake the actual implementation. Importantly, the eliminating of slash and burn cultivation project should be undertaken in parallel with the implementation of a project to eradicating opium cultivation and a poverty reduction project in the targeted areas. In 2005, the government aims to eradicate opium cultivation completely by gaining the support from state and citizen; central and local authorities. The government will exploit state funding and welcome more assistance from foreign countries and international organizations to carry out the eradication of opium cultivation in targeted areas, in particular focusing in the northern provinces such as: Luangphabang, Oudomxay, Phongsaly, Luangnamtha, Xiengkuaun, Huaphanh and Sayyabury. In addition, there will be a project of land and forestry reallocation under the urban plans law, land law and forestry law.

4) Irrigation

In the next five years, the irrigation projects, which have already started will be definitely completed, in particular small and large sized irrigation projects need to be completed and utilized in the most efficient way. At the same time, those completed irrigation system will be well maintained and efficiently used. Depending on the availability of capital, it may be possible to construct new irrigation projects in necessary places. In 2005, the government plans to increase the land area, which could receive irrigated water in the wet season to 400,000 ha and in dry season for 300,000 ha. Therefore, the total increase in land area for rice production in the dry season will be 150,000 ha.

5) Research and experiment in agriculture and forestry sector

The technical survey and design units, technical research unit and seed production centers for agriculture and forestry at both central and local levels will be systematically improved and developed. The improvement of agriculture and forestry research centers will facilitate the provision of agriculture and forestry information necessary for the agencies at both macro and micro levels especially land area, land use and land productivity statistics. Moreover, it will also be able to procure crop seeds, animals, techniques and technology to foster the food and commodity production. It is also important to enhance the agriculture and forestry training centers in local areas. The agricultural soil survey in each region should be conducted.

The Ministry of Agriculture and Forestry needs to pay attention to adoption and utilization of agriculture and forestry technologies much more widely. Simultaneously, the government should conduct a feasibility study for organizing the associations of irrigated water service and agricultural machinery service, rural credit union, the association for purchasing farmer's crops and supplying crop seeds, fertilizers, and organizing the cooperative service specified places.

(3) Rural Development and Poverty Reduction

The rural development and poverty reduction should be pursued in connection with the improvement of political stability, establishing province as the strategic unit, district as

budgetary and financial unit and village as implementing unit. For this, the five-year socio-economic development plan will be transformed and applied to the provincial, district village and implementing household plans. Then, the government will be able to define the total number of poor households, and create a plan to eliminate the poverty in villages, districts, provinces and the whole country.

During the next five years, rural development should be undertaken generally and specifically by emphasizing the poorer areas such as upland zones and villages that are located in the center of regions. In addition, the task of rural development should make significant progress in conjunction with poverty reduction, eliminating slash and burn cultivation and opium production. Therefore, each rural region should stress implementing major measures; designating district as budgetary-financial unit and village as actual implementing unit, and clearly defining integrated development zone based on their own region's potential. Since an integrated rural development plan has been completely set up, the specific programs should be efficiently improved and developed. So that the capital and officers will be consistently allocated in each rural region by allowing province, district and villages to fully take a responsibility for capital and human management.

To reach a target of poverty reduction, first of all, it is necessary to define the poverty measurement. Then, the information on household and village poverty will be collected, for which local authorities will be responsible for the actual information collection and survey. Beside that, we need firstly to conduct a study for compiling the poverty reduction strategy. Then, the poverty reduction strategy will be transformed into the actual priority programs on national projects under the direct supervision of the government and the specific annual budget allocation.

Importantly, each local region also needs to organize its own local poverty reduction program by determining the integrated areas for reducing/eliminating poverty and focusing on those areas where high rate of poverty still exists such as: Huaphan, Oudomxay, Phongsaly, Luang Namtha, Xaysomboune special zone, Luangpabhang, Sekong, Attapeur and Xiengkouang. Moreover, provinces should contribute their own funding for implementing a poverty reduction project successfully. In parallel with state financial contribution the government needs to encourage and mobilize the contribution and efforts from society to jointly establish poverty reduction funding and operate it efficiently. Beside that, the government also needs to mobilize more financial assistance and obtain a loan from foreign countries and international organizations.

For this, the creation of qualified staff or officers at the district and village levels who specialize in the areas of statistic, planning and finance will be required. By the year 2005, finance officers of each district will be broadly trained. In addition, the government also needs to provide a opportunity for officers who are involved in the area of statistical planning and finance at district or village level to be trained on upgraded their knowledge at a basic level. Also, the government should emphasize increase numbers to be trained in various careers to be placed in service at the district and village level. Beside that, the central and provincial authorities also need to allocate staff to help or supervise the districts and villages due to his/her expertise.

3.2.2 Service Sector (3) Finance and Banking

Finance

Over the next five years, the national finance will be more stable and controllable. The budget deficit will be brought under control at a certain point and the saving will be mobilized and increased more revenues will contribute to the national budget at around 18% of GDP by the year 2005. The government needs to ensure the effective use and a proper national expenditure, which is conducive to socio-economic development as determine in the five years plan. By the year 2005, the budget deficit will level at 5% of GDP.

To fulfil those mentioned measures, a tight budget policy will be implemented strictly. Unreasonable subsidies have to be abolished. At the same time, budget revenues, expenditures and investment policies will be required to be consistently implemented at each stage of development. The organizations which are responsible for revenue management will need to be improved. These are the custom department, the tax department, the state property management department and the financial auditing department. Hopefully, these organizations will strictly follow the rules and regulations, which have been legislated. The auditing system will be improved transparently, and the Decrees on finance and accounting will be approved by the national assembly and enacted.

New regulations will be more meaningfully. The financial auditing and the measuring of investment efficiency will be seriously taken into the account. Loans and grants from foreign countries should be carefully and efficiently managed and utilized.

Banking

The monetary system will be reasonably managed and continuously stabilized by controlling the aggregate money supply and maintaining the liquidity consistent with the development strategy and the national economic growth. As a result, the value of Kip will be stabilized. Besides that, the utilizing of foreign currencies needs to be controlled under the strict laws and regulations, so that the foreign currency reserve has been adjusted effectively.

In addition, a system of financial institution will be managed continuously based on the implementing of effective laws, which aims to facilitate fair competition. These effective laws create the conditions and flexible mechanism for all commercial banks to seriously undertake the mobilization of funding from society and then to provide more loans to the business sector and good produced for export. Concurrently, the problem of non-performance loan will completely solved step by step in each commercial bank as well as the improvement of commercial bank's efficiency. The government also needs to create the conditional regulation and proper mechanism facilitating the establishment of foreign currency transaction market, capital market and stock market in the future. Making payment through the bank services will be encouraged to increase. In addition, cheque payment, credit card systems and others will also be introduced.

3.2.3 Foreign Relation and Foreign Economic Cooperation:

(1) Foreign Economic Cooperation

A wide opening policy for foreign relationship and economic cooperation will be further implemented to attract more capital inflow, technology transfer, and expansion transfer facilitating development. Managerial rules, coordinating mechanisms and implementing methods for cooperative project will systematically be improved. Simultaneously, staff who are responsible for this field will be creative and qualified, especially for staff at the local level and who those are responsible for grant and loan projects. By the year 2005, the mobilization of foreign grants and loans will be around US\$ 1.8-1.9 billion, which comprise US\$ 1.1 billion in grant and US\$ 700-800 million in loan.

(2) Foreign Direct Investment

Foreign investors will be continuously welcomed and attracted to inject the investment into the potential projects by advertising and promoting the knowledge of the country's development direction, potentials and incentives. At the same time, the government has always put more effort to create an attractive investment environment, so that more foreign investors will come to invest in the Lao PDR. For example, improving the effective investment policy and consistent rules and regulation flexible, shorter and transparent investment approval procedure and working style of concerned government agencies. The specific projects in each working field should be developed as a basic condition to attract more foreign direct investment. The main investment areas for the Lao PDR include 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 labor force. By the year 2005, the total foreign direct investment of the Lao PDR will be around US\$ 1.5 – 2.0 billion. This amount of investment will be combined with public and private investment, and will be used to stimulate national economic growth.

3.2.4 Human, Cultural and Social Development

Within the next 5 years, the government needs to supplement the progress of Human development at both the central and local levels concretely and successfully. Significantly, the task of economic development should be undertaken in parallel with the cultural and social development.

(1) Staff Development

First of all, the government will seriously pay attention to develop the quality of staff in response to future and long- term requirement. During the next five years, the main objectives for staff development include:

- Post graduate level : 450 staff
- Under graduate level : 3,500 staff
- Associate diploma level : 7,500 staff

The number of staff at the certificate and vocational level will be strongly increased each year by both local authority and the government's assistance in terms of providing qualified teachers, curricula and funds. Leading officers, managerial staff and professional staff of various related fields will intensively developed and upgraded, especially staff with the strong social requirements. The success of staff development will lead to supporting the government's policy for establishing province as strategize unit, district as a budgetary-financial unit and village as implementing unit. All managerial sectors should lay stress on the training and upgrading of functional staff. The institutes, colleges and training centers need to be improved and successfully upgraded.

3.2.6 Investment Direction

The investment direction over the next five years is to continuously implement the eight priority programs of the government successfully. Also, the government needs to add two more programs namely a poverty reduction program and state structure improvement program. These two programs will be incorporated into the specific projects, for which will sufficient funds be allocated.

To accomplish the implementation of government's policy and struggling objectives of socio-economic development over the next five years, the government must pay attention to obtaining capital each year from all sources amounting to 25-30% of GDP annually. Thus, the public investment will be around 12-14% of GDP. In the next five years, large amounts of capital will directly inject into production sector and boost funds in human resource development sector each year.

Referring to the above-mentioned ratio, the total capital requirement is anticipated at around 32,500 billion Kips during 2001-2005 or around US\$ 4 billion equivalent. Expected share of public investment will be 14,400 billion Kips, the rest investment will be mobilized from foreign and domestic private capital sources and other sources. As for public investment of 14,400 billion Kips, it comprises 6,800 billion Kips domestic capital source (47%) and 7,600 billion Kips foreign source (or equivalent to US\$ 950 million). Compared to the previous five years, the total public investment value is five times greater. The investment of infrastructure will cover around 60-65% or around 8,500-9,000 billion Kips or equal to 4.6 times greater compared 1996-2000 five years plan. The investment in social sector will cover around 25 – 30% or around 3,500 – 400 billion Kip, or equal 5.2 times greater compared to 1996-2000 five years plan. Besides, the investment in other sectors will be about 10 % of the total investment.

In conjunction with the public investment, foreign capital inflow is considered as another main important source and covers 50% of the total investment. During the next five years, the government will attract foreign direct investment of at least US\$ 1.5 billion. At the same time, some capitals need to be mobilized from the domestic private investors and households in order to boost the production and serve the society. Direction of capital utilization during the next five years will be targeted, efficient and respondent to the government's policy.

To secure the availability of capitals for the national development, it is essential to accumulate capitals by launching the national saving policy concretely, encouraging people accustomed to the household saving behavior. Saving account will be widely promoted at all levels as well as the establishment of development funds. The foreign currency inflow will be persuaded.

To enhance the capital accumulation, three main tasks will be encouraged:

- Promotion of rice production and food production;
- Promotion of commodity production in response to the domestic demand (import-substitution); and
- Promotion of export production.

Besides, the government will also attempt to gain more assistance from foreign countries as well as promoting of effective foreign direct investment policy.

CHAPTER 2 TRADE IN GLOBAL SETTING

2.1 Pattern of Trade

Total imports (c.i.f) of Lao PDR have been consistently more than exports (f.o.b) resulting in a negative trade balance in each of the last four reported years as seen below.

Import and Export Values 1996-1999 (US\$ Million)

	1996	1997	1998	1999*
Total Exports	321.0	317.0	341.0	310.9
Total Imports	690.0	648.0	553.0	524.6
Trade Balance	-368.2	-331.0	-212.0	-213.7

* Estimate

Source: Bank of Lao PDR. Annual Report 1999.

Major items of export are garments, wood and wood products, hydropower and coffee, which accounted for 85% of exports in 1999. Principal items of imports in 1999 were bicycles and motorcycles, rice, sugar, paper and electric power.

Principal Exports 1995-99

Item	Unit	1996	1997	1998	1999
Electricity	Mill.kwh	792	710	405	598
Timber	Th.Cu.M	313	88	77	17
Lumber	Th.Cu.M	102	173	69	1346
Plywood	Th.sheets	-	1125	39	341
Coffee	Tons	9914	6605	14,748	8206
Gypsum	Th. Tons	4	15	37	61
Tin	Tons	8138	2592	2364	2151

Total exports in 1999 decreased by 8.8% caused by an import slowdown of the trading partners and intense competition in foreign markets. This resulted in a decline in export of wood products by 33%, coffee by 75% and agricultural products by 32%. On the other hand, imports in 1999 decreased by 5.1% of which imports of materials for garment industry, machinery and consumption goods decreased.

A breakdown of imports and exports by value in 1996 and 1997 indicates that agricultural exports comprising wood and wood products and food items accounted for about 34-37% of total export value in these years. Wood and wood products, was the largest item and comprised of timber, lumber, plywood and parquet, rattan and bamboo and non-timber forest products. The other major agricultural export items were 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 total import value and food items accounted for 12-15% of total import value in these years.

2.2 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 variety of agencies and authorities. The average effective rate is 8.55%

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

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.

2.3 ASEAN Free Trade Association (AFTA)

In 1997, Lao PDR joined the Association of Southeast Asian Nations (ASEAN). As a member of ASEAN Lao PDR has to implement the Common Effective Preferential Tariff (CEPT). The implementation of CEPT scheme means a program that started on January 1, 1998 for the ASEAN Free Trade Area (AFTA) regional trade block for a ten year period ending 2008 to bring down tariff rates to 0-5%.

The Lao PDR accession to AFTA will impact in two ways (i) through any tariff reductions and market access resulting from the Common Effective Preferential Tariff (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 four product lists, namely:

The Inclusion List (IL) 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.

The Temporary Exclusion List (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%.

The Sensitive List (SL) relates to unprocessed agricultural products. These may be moved to the Inclusion List at any time within a seventeen-year period beginning 1998.

The General Exemption List (GEL) contains items permanently excluded from tariff reductions for security or moral reasons.

Lao PDR has taken initial actions in the move to accession of AFTA. Initially, the tariff cuts proposed by Lao PDR were too long to implement as most agricultural commodities had been excluded from tariff reductions for 8 years by placing these on the Temporary Exclusion List or 17 years by placing items on the Sensitive List even where there are very low existing rates and no significant production in Lao PDR. Many agricultural inputs were also excluded. This meant that Lao PDR agricultural products would not get much lower tariffs in other ASEAN countries.

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 of tariff lines be down to 0-5% by 2003, but other actions such as removal of non-tariff barriers and all quantitative restrictions and customs surcharges would need to be eliminated. The Package also includes the tariff reduction schedule from the year 2001-2008 for this Inclusion List. The list includes many agricultural products but excludes rice, live cattle and buffaloes and tobacco. These continue to be on the General Exclusion List or Sensitive List. Although it is estimated that unrecorded trade in live cattle is very large, cattle has continued to remain on the sensitive list. Rice too remains on the sensitive list. Most commodities of importance for export trade such as all vegetables and fruits, live fish, coffee, all cereals have been now placed on the Inclusion List. However, a very selective process has been worked out especially in the area of vegetables and fruits. 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 tariff items are placed on the TEL due to the need for revenue from import duties, protection of domestic production 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.

Some Lao Agricultural Products on the Inclusion List-2001

Major Product/Group	Tariff
Live Horses	5
Meat-Sheep & Goats	25
Live and frozen Fish	5
Vegetables and Fruits (excl. Cabbage & Onions)	30
Oilseeds	15

Some Lao Agricultural Products on Temporary Exclusion List - 2001

Major Product/Group	Tariff
Live Sheep & Goats	8
Milk and Cream	5
Processed Fruits & Nuts	30

Some Lao Products on the Sensitive List- 2001

Major Product/Group	Tariff
Live Cattle, Pigs & Poultry	5-10
Meat of Cattle & pigs	30
Live Fish	20
Eggs	30
Selected Fruit & Vegetables	40
Rice	5

Some Lao Products on the General Exclusion List-2001

Major Product/Group	Tariff
Poppy Seed & Opium	Prohibited
Bamboo & Rattan	20
Beer	40
Spirits from Grape, Whisky	40

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.

The immediate impact of AFTA accession on Lao PDR trade will be negligible because in agriculture there is as yet no significant change in tariffs. 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 production of vegetables, groundnuts, soybeans, lemons, pig, live cattle, buffalo, coffee, sugar cane, maize, beans, indigenous fruits, and plantation timber.

Products on the Temporary Exclusion List

Major Product/Group	Tariff	Major Product/Group	Tariff
Live Horses	5-10	Animal Feeds	5
Live Sheep/Goats	10	Natural Resins	20
Sheep Meat	30	Vegetable by-Products	10-20
Horse Meat	30	Animal fats	10-30
Other Meat	30	Vegetable Oils	5-30
Fresh & Frozen Fish	10-20	Prepared Meat & Fish	30
Processed Dairy products	5-20	Sugar	10
Hair & Skins	10	Confectionery	30
Shells & Sponges	10	Cocoa & Products	10
Bulbs & Cuttings of Plants	5	Pasta	10
Cut Flowers	30	Bakery products	30
Vegetables, Fruits & Nuts	40	Prepared Fruits & vegetables	30
Coffee & Tea	40	Mineral Water	40
Spices	5-30	Beer	40
Wheat, Maize, Barley & Oats	5	Wine	40
Soy Beans	20	Flour & Meals	5
Oilseeds	20	Dog & Cat Food	5
Seeds	5	Salt	5

Examination of tariffs on agricultural items produced and exported by Lao PDR alongside its Asian partners indicates 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 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 as follows:

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

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) for all other tariffs establish schedules for reductions 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;
- (e) reduce tariffs on imports of farm inputs.

CHAPTER 3 GOVERNMENT'S STRATEGIES FOR AGRICULTURAL SECTOR

3.1 Vision 2020

“Vision on Agricultural - Forestry Development until Year 2020” (Vision 2020) is summarized below.

Summary of Vision 2020

1. General Conceptual Framework for Vision 2020

The Vision 2020 is formulated as a general guideline and approach for agricultural and forestry development until the year 2020 set up in the fourth Party Congress. The Lao people are still very poor, and there is a large difference in living conditions between urban and rural areas, or plain and mountain. The economy depends mainly on agriculture with low productivity relying on natural resources. However, the opportunity of income generation is very little in the mountainous remote areas due to low level of social services, very low productivity relying on slash and burn cultivation, and poor social infrastructure. Whereas, the Government's policy guideline in the agriculture and forestry sector directs to transfer from natural based economy to intensive economy, attainment of food self-sufficiency and increase of exports of agro-forestry products, no appropriate and detailed measures have been promoted yet. Yet, Lao PDR has enough ability to develop in stable conditions.

2. Targets, Objectives and Vision on Agricultural and Forestry Development until the Year 2020

2.1 Targets and General Objectives

The macro economic objectives are to:

- ensure national economic growth rate of 7-8% per annum;
- attain GDP per capita at US\$500 in the year 2020 through promoting commodity agro-products for export; and
- relief from the least development countries status with alleviation of poverty step by step.

All the effort must be concentrated on the use of all kind of rich natural resources and existing potential for the increased agricultural and forestry production in keeping with conservation of natural environments. The land is appropriately used in each region under the consolidated agro-economic structure linking with related industry and service sectors. To achieve the above objectives, the following steps are to be taken:

- The food self-sufficiency problem should be definitely solved in the area where transportation conditions are favorable, while food storage should be facilitated to meet the demand in the very remote areas where no opportunity for production is available other than sifting cultivation; and
- The commodity agro-production should be promoted to meet the domestic demand, and also should be promoted for increased export to meet the market demands in ASEAN and in other Asian countries which have good relationship and trade cooperation with Lao PDR.

2.2 Specific Objectives

(1) Adequate land use

It is planned to apply the intensive farming in the plain area, while the mixed agroforestry farming in the highland and mountainous areas. To support this, the following research and study will be undertaken.

- 1) Research and study on effective land use in the following flat plains with slope less than 8% (7,959,870 ha) for intensive farming;
- 2) Research and study on effective land use in the hilly sloped areas with 8% - 30% slope (6,976,260 ha) as the mixed agroforestry farming; and
- 3) Research and study on effective land use in the mountainous steep sloped areas (7,148,200 ha) as protection forest extending.

(2) Zoning based land

1) Plain for rice production, plantation, and livestock and fishery raising

The plain areas are to be developed as the livestock and fishery production area as well as the rice production area to meet the domestic demand and for export. It is planned to increase the rice production area from the present 420,000 ha to 800,000 ha by the year 2020. The irrigated area will be increased to 100,000 ha in the year 2000 and to 800,000 ha by 2020. The research and study for the rest land has to be continuously undertaken in the respect of:

- land use for rice production and mixed agroforestry farming in the forest and pasture land (474,860 ha); and
- land use for increased vegetable production in and around Vientiane (10,900 ha).

The quantified targets of agricultural production are as follows:

Rice	: ensure 350 kg paddy/head/year in 2000 and 250 kg paddy/head in 2020 with reserve of 150 kg paddy/head in 2000 or 30% of total production
Meat	: ensure 60 kg/head/year in 2020 consisting of buffalo/cow meat of 4 kg, pig of 10 kg, poultry of 12 kg including 8 kg egg, fish of 24 kg and milk of 2 kg
Livestock	: ensuring the above meat demand, produce buffalo/cow of 33,000 tons, pig of 82,000 tons, fish of 197,000 tons, poultry of 98,000 tons and egg of 66,000 tons and milk of 16,500 tons per annum.

2) Plain, plateau and mountainous areas for export oriented plantation farming

- Efficient land use by intensive and semi-intensive commodity production in the major seven plains and northern small plains;
- Transform the present shifting cultivation lands into the export oriented fruit tree plantation combined with livestock raising, fish culture and forestry; and
- Efficient use in unopened sloping land for crop production and fruit tree plantation for export.

3) Formation of four priority economic zones for production of export oriented plantation crops

(3) Specific area for livestock production for export in plateau and mountainous areas

- Potential grazing land of 7 to 8 million ha, composed of 1 - 2 million ha in plains and 5 - 6 million ha in plateaus and mountainous regions;
- Potential water body of 723,000 ha, composed of 254,000 ha in the Mekong river and its tributaries, 57,000 of reservoirs, 150,000 ha of swamps, 406,000 ha of paddy field and 12,000 ha of fish ponds; and
- Potential plantation land in the focused agricultural production area in plains.

- (4) Conservation and production forests for commodity crop production
 - 1) Recover the forest area to 70% in national land from the present 47% in the year 2020.
 - 2) Manage on a participatory basis 20 NBCAs (3 million ha) and provincial and district conservation areas of about 5 million ha in total.
 - 3) Restrict the quota for logging from natural forest to 0.5 million cu.m by the year 2020, and promote high valued wooden handicraft products.
 - 4) Settle the inhabitants practicing shifting cultivation in the watershed and conservation forests to focal rural development sites.

4. General Measures to Ensure Implementation and Objectives by 2020

4.1 Large and Small Plains

- (1) Rice and plantation and commodity crops
 - Measures for irrigated agriculture in the respect of; (i) study on potential water resources and facilitation of irrigation system, (ii) establishment of water management system for monitoring the existing irrigation schemes, (iii) implement actions to achieve the wet season irrigation covering 70% paddy fields (636,000 ha), dry season irrigation for 400,000 ha and irrigation for plantation and commodity crops (50,000 ha), and (iv) facilitate irrigation system in flood prone area (35,000 ha);
 - Full use of improved paddy seed in the major plains while its application rate is 29% at present;
 - Adoption of adequate production technique combined application of chemical fertilizer and manure and adequate dosage of pesticide;
 - Expansion of production area of rice and other crops to 290,000 ha in the particular focused plains by the year 2020;
 - Expansion of tasks of multi-purpose agricultural research centers and agricultural extension centers to improve agricultural extension works with development of personnel having high skill and capacity;
 - Continuation of survey and agricultural and forestry zoning to set up regional strategy of agricultural and forestry development; and
 - Promotion of agro-processing based on agro-products.

- (2) Livestock and Fisheries

- Construction of infrastructure and agro-processing facilities for livestock and fisheries for domestic supply and export;
- Establishment and expansion of research centers with development of senior researchers and engineers; and
- Improvement of productivity of vaccine and medical factories to ensure the increased livestock production by the year 2020.

4.2 Sloping Land (sloping ranges from 8 - 12% to 30 - 45%)

- Construction of related infrastructure and establishment of mixed agricultural structure in keeping a linkage with promotion of agro-processing industry in the plain areas;
- Establishment of research and experiment systems;
- Investment focussing on; (i) promotion of resettlement of shifting cultivators through creation of job opportunities, allocation of land and forest, and land survey for zoning, (ii) agricultural and forestry production to ensure income; (iii) new type jobs as an off-agricultural income; and
- Construction of forestry related infrastructure and promotion of processing and utilization of wood products.

5. Proposed Cooperation Projects with ASEAN for Supporting Agricultural and Forestry Development until the Year 2020

- (1) Development survey and study projects for best use of irrigation water sources in particular from surface and underground water.
- (2) Cooperation and assistance based projects for human resources development for science, technology and research.
- (3) Investment projects for market oriented production of comparatively competitive agro-products, agro-processing of livestock and fish, wooden processing products, and animal feeds production.

6. Estimated Growth Rate of Agriculture and Forestry Products until the Year 2020

Under the circumstances that agricultural and forestry production can be properly developed, the growth rates of economic and social indicators are estimated below.

Agriculture GDP (AGDP)	(Kip billion)			
	1996	2000	2010	2020
Total AGDP	524	730	1,156	2,003
Crops	185 (35%)	332 (45%)	649 (59%)	1,346 (67%)
Livestock & Fishery	280 (53%)	340 (47%)	433 (37%)	545 (27%)
Forestry	59 (12%)	58 (8%)	76 (6%)	112 (6%)

(note : US\$ 1.0 = Kip 710)

Agriculture GDP (AGDP)	(%)		
	1996	2000	2010
Total AGDP	9.80	5.80	7.30
Crops	19.80	9.50	10.70
Livestock & Fishery	5.34	2.74	2.59
Forestry	-0.42	2.59	4.74

Supply and Demand	(Kcl)			
	1996	2000	2010	2020
Available supply	2,300	2,500	3,000	3,500
Demand	2,328	2,333	2,343	2,353

3.2 Strategic Vision

“The Government’s Strategic Vision for the Agricultural Sector” (Strategic Vision) is summarized below.

Summary of Strategic Vision

1. Agro-economic Paradigm

The Lao PDR is characterized by the dual agricultural economies: the flat lands along the Mekong corridor and the sloping lands. The flatlands are entering a period of agricultural transformation, while the agriculture in the sloping lands is basically subsistence and farm households are locked in an acute poverty trap. Increasing human pressure in the sloping land natural resource base is acceleration environmental degradation and creating adverse downstream impacts in the fragile Mekong River ecosystem. Figure 2.1 shows the overlapping paradigms of the dual agricultural economies.

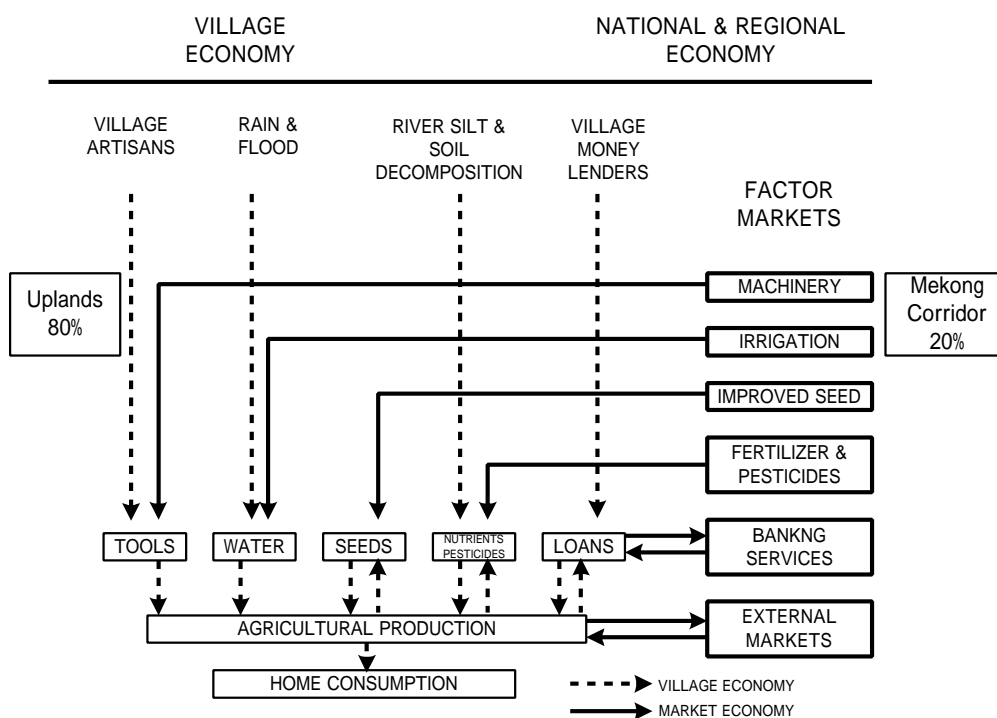


Figure 3.1 Transition from Subsistence to Market-Driven Agricultural Development

The divergence of Mekong corridor and sloping land agricultural economies suggests the need separate rural development strategies – the Mekong corridor/flat land and the sloping land approaches. Both approaches target further market expansion and market development.

Flatland Market Conditions- Markets Working	Sloping land Market Conditions- Markets Not Yet Working
Good road linkages and access	Poor and non-existent road linkages
Adequate Agricultural Technology flows from regional markets	Very limited and non-existent agricultural technology flows
Rural savings mobilization and agricultural lending mechanisms beginning to function	Limited and non-existent rural savings mobilization and credit
Domestic and regional markets interacting	Little and no domestic and regional interaction
Market information and price signals operative in many areas	No market information mechanism
Monetized rural economy	Basically non-monetized rural economy with predominantly subsistence agriculture and barter transactions
Free access for local and foreign entrepreneurs	Free access for local and foreign entrepreneurs, but little incentive because of non-functioning markets in most areas
Agro-geographic conditions favoring flatland farming systems	Agro-geography in high relief requires balanced sloping land farming systems and integrated environmental.

2. Flatland Strategic Initiatives

For the flatland areas, the strategy is to maintain and accelerate the pace of agricultural diversification and intensification. Policies and strategies should support and maintain the pace of market integration in the flatland areas and gradually expand the market economy to the sloping lands.

The broad strategy for flatland agricultural development targets:

- (1) improving and diversifying farming systems with increased and intensified cash crop, livestock and fisheries production;
- (2) expanding and intensifying value added processing enterprises through promoting local and direct foreign investment in agribusinesses;
- (3) government and private sector sponsored market research, market information systems and regional marketing links between producers and wholesale and retail buyers throughout the region;
- (4) developing internationally accepted product grades and standards;
- (5) strengthening and expanding rural credit facilities through free competition and market determined interest rates;
- (6) supporting and strengthening rural and agribusiness lending by State Owned Commercial Banks (SOCBs) and private commercial banks; and
- (7) rehabilitating, expanding and intensifying dry season irrigation schemes with participatory community based management

3. Sloping Land Strategic Initiatives

The sloping lands present a different set of problems, due to remoteness, inaccessibility, endemic rural poverty, poor credit and capital accessibility and other factors. These include all the problems of transforming shifting cultivation farming systems away from “low-input : low-output” systems in order to stabilize communities, enhance resource productivity, improve the socio-economic environment and minimize the degradation of the natural resource base.

The matrix of approaches needed for the sloping lands includes an integrated mix of:

- (1) land-use zoning based in bio-physical (e.g. slope and land capability) and socio-economic parameters;
- (2) participatory land allocation land-use occupancy entitlement;
- (3) community management of natural resources;
- (4) farming systems diversification and agro-forestry development through adaptive research, trials and demonstrations on farmers’ fields;
- (5) expansion of small-scale community managed irrigated;
- (6) farmer demand-driven extension;
- (7) sustainable land-use management with soil erosion control, afforestation, plantation forestry and conservation management;
- (8) rural savings mobilization and micro credit extension;
- (9) competitive rural finance system development with market determined interest rates in most areas with subsidized rates in some areas to promote technology adoption among the poorest socio-economic strata;
- (10) strengthen the capacity and legal framework of state-owned commercial banks in commercial and banking transactions; and
- (11) opening community market access through feeder road upgrading and expansion and market information delivery.

4. Development Opportunities

Lao PDR, lying at the geographic heart of a market comprising several hundred million-persons, is strategically placed to capitalize on its favorable geography and competitive advantage. The accelerating demand for food produce in Southeast Asia is likely to continue at an increasing pace for the foreseeable future as regional economic recovery

gathers momentum. The opportunity is to exploit this favorable strategic advantage. The challenge is to sustain the momentum of market driven growth in the Mekong corridor while replicating the process of agricultural transformation to the stagnant sloping land areas of the country. The Government's new approach will not only focus the supply side conventionally supported, but will also give equal weight to the demand side in terms of promoting and developing domestic and international markets for Lao produce.

5. Constraints

The major constraints to agricultural development in Lao PDR differ by agro-geographic zone. In the flatlands where agricultural transformation is in the early stages, further impetus will be given to this process by addressing remaining constraints of (1) insufficient market information and linkages, (2) absence of commodity grades and standards; (3) inadequacy of commercial credit facilities in many rural areas; and (4) insufficient flow of productivity-increasing cash crop technologies in more isolated rural areas.

In the sloping lands, there are at least six major types of constraints to agricultural growth and development: (1) lack of markets and market information flows; (2) inadequate access to transport and road links; (3) low incidence of rural savings and investment; (4) absence of productivity enhancing technology flows; (5) slow implementation of formal land tenure arrangements; and (6) insufficient community-based irrigation infrastructure needed to optimize water resource productivity within the agricultural sector.

The Government clearly recognizes the need to redress these zonal imbalances between the sloping land and flatland areas and is embarking in a strategy of shifting resources and priorities toward accelerating the integration of the sloping land areas into the national economy while maintaining the pace of market driven growth along the Mekong. The main priorities are to sustain the pace of the current momentum along the Mekong corridor, while expanding the development process to the sloping lands. There is a critical need in the sloping lands for Government support to redress market failures and externalities which inhibit growth and development of the rural sector in that agro-geographic zone.

6. Legislative Measures

Supporting the double-sides of the supply/demand strategic equation, the Government will continue its initiatives in internal regulatory and external trade policy Adjustments. The Government has already taken a number of concrete measures in this direction by eliminating inter-provincial commodity transport licensing and removing a number of restrictions on commodity exports. The Government has also streamlined licensing procedures for domestic businesses, including agri-businesses and plans to make additional reforms over the coming years to intermediate term. The Government is committed to trade liberalization and regional economic integration along the guidelines of AFTA, WTO and ASEAN. The Government is prepared to take concrete moves in this direction in concert with parallel and reciprocal moves by its trading partners.

7. Research and Extension

There will be supportive institutional restructuring to enhance the capacity of MAF to supply direct services to farmers in an integrated multi-disciplinary manner. The approach will be "bottom up", wherein farmers identify problems through the existing village participatory mechanism. DAFOs, through the mobile Farming Systems Extension Workers (FSEW), channel problem-solving technology to farmers in on-farm trials and demonstrations. PAFS support this process technically at the provincial level through their Subject Matter Specialists (SMS). The coordination of natural resource planning and resource allocations to support this "bottom up" planning system will take place at

the National Agriculture and Forestry Research Institute (NAFRI) and Agricultural Extension Agencies (AEA) at the central MAF. Planning and state resource allocation will be area-based (seven plains, watersheds and river basins), fully integrated, and driven by farmer demand.

The newly created NAFRI will be the apex of the Government support system to farmers. The NAFRI will design, implement and coordinate all agriculture and forestry adaptive research. It will provide a central level focus for integrated natural resource management throughout Lao PDR. The linkages between NAFRI and the MAF line departments will occur through the Council of Science and Technology (CST). Department Directors-General will sit on the CST, chaired by the Minister. Resource planning and budgetary support to the service mechanism and performance evaluation of the system will come from the newly created Department of Planning (DOP) and the Permanent Secretary Office (Division of International Cooperation and Investment).

8. Approaches

Seven Thematic Approaches which have been developed for this Strategic Vision. The themes are directly linked to Lao PDR national programs The Thematic Approaches are:

- The Planning Approach: MAF Planning and Decentralization;
- Human Resources Development;
- Business Regulatory Adjustment;
- External Trade;
- Flatland Transformation;
- Sustainable Sloping Land Development and Environmental Management/ Shifting Cultivation Stabilization;
- Irrigation.

The relationships between the National Programs and the Thematic Approaches are depicted in Table 3.1.

Each of these “Thematic Approaches” is discussed on the following eight Tables 3.2 to 3.9, in order to illustrate the ways in which the relevant policies can be translated into Strategies and them into programs.

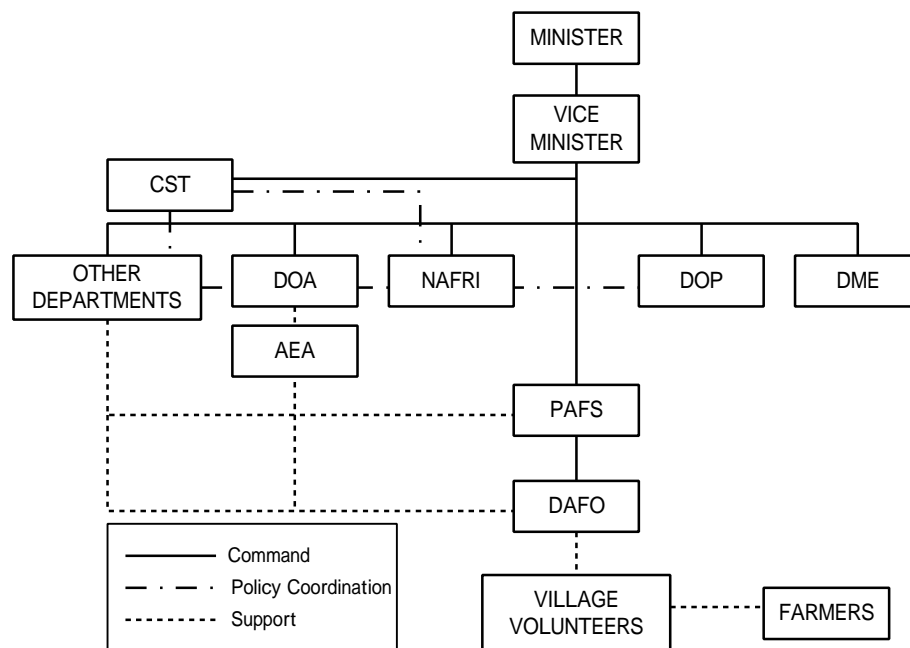


Figure 3.2 Existing Ministry of Agriculture and Forestry Organization Outline

Table 3.1 Relationships between MAF Programs and “Thematic Approaches”

POLICY PROGRAMME	RELATES MOST DIRECTLY TO THESE “THEMATIC APPROACHES”	RELATES LESS DIRECTLY TO THESE “THEMATIC APPROACHES”
1. FOOD PRODUCTION	The Planning Approach: MAF Planning and Decentralization Flatland Transformation Sustainable Sloping Land Development and Environmental Management/Shifting Cultivation Stabilisation Irrigation Human Resources Development	Business Regulatory Adjustment External Trade
2. COMMODITY PRODUCTION SUPPORT PROGRAMME	The Planning Approach: MAF Planning and Decentralization Flatland Transformation Sustainable Sloping Land Development and Environmental Management/Shifting Cultivation Stabilisation Irrigation Human Resources Development	Sustainable Sloping Land Development and Environmental Management/Shifting Cultivation
3. STABILIZATION /REDUCTION OF SLASH-AND-BURN CULTIVATION	The Planning Approach: MAF Planning and Decentralization Sustainable Sloping Land Development and Environmental Management/ Sifting Cultivation Stabilisation	Business Regulatory Adjustment External Trade Flatland Transformation Irrigation Human Resources Development
4. IRRIGATION DEVELOPMENT SCHEME	The Planning Approach: MAF Planning and Decentralization Flatland Transformation Irrigation Sustainable Sloping Land Development and Environmental Management/ Shifting Cultivation Stabilisation Human Resources Development	Business Regulatory Adjustment External Trade
5. AGRICULTURE AND FORESTRY RESEARCH PROGRAMME	The Planning Approach: MAF Planning and Decentralization Flatland Transformation Sustainable Sloping Land Development and Environmental Management/ Shifting Cultivation Stabilisation	Business Regulatory Adjustment; External Trade Irrigation Human Resources Development
6. HUMAN RESOURCES DEVELOPMENT PROGRAMME	The Planning Approach: MAF Planning and Decentralization Flatland Transformation Sustainable Sloping Land Development and Environmental Management/Shifting Cultivation Stabilisation Irrigation Human Resources Development	Business Regulatory Adjustment External Trade

Table 3.2 The Planning Approach: MAF Planning Decentralization

Policies	Strategies	Programs/Priorities	Outputs
<p>1. Area-based integrated agriculture development to better respond to the “focal site” rural development strategy.</p> <p>2. Fully decentralized “bottom up” participatory planning within Lao PDR’s government system.</p> <p>3. Indicative planning based on comparative advantage and rural socio-economic indicators.</p> <p>4. Integrated area based natural resource management centered on watersheds/ river basins (at national and regional levels).</p> <p>5. Local government management of funds, projects and integrated development resources.</p> <p>6. Fully decentralised “bottom-up” participatory planning with Lao PDR’s governmental system.</p>	<p>1. The approach includes implementation through (i) flatlands and (ii) sloping lands programs to account for the different agro-ecological concerns, and uses area-based planning.</p> <p>2. Flatland and sloping land programs are of equal importance and are to be planned and developed in parallel with each other to allow for upstream and downstream linkages and interactions. In the flatland areas, priority focus will be on maintaining the pace of market driven-growth assisted by supportive regulatory systems in parallel with consolidating food security and accelerating the pace of cash crop diversification and intensified livestock and aquaculture development for the local market and for export growth.</p> <p>3. The emphasis in sloping land areas accords high priority to a area-based development centered on integrated watersheds/river basins. The primary goals are to achieve stabilization of shifting cultivation and sedentarization of sloping land land use systems. There will be parallel emphases on supporting infrastructure (roads & tracks, small-scale irrigation and market & service centers), followed by livestock and fisheries, and forestry, annual and perennial improvements, soil fertility/ water and nutrient management and natural resource management.</p> <p>4. Provincial governments continue to plan and implement development in a fully integrated market-driven manner.</p> <p>5. Farmer-demand driven applied research and extension.</p> <p>6. Rotational cycles of Farming Systems Extension Workers and Subject Matter Specialists.</p>	<p>1. Refine and strengthen MAF’s indicative planning procedures Training in indicative planning, economics, participatory and integrated natural resource management for MAF, Department of Planning, NAFRI, AEAs Provincial Planning Committees, Provincial Rural Development Committees and Provincial Land Use Planning and Allocation Committees, DAFOs and Village Committees.</p> <p>2. Training in Monitoring and Evaluation for MAF/Department of Planning/ Department of Monitoring and Evaluation; Provincial Governors’ Office, DAFO and Village Committees.</p> <p>3. Institutional strengthening of local institutions (e.g. mass organizations, villages committees, districts and provinces) in participatory planning, micro-finance and project implementation.</p> <p>4. Institutional strengthening of Lao PDR participatory land use planning and allocation process.</p> <p>5. Farming systems methodology and training for FSEW and SMS and support for PAFS and DAFO to install farmer-demand driven adaptive research and field level extension mechanism.</p> <p>6. Develop supportive incentives to allow gradual reallocation of staff positions between MAF and PAFS (where there are too many employees) to DAFOs (where there are too few).</p> <p>7. Strengthen the capacity of local institutions (e.g. districts, village committees, mass organizations) and their interaction with the private sector</p>	<p>1. Indicative planning capacity of MAF at all levels significantly levels significantly strengthened</p> <p>2. Vertical monitoring and evaluation system established and functioning.</p> <p>3. Local community institutions assume greater responsibility for determining priorities and managing their own development.</p> <p>4. MAF becomes a farmer service organization responding to farmer determined needs.</p>

Table 3.3 Theme - Human Resources Development

Policies	Strategies	Programs/Priorities	Outputs
<ol style="list-style-type: none"> 1. MAF to be come a farmer service organisation in a market economy. 2. The District and the DAFO most important linking in MAF chain because of it interacting point with villages and farmers. 3. Research and extension is to be adaptive, problem solving and farmer demand driven. 4. Technical support in applies research, extension and natural resource management is to be provided by new NAFRI, AEA, at central level. 5. New department of planning and M&E will provide focus of integrated farming systems development 	<ol style="list-style-type: none"> 1. Re-organize DAFO staff as mobile Farming Systems Extension Workers. 2. Re-organize PAFS as Subject Matter Specialists to Support FSEW. 3. Transfer redundant and excess staff from flat land areas to sloping land areas. 4. NAFRI, AEA, DOP and DME to provide central focus for integrated farming systems and natural resource management development. 5. Forge a participatory applied research / extension synergy by strengthening linkages among public and private sector extension mechanisms along the lines of successful transformation models. 	<ol style="list-style-type: none"> 1. Train FSEW and SMS in 18 provinces and 139 districts in adaptive farming systems research and extension as per MAF HRD Plan of 1996. 2. Train staff of NAFRI, AEA, DOP and DME in farming systems research and extension, integrated natural resource management, indicative planning and monitoring and evaluation. 3. Train Village Administrative Committees and Village Volunteer in integrated, community based natural resource management and development. 4. Training of MAF staff at all levels in marketing, marketing information systems. 5. Public/private sector cooperation in farm trials and extension activities in selected areas with access to dry season water, market information and marketing linkages. 	<ol style="list-style-type: none"> 1. Major consolidation and expansion of community managed natural resource systems. 2. Accelerated increase in sloping and flat land farming systems diversification, particularly in dry seasonal irrigated agriculture. 3. Sustainable village based natural resource management systems whose management and operational costs are born by beneficiaries. 4. Agriculture and natural resource management driven by market forces. 5. An empirically tested process of public sector supply push technology transfer operating in the initial phases of agricultural transformation, giving way to private sector input supply, technology transfer and marketing contracts as transformation gathers momentum

Table 3.4 Theme – Business Regulatory Adjustment

Policies	Strategies	Programs/Priorities	Outputs
<ol style="list-style-type: none"> 1. Commitment to market led agricultural transformation under the “umbrella” of improved regulatory system as tangibly demonstrated by the progress of agricultural development in the Mekong corridor. 2. Support for short to medium-term regulatory revision to bring supportive regulations. 3. Support for parallelism of business regulatory revision among regional trading partners. 	<ol style="list-style-type: none"> 1. Review and revise over the short to medium term time horizon existing regulations to make more current with prevailing economic environment. 2. Review and coordinate regulatory Adjustment measures with Lao PDR regional trading partners. 	<ol style="list-style-type: none"> 1. Prepare time-phased program for regulatory revision based on need and suitability for present emerging agricultural transition. 2. Organize and participate in regional workshops and conferences to review and coordinate business regulatory revisions among trading partners. 	<ol style="list-style-type: none"> 1. Lao PDR regulatory environment commercially and market “friendly”. 2. Easy access of local and foreign investors to invest and participate in the agricultural sector throughout Lao PDR. 3. Removal of remaining barriers to inter-regional trade and commerce

Table 3.5 Theme – External Trade

Policies	Strategies	Programs/Priorities	Outputs
<ol style="list-style-type: none"> 1. Full support for trade liberalization and regional economic integration with minimal controls in exports/imports in concert with tangible trade liberalization measures by regional trade liberalization trading partners. 2. Gradual formalizing of informal cross border trade flows. 	<ol style="list-style-type: none"> 1. Closely monitor tangible progress of regional trading partners in reducing/ removing import/export permits and licenses and eliminating effective quantitative control over imports through licensing. 2. Move toward trade liberalization in concert with parallel moves by regional trading partners. 3. Operate, in concert with regional trading partners, to move many agricultural products and inputs to the AFTA inclusion list. 	<ol style="list-style-type: none"> 1. Continue Government initiatives through AFTA and WTO to comply with AFTA conventions in concert with parallel moves by trading partners. 2. Continue recent efforts by Government to move more items to inclusion list in concert with trading partners. 3. Assistance to MAF/Department of Planning for analyses of further regional trade opportunities. 	<ol style="list-style-type: none"> 1. Lao PDR enters the main stream of South East Asian trade and commerce. 2. Remaining restrictive trading policies and practices liberalized in concert with parallel moves by regional trading partners. 3. Lao PDR, through liberal and flexible trade policies and practices receives the benefits of its competitive advantages in agriculture, livestock and fisheries.

Table 3.6 Theme – Flatland Transformation

Policies	→ Strategies →	Programs/Priorities →	Outputs
<p>Maintain the pace of Mekong corridor market-driven changes; ensure food security and accelerate the process of cash crop diversification and intensified livestock and aquaculture development for the local market and for export growth.</p>	<ol style="list-style-type: none"> 1. Development efforts centered around rehabilitating and expanding irrigation schemes, strengthened local and community-based management of the irrigation system, improved agricultural and farming systems, increased and intensified cash crop, livestock and fisheries production. Increased investments in improving post-harvest technology and establishment of value-added small and medium processing enterprises. More specific strategies include: 2. Increased and intensified irrigated dry season agricultural development in Mekong corridor with participatory, community management of systems. 3. Agricultural and farming systems research, with special consideration to environmentally friendly practices (e.g. IPM and use of organic fertilizers). 4. Prioritization of adaptive research, trials and demonstrations. 5. Generating appropriate and more integrated technologies suitable for specific flatland environments. 6. Testing and introduction of new plant/animal species. 7. Technology testing and extension of forage production and pasture systems. 8. Technology testing and extension of improved aquaculture systems. 9. FSEW/SMS formation and training for bottom-up farmer demand-driven extension. 10. Gradual formalizing of informal trade channels in concert with liberalization of border trade with regional trading partners. 11. Streamline licensing procedures for agri-businesses. 12. Continue to let market forces operate under the “umbrella” of improved regulatory system. 13. Market-determined interest rates and competitive environment for rural credit mechanisms. 14. Establish public sector market information channels. 15. Set product grades and standards. 	<p>A. Programs relating directly to supporting the implementation of policies and strategies:</p> <ol style="list-style-type: none"> 1. TA in irrigation management transfer. 2. TAs and loans for livestock and fisheries development. 3. TAS and loans for adaptive research and extension, for integrated farming systems research and for dissemination of improved agricultural/livestock and aquaculture practices. 4. TAs and loans for institutional ad capacity building at central, PAFS and DAFOs levels, logistical support and training of DAFOs/PAFS Farming Systems Extension Workers and Subject Matter Specialists. 5. Agri-business lending and general agri-business assistance. 6. Donor-financed assistance for SPCB operational strengthening <p>B. Programs relating indirectly to the sector but serving as supportive tools:</p> <ol style="list-style-type: none"> 1. TA for market information systems development. 2. TA for establishing international grades and standards. 	<ol style="list-style-type: none"> 1. Mekong corridor areas of Lao PDR compete successfully with Thailand, Vietnam, Cambodia and China in the production and marketing of high value cash crops and value-added processing. 2. Market information systems establish and functioning throughout low land areas. 3. Productivity enhancing technology flow accelerated through commercial areas of the flatland provinces.

Table 3.7 Theme – Sustainable Sloping land Development and Environmental Management/
Shifting Cultivation Stabilisation

Policies	Strategies	Programs/Priorities	Outputs
<ol style="list-style-type: none"> 1. Shift to an area-based and decentralized development centered on integrated watershed/river basins. 2. Rural poverty alleviation. 3. Agricultural sedentarization. 4. Shifting cultivation stabilization. 	<ol style="list-style-type: none"> 1. Expand and strengthen the Government's and MAF's multi-sectoral approach to achieve sedentarization of sloping land agricultural communities and tenure through participatory planning. 2. Land-use zoning based on biophysical (e.g. slope and land capability) and socio-economic parameters. 3. Participatory land allocation and landuse occupancy entitlement. 4. Promotion of community resources. 5. Farming systems diversification and agro-forestry development through adaptive research trials and demonstrations on farmers fields. 6. Expansion of community managed irrigation systems. 7. Farmer demand driven extension. 8. Sustainable land use management with soil erosion control, afforestation, and conservation management. 9. Rural savings mobilization and credit extension. 10. Rural finance development based on market determined interest rates and open competition (generally) among private and public sector rural finance mechanisms with a few specialized subsidized lending activities (specific cases) to accelerate and cushion the risks of farming systems diversification among the poorest social strata. 11. Upgrade the capacity and legal framework of SOCBs in commercial and banking transactions. 12. Opening community market access through feeder road upgrading and expansion and market information delivery. 	<ol style="list-style-type: none"> 1. Land-use and agro-ecological zoning with land area classifications according to suitability for sloping land agriculture and forest conservation areas based on biophysical, landform, erosion risk and other criteria. 2. Institutional Strengthening of existing Land Use Planning and Allocation mechanism. 3. TAs and loans for adaptive research and extension in sloping land farming systems-agro-forestry and for dissemination of improved sloping land agricultural/livestock and aquaculture practices. 4. TAs and loans for institutional and capacity building at central, PAFS and DAFOs levels, logistical support and training of DAFOs/PAFS Sloping land Farming Systems Extension Workers and Subject Matter Specialists. 5. Community managed irrigation development and irrigation management transfer. 6. Rural banking sector improvement with emphasis on extending micro-finance banking mechanisms to the village level. Set up system of mobile credit officers. Improve bank capacity management, accounting, commercial banking, risk allocation, loan appraisal and cash flow analysis, etc. 7. Farm-to-market road and market information system development. 8. TAs and loans Agro-forestry and plantation forestry development and expansion. 9. TAs and loans for sloping land livestock and fisheries development. 	<ol style="list-style-type: none"> 1. Systematic landuse planning and allocation system that establishes transferable land occupancy and landuse rights. 2. Nationwide landuse zoning that establishes and delineates land for low land and sloping land agriculture, biodiversity conservation areas and watershed/slope land suitability classifications. 3. Increase in sedentarized, diversified sloping land agriculture and agro-forestry systems linked to markets and driven by market forces. 4. Wide replication of community- managed natural resources and irrigation systems. 5. Improved production factor mobility (e.g. land, labor and capital) in sloping land areas. 6. Establishment and proliferation of rural savings mobilization, rural credit and micro-finance mechanisms which expand producer access to major factors of production. 7. Increase in regional market activity with increase in monetized economic activity with corresponding decrease in barter transactions. 8. Accelerated rural poverty alleviation. 9. Improved environmental management as shown by expansion of forest cover, erosion reduction and other bio-physical indicators. 10. Incidence of swidden agriculture reduced to where mean fallow period is 10 years. 11. Improved production factor mobility (e.g. land, labor and capital) in sloping land areas. 12. Farmer demand driven applied research and extension system in place in all provinces and districts.

Table 3.8

Theme – Irrigation

Policies	Strategies	Programs/Priorities	Outputs
<ol style="list-style-type: none"> 1. Allocation and provision of water, on a sustainable basis, for agro-forestry systems (in the sloping lands) and for existing and new agricultural areas (in the flatland areas). 2. Diversification of water resources for irrigation and management for sustainable utilization. 3. Improve water resource productivity, marginal values. 4. Improve maintenance of irrigation systems and strengthen O&M. 5. Maintain watersheds and mitigate environmental degradation. 6. Alleviate rural poverty. 7. Accelerate cash crop production for exports and import substitution. 	<ol style="list-style-type: none"> 2. Continue to focus investment on most economical viable schemes, consolidate and expand irrigated areas. 2. Continue to strengthen community participation and initiative in project planning, works and maintenance. 3. Encourage beneficiary financing in development and in O&M of irrigation systems. 4. Strengthen farmer driven extension focus on cash crops, marketing and improve market access. 5. Target irrigation development o reservoir and system management. 6. Transfer ownership and management of schemes to beneficiaries through local WUAs. Empower WUAs at the scheme level to set and collect irrigation O&M Irrigation Services Fees (ISF) which are commensurate with actual individual scheme characteristics, real scheme O&M costs and with beneficiary capacity to pay based on their gross margins from farming operations 	<ol style="list-style-type: none"> 1. Water resources use planning for sustainable irrigation development and management. 2. Improvement of irrigation technology through the use of various irrigation systems (e.g. reservoirs, border / spray and drip systems) and of different schemes (with emphasis on small, medium and large scale irrigation systems depending on area characteristics and production opportunities). 2. Continued promotion of irrigation management transfer and of community managed irrigation program, which include active participation in planning, construction and O&M. 3. Consolidate and expand training programs for farming communities and farmers in irrigation system management, in O & M, in watershed preservation, and in improved and diversified farming systems. 	<ol style="list-style-type: none"> 1. Major consolidation and expansion of community managed small-scale irrigation systems. 2. Accelerated increase in sloping land farming systems diversification particularly in dry seasonal irrigated agriculture. 3. Full irrigation management transfer to local communities. 4. Sustainable irrigation systems whose management and operational costs are born by beneficiaries.

Figure 3.3 Agricultural Strategy Implementation Schedule

Program	Year							
	2000	2001	2002	2003	2004	2005	2006-10	2011-15
Planning Approach								
Area based development planning								
"Bottom-up" planning								
Flatland and sloping land approaches								
Area based natural resources management								
Local government management of funds/programs								
Farming demand driven applied research/extension								
Human Resources Development								
Re-organize DAFO and PAFS as FSEW and SMS								
Train FSEW in 139 Districts and SMS in 18 Provinces as per MAF 1996 HRD Plan								
Train NAFRI, AEA and DME								
Train village administrative committees and village volunteers								
Train all MAF levels in marketing/market information systems								
Business Regulatory Reform								
Review and inventory existing business regulations								
Prepare and implement time-phased program regulatory revision								
Organize and participate in regional workshops on regulatory reform								
Streamline procedure for agri-business licensing								
External Trade								
Review existing trade regulations								
Prepare time phased program for regulatory reform along AFTA, WTO and ASEAN guidelines								
Move more traded items ot inclusion list, including all agricultural inputs								
Flatland Transformation								
Irrigation management transfer and dry season irrigation expansion								
TAs and loans for flatland adaptive research/extension								
Set up FSEW/SMS system								
TAs for flatland livestock/fisheries development								
Loans fro agri-business lending and general agri-business development support								
Donor-financed assistance for SOCB strengthening and rural finance development								
TAs for market information systems, marketing and establishing product grades and standards								
Sloping Land Development/Environmental Management/Shifting Cultivation								
Land-use zoning based on agro-ecological parameters								
Institutional strengthening of land-use planning and allocation process								
Participatory land-use planning and allocation								
TAs/loans for sloping land adaptive research and farmer demand-driven extension								
Sloping land community-managed irrigation development/expansion								
TAs and loans for rural banking system and micro-finance development								
Feeder road development/expansion								
TAs/loans for agro-forestry and plantation forestry development								
TAs/loans for sloping land livestock and fisheries development								
Irrigation								
Water resources planning for sustainable development/management								
Small/medium scale irrigation technology improvement								
Irrigation management transfer								
Farmer training in irrigation system management/micro watershed management								

Source : The Government's Strategic Vision for the Agricultural Sector, MAF, December 1999

Appendix 3
Administration,
Government Finance
and
Institution

**MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
IN
LAO PEOPLE’S DEMOCRATIC REPUBLIC**

VOLUME III

APPENDIX-3

ADMINISTRATION, GOVERNMENT FINANCE AND INSTITUTION

Table of Contents

	<u>Page</u>
CHAPTER 1 NATIONAL ADMINISTRATION AND DECENTRALIZATION	AP3-1
1.1 General.....	AP3-1
1.2 Historical Facts of the State Expenditures.....	AP3-5
1.3 Decentralization.....	AP3-9
CHAPTER 2 GOVERNMENT FINANCE	AP3-27
2.1 The Fiscal Situation	AP3-27
2.2 Central-Provincial Fiscal Arrangements.....	AP3-27
2.3 The Budget Process and Government Expenditure.....	AP3-28
2.4 Impact of Donor Assistance on Government Budget.....	AP3-29
2.5 Public Investment Program (PIP).....	AP3-31

**MASTER PLAN STUDY
ON
INTEGRATED AGRICULTURAL DEVELOPMENT
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LAO PEOPLE'S DEMOCRATIC REPUBLIC**

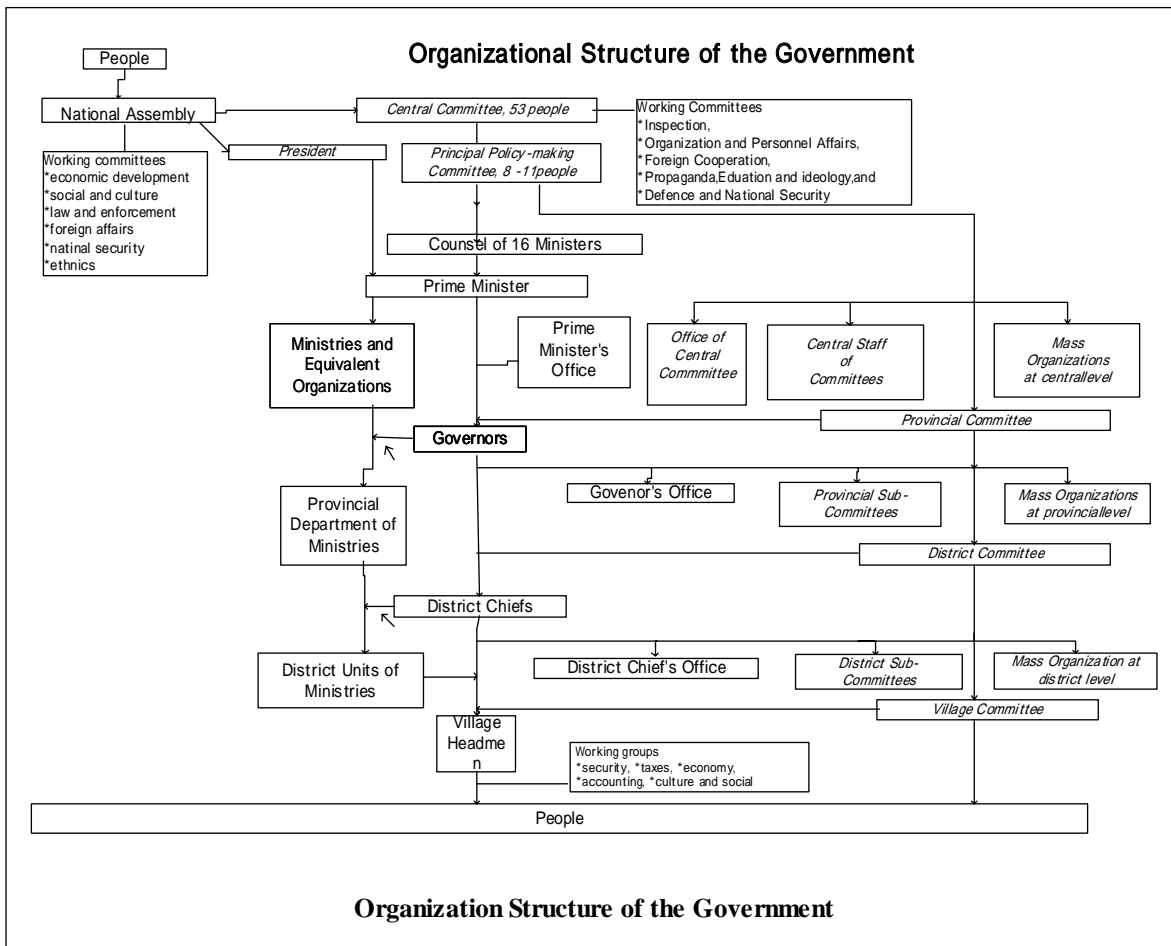
**VOLUME III
APPENDIX-3**

ADMINISTRATION, GOVERNMENT FINANCE AND INSTITUTION

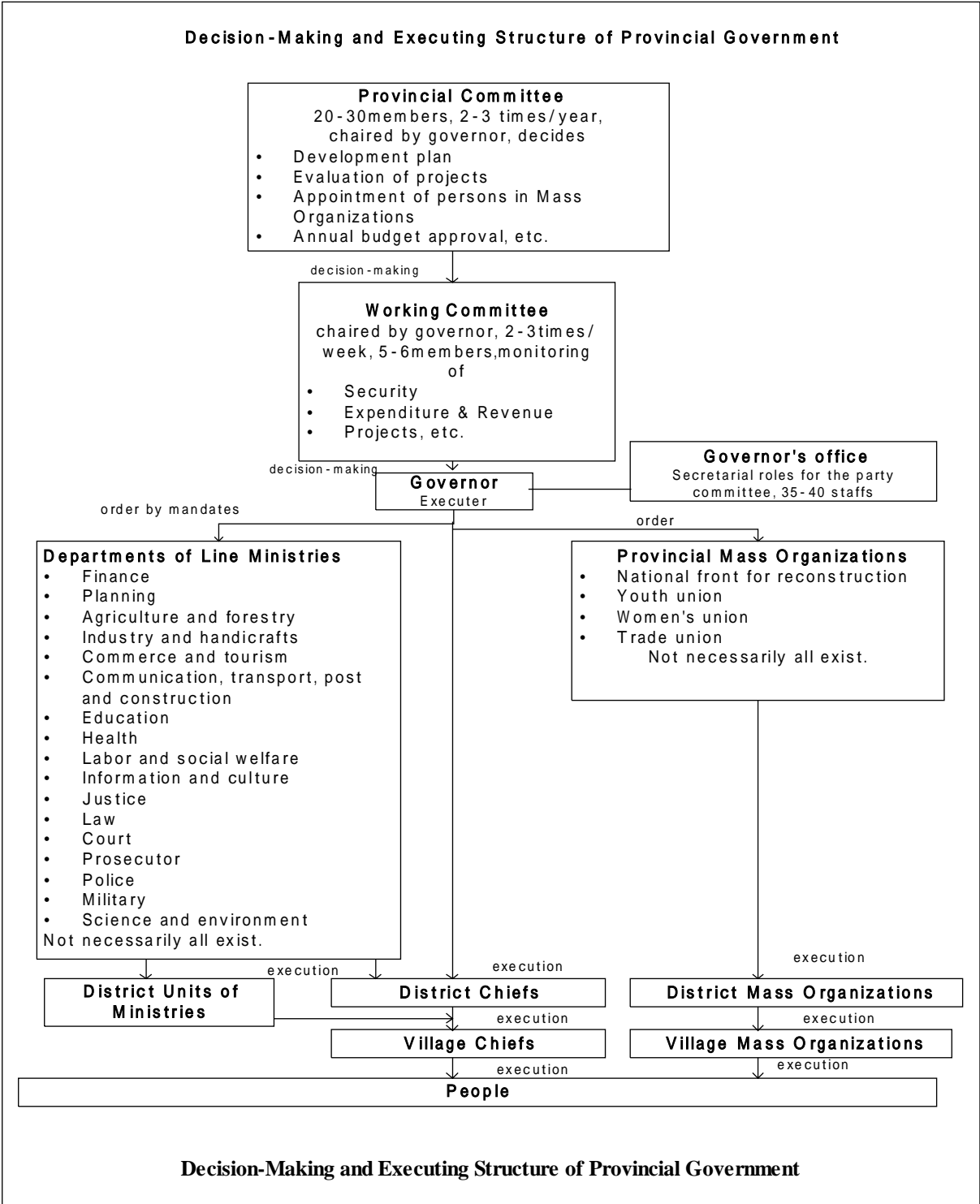
CHAPTER 1 NATIONAL ADMINISTRATION AND DECENTRALIZATION

1.1 General

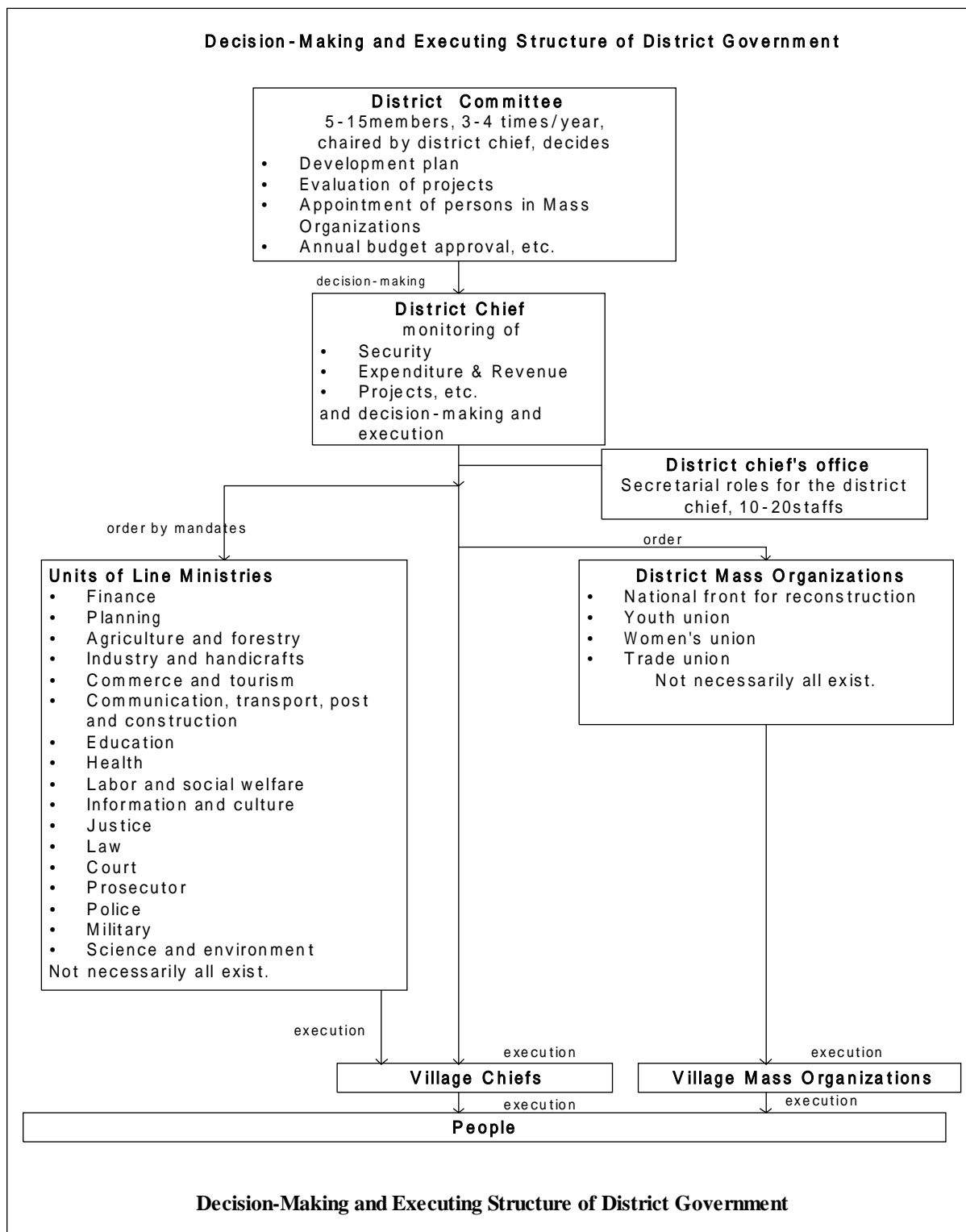
The organizational structure of the government is as follows.



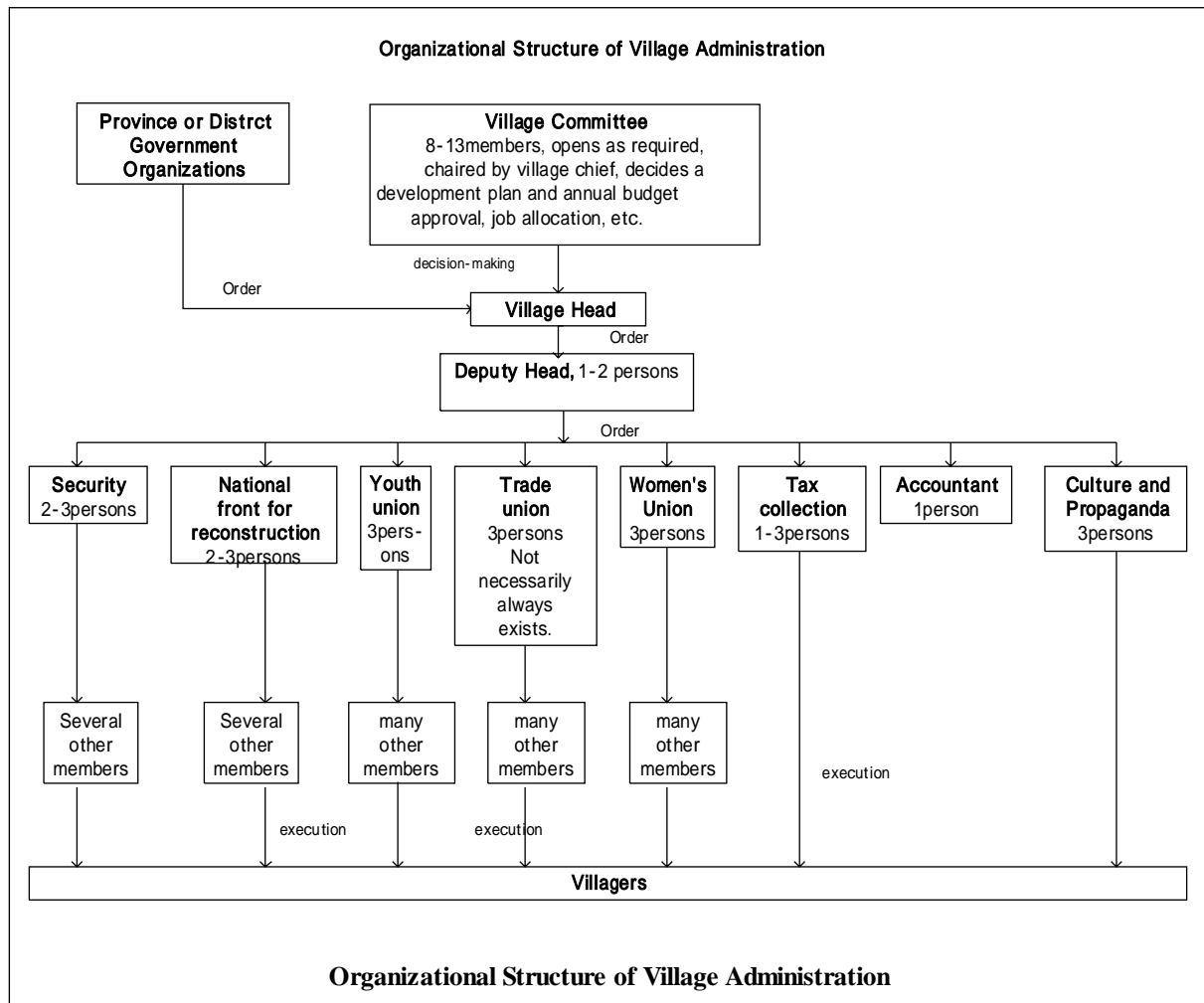
The typical structure of a provincial government is given in the following figure.



The organizational structure of a district government are as follows.



Village administrations are direct executing bodies of the government on the people. Project sustainability depends upon their daily activities and cannot be improved without development of their capacity. Their organizational structure is given in the following figure.



The organizational system of the main organizations for the agricultural development such as the ministry of agriculture and forestry (including PAFO, DAFO), governor's offices, district chief's offices and village head's offices was studied from the viewpoints of ways for information management and personnel management. The ways for decision-making are described in the preceding paragraphs.

Information Management

PASOs have to make various reports such as annual planning reports, feasibility reports such as of irrigation development projects, monthly reports, weekly monitoring reports of such as irrigation projects, occasional field inspection reports, census statistics, etc, for respective provinces, and send them to the minister of agriculture and forestry, and governors of respective provinces. DAFOs also have to make similar reports by district level, and send them to PAFOs and district chiefs. Most of the statistics are collected through village heads.

Personnel Management

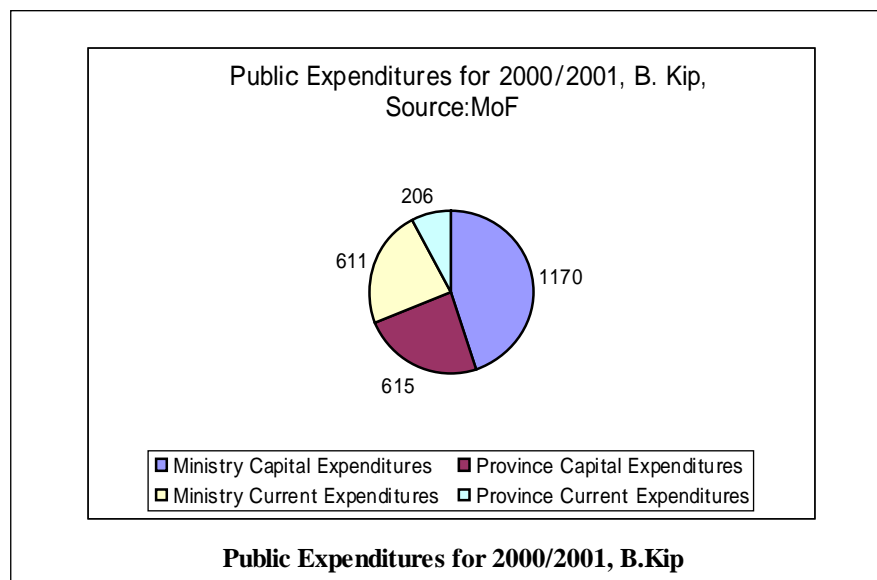
The recruitment of staffs of the ministry of agriculture and forestry has not been opened to the general public. The employment of the collage and university

graduates from the faculties of agriculture, forestry or fisheries is determined by the ministry of education in consultation with the ministry of re agriculture and forestry. The staffs trained or studied in abroad virtually have no freedom to quit the ministry unless the ministry admits. Many governors, district chiefs and chiefs of the mass organizations have been studied or trained in the Soviet or Vietnam, and got instructions in assignment of their jobs by the party. The recruitment of collage graduates or the government staffs by the private sector is much restricted by the monopolistic employment of them by the government.

The standard personnel evaluation criteria of the government officials seem to be applied universally throughout the country. There are four criteria. Among them, the political spirit of the faithfulness to the party is most important followed by the performance of duties, the political belief and the relationship with other persons in doing their duties inside and outside of the of the belonging organization. For the managers, other two criteria are added, i.e. professional expertise and the faithfulness to orders from superintendents.

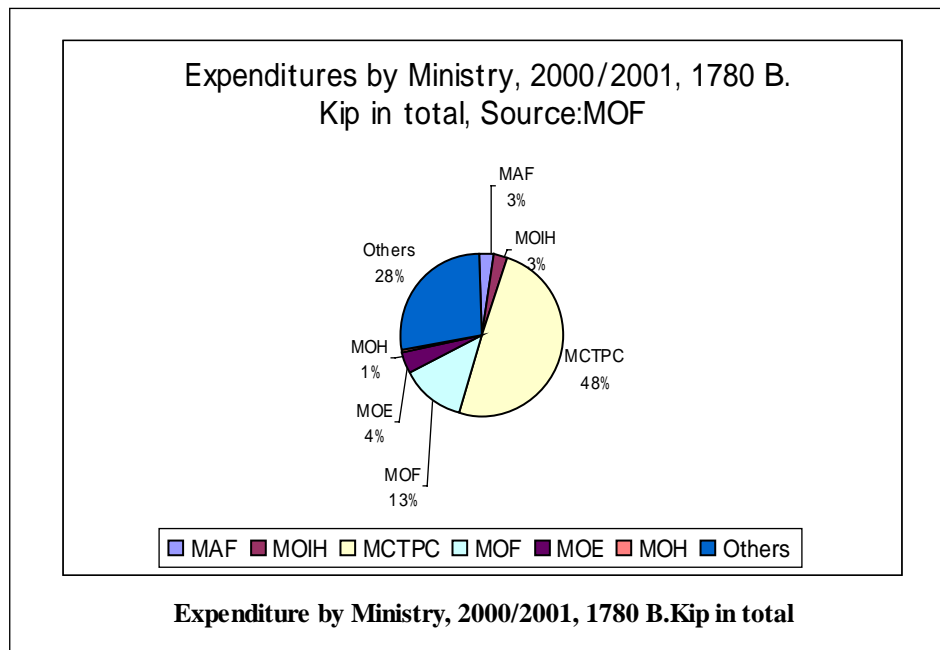
1.2 Historical Facts of the State Expenditures

The total planned government expenditure excluding amortization for 2000/2001 is 2,602 billion Kip. The amortization for the year is 172 billion kip, which is managed by the ministry of finance. The contents of the expenditures excluding the amortization are shown in the next figure.



The main part of the expenditure are capital expenditure, which occupies 68.6 % of the total. The capital expenditures by the ministries are almost twice of that of provinces and 5.7 times of the current expenditures of the ministries. There are imbalance between the capital and current expenditures in the ministries. The central government still controls the major part of the capital expenditures.

The contents of the expenditures by the ministries are shown in the next table.



The ministry of communication, transportation, post and construction (MCTPC) is the biggest ministry in terms of budgets occupying 48 % of the total expenditure by the ministries. The major part of the expenditures of MCTPC is on roads. The expenditures for the industrial sector such as agriculture, industry and commerce are very small of 5.8 % of the total expenditures for the ministries. The ministry of commerce and tourism occupies only 0.04 % of the total. The MAF covers 3 %. The expenditures on social sector such as education and health by MOH and MOE share only 4.8 % of the total. The repayment of external and internal debts, which are repaid by the ministry of finance amounts to 10.5 % of the total expenditures by the ministries. The expenditures by the security related agencies such as the ministry of defense, ministry of interior, and ministry of justice cover 17 % of the total expenditure by the ministries.

The distribution of the planned expenditures by local governments for 2000/2001 is shown in the next table. Vientiane municipality is the largest local government in terms of expenditures sharing 14.9 % of the total expenditure by the local governments. Bokeo, Savannakhet and Houaphan provinces are among the largest provinces in expenditures. While, Xaisomboun and Attapu are among the smallest provinces in sharing budgets.

Public Expenditures by Province for 2000/2001, B. Kip

Province	Budget	%
Vientiane Municipality	122	14.9
Bokeo	75	9.1
Savannakhet	72	8.8
Houaphan	67	8.2
Champasak	60	7.3
Oudomxai	50	6.1
Xiangkhouang	48	5.8
Vientiane	45	5.5
Phongsali	39	4.8
Saravan	39	4.8
Louangphrabang	38	4.6
Borikhamxai	38	4.6
Khammouan	37	4.5
Xaignabouri	26	3.2
Xekong	25	3.0
Louangnamtha	17	2.1
Attapu	13	1.6
Xaisomboun SZ	10	1.2
Total	821	100.0

Source: MoF, 2001

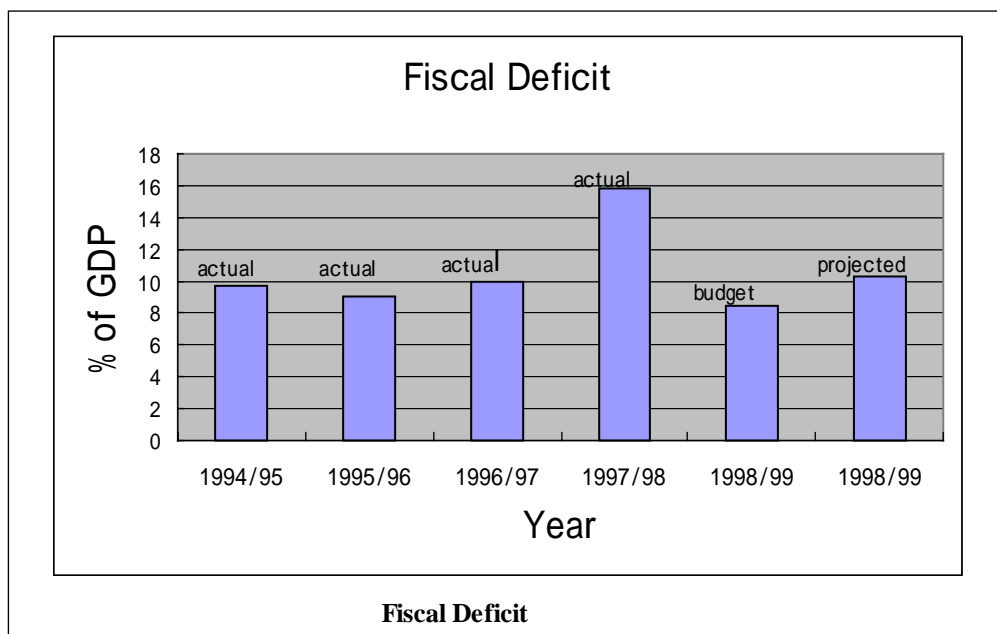
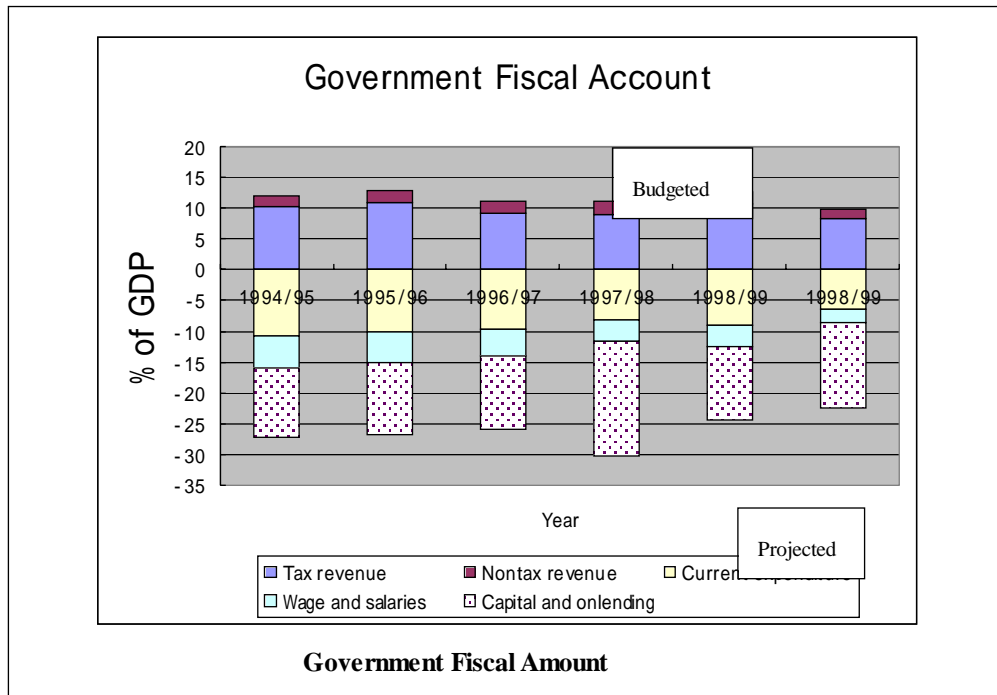
According to the approved public investment program (PIP) for 2000/2001, the agricultural capital expenditure is 473 billion kip. From it, the irrigation expenditure is 335 billion kip covering 71 % of the total capital expenditure for the agriculture and forestry sector. The investment in agriculture and forestry sector has been concentrated in irrigation development. In 1999, irrigated paddy occupied 6.48 % of the agricultural GDP as shown in the next table.

Table Agricultural GDP Distribution in 1999

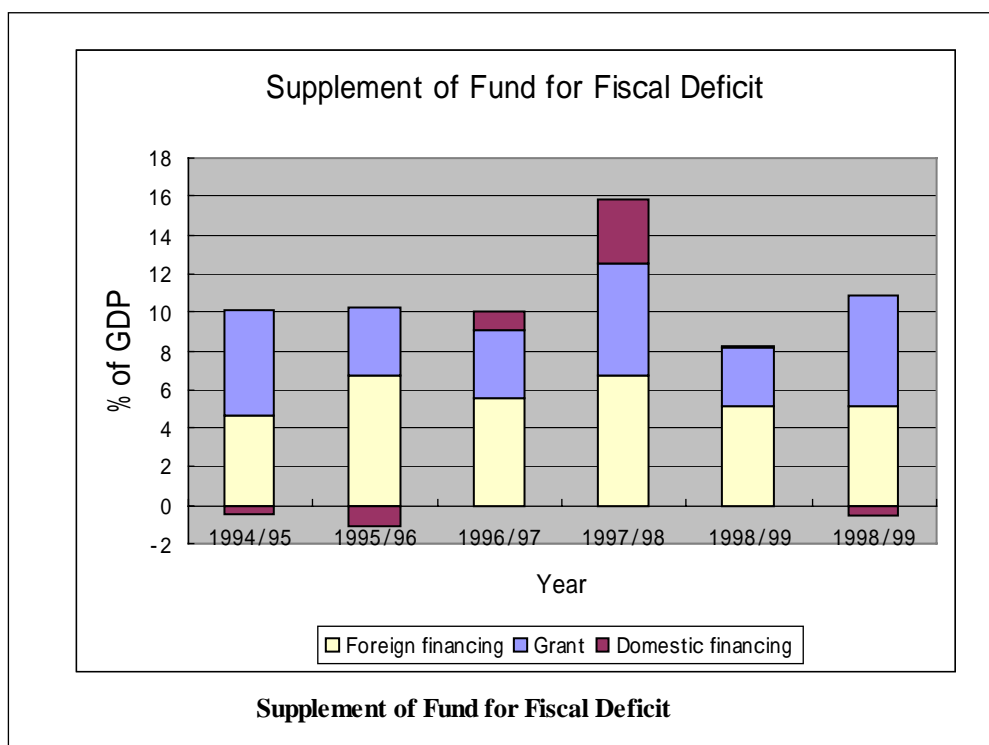
Item	%	Item	%
Wet season paddy	27.49	Buffalo	8.88
Irrigated paddy	6.48	Cattle	8.80
Upland rice	4.52	Pig	13.36
Maize	1.48	Poultry	2.84
Starchy root crop	0.69	Goat & Sheep	0.22
Beans	4.18	Egg	-
Mung bean	0.08	Fish from Nhan Ghum	0.10
Soya	0.31	Fish from Mekong	0.71
Bean	0.61	Other fish	0.59
Tabacco	0.81	Total livestock and fisheries	35.51
Cotton	0.20	Logs	8.72
Sugar cane	0.88	Cardamon and Non-timber products	0.43
Coffee	3.47	Poly wood	0.30
Tea	0.06	Total forest	9.45
Fruit	3.78		-
Total Crops	55.04	Total agriculture	100.00

Source: MAF, 2001

The actual government revenues from 1994/95 to 1997/98, and the budgeted and projected revenues for 1998/99 are given in the next figure, which was made from the report on the medium-term expenditure framework and the public investment program made under the ADB technical assistance. The recent government revenues are around 10 % of the GDP. The major parts of the revenues are tax revenues. On the other hand, the total expenditures were from 30 % to 22 % of the GDP. The current expenditures can be said to be covered by the revenues generated domestically. The fiscal deficits mounted to 9 % to 16 % of the GDP, and are approximately equal to the sum of salaries, wages and capital expenditures, as shown in the next figure.



The fiscal deficits are covered by foreign financing, grant and domestic financing as shown in the next table.



1.3 Decentralization

There are several documents collected regarding the decentralization i.e.

- Prime Minister decree No.1, dated 11/3/2000 on definition of province as strategic unit, district as planning unit and village as executing unit.
- SPC decree No. 128 dated 11/3/2000 on definition of province as strategic unit, district as planning unit and village as executing unit.
- MOF decree No. 1823 dated 24/11/2000 on the village fund.
- Savannakhet SPC decree No. 46 dated 8/11/2000 on establishing village master plan.

The followings are the summaries of these decrees.

(1) Prime Minister decree No.1

To : Ministers, Governors of municipalities, provinces and the special region in whole country.

Throughout the development process plans and a budgets are the main point for success in national social-economic development for more than 20 years in social-economic development performed in Lao PDR.

In the past the Lao Government regarded province was a strategy unit, the district was a planning and budgeting unit and village is a executing unit.

However, in the past, plans and budgets had some problems and disadvantages such as given below;

- Plans and budgets sometimes failed to meet the real socio-economic conditions of provinces. As the result, the plans were not implemented or delayed.
- Instructions from the central government sometimes took long time to reach local areas or totally did not reach to targets.
- Authorities and responsibilities have not been totally clear among the central, provinces and districts governments.

To address these issues, the prime minister orders based on the central party committee's policies, decree No.6 and 8 of the politburo (VII session), decree No.21 of central party committee, Government's budget law and prime minister decree No. 192/PM.

(a) Objectives of the decree

The market mechanism is the basic instrument of the party and the government to improve planning and budgeting mechanism. The objectives of the order are as follows:

- To improve the capability of the local governments by allowing them ownership of socio-economic development projects thereby reducing central government responsibility.
- To stimulate local social-economic development step by step to increase income, to improve living standard and to reduce poverty.
- To apply the bottom-up policy in making plans and budgets from local to central Government. Local people will participate in planning and budgeting reflecting actual local conditions and potentials for development.

(b) Points in the Instructions

The followings are points of the instructions.

- To fully understand related party resolutions, decrees, laws mentioned previously in this decree.
- Provincial development plans should be made by provincial governments based on decrees of party and plans of social-economic development. Provinces should assist districts in implementation of plans and budgets based on Government's regulation and guidelines.
- Planning and implementation of district plans and budgets should take into account high utilization of human resources and economic sectors as well as natural resources.
- Planning and budgeting should be based on programs for commodity production, marketing, income generation and rural development, and be

under supervise and responsible of provincial party committees, and district party committees and villages party committees.

(c) Responsibilities

Province:

- Security and neatness in owner province.
- Cooperation with foreign country based on roles and duties of Government provided.
- Implementation of strategies of the national social-economic development and budgets of Government.
- Conservation of historic creations, natural resources and environment.
- Administration of private and public investment (amount up to 1 billion kip)
- Preparation of master plan of social-economic development in long term and 5 years plan and yearly plan

District:

- Preparation of district 5 year and annual social-economic development plan.
- Planning and implementation of district budgets based on prime minister decree No. 192/PM.

Village:

- Preparation of village development plan and budget. That plan should start from production and service by a household, group and cooperative.
- Initial of villages' plan begin from social-economic data collection from each group of household, i.e. rich families, medium and poor families based on disadvantages, advantages and potential of villages.
- Social-economic development of villages is to upgrade living standard of population and reduce poverty of the people.

(d) Implementation

State planning committee and the ministry of finance are responsible for preparation of technical document and for informing to provinces, municipality and special region.

(2) SPC decree No. 128

- Pursuant to the instruction of the Prime Minister No. 01/PM dated 11 March 2000 regarding the formations of province as strategic unit, of district as budget-planning unit and of village as implemented basic unit.

- In order to be a technical instruction regarding the method for implementing the instruction of the Prime Minister mentioned above in success.
- State Planning Committee would like to instruct to the ministers, equivalent organization chairmen, Vientiane mayor, provincial governors; and special zone chief concerning the method for formatting the province as strategic unit, of the district as planning unit and of the village as implemented basic unit:

(a) Regarding the formation of province as development strategy unit:

In the instruction of the Prime Minister, it is clearly stipulated that the content of the provincial formation as strategic unit. That's mean that the provincial formation is efficient at its leadership and administration in all sectors, in particular the provincial formation is able to manage and plan the budget, according to its tasks, roles and responsibilities.

As its roles, State Planning Committee would like to introduce in the provincial formation as strategic unit regarding the management of socio-economic development plan.

In general, the province has an organization and a management similar to the country's ones, but its area and roles are more limited.

The provincial socio-economic development plans consist of two main documents:

- A follow-up report of socio-economic development plan; and
- An investment plan (investment project account).

The provincial socio-economic development plan is a follow-up document for guidelines, tasks and main works, which expected to be implemented in the coming years. The structure and content of provincial socio-economic development plan is similar to the national socio-economic development plan, but it is simpler. (The structure of provincial development plans exists in another instruction documents, which are propagandized through the provinces).

The determination of guidelines, tasks and expectation figures are tried in the macro sector, production, service and the socio-culture of the province, which take account of the specific feature such as potential of fund sources, labor-force and other resources exist in the province and will be able to be exploited. At the same time, a general strategy of socio-economic development throughout the country is also taken into account and the division of labor, which is assigned to implement in the province.

With an attempted expectation, we have tried to in the macro sector such as the increase of Gross Domestic Product (GDP), price index of local goods,

GDP per capita, the income and expense in the budget, the investment values and so on. In addition, the attempted expectations and the main works of the provincial sector, starting from the sectors of production, service and social culture. (Detailed figures description of province exist in another table).

The provincial investment plan composes the State investment, the domestic private and foreign investment and the investment of villagers. At present, most of the provinces still regarded the State investment as main fund source. However, in the future, we shall exploit more fund sources in other ways, especially in the sectors of the investments of domestic privates, villagers and foreign privates, in order to reduce the State burden gradually.

The provincial investment plan should be the modification of guidelines, tasks, attempted expectations and main works determined in the provincial socio-economic development plan fruitfully, with the presence of investment projects and activities from the fund sources mentioned above.

The State investment plan in the province is arranged to modify the guidelines, tasks, plans issued by the provincial priority projects, which will be implemented with the fund source of the State budget. Such priority project is followed up and selected by the investment plans of provincial and district divisions in accordance with the national guidelines of development priority plan.

The province has the right to manage the investment project as assigned or as divided the responsibility by the central authority. According to the general principal, the projects with the value of less than 1 billion Kip (excluding an extra case) will be directly administrated by the province. In addition, the province is indirectly responsible for every central project that implemented in the province.

The province should have defined a follow-up plan of socio-economic development in the long term, the five years plan and the annual plan.

In the establishment of provincial socio-economic development plan, the governor should direct and lead the provincial planing division to become the core of co-ordination with the surrounding divisions and districts in order to follow up the plan drafts of various sections mentioned into the principal plans of the province. After that, they shall be submitted to approve in the provincial conference.

Moreover, the governor should closely direct the surrounding divisions and districts of the province to make them prepare the planning draft as instruction and guideline of the province issued.

When the planing draft is completely outlined by the province and after the agreement is unanimous within the province. The planning draft should be submitted to the State Planning Committee in order to follow up into the

national socio-economic development plan and then propose to the government, to the conference of the party central executive committee and finally propose to the National Assembly to be adopted it.

After the planning draft is adopted by the National Assembly, the Decree of Prime Minister shall be issued to promulgate the implementation arrangement of such planning draft and the State Planning committee shall issue the notification of the implementation to the ministries and the provinces. After that the various plans of ministries and provinces shall be adjusted in accordance with the approved plan of the National Assembly and implement it.

The province should conduct according to the plans and projects only approved and adopted by the National Assembly. Except for the province which has an additional fund source gained from the conduction of budget obligation exceeds a lump sum plan and other sources which is administrated by province. The province is able to use those fund sources into a development project implementation according to the provincial plan had no budget to implement in the past.

Furthermore, the province shall strongly mobilize and attract a capital source with the foreign privates, domestic privates and people in order to implement tasks and various projects according to the provincial socio-economic development plan issued, which is the contributed assistance of the limited sources of the State.

(b) Regarding the formation of district as planning unit.

The formation of district as planning unit, is making the district has a sufficient capacity and lead itself in formatting, implementing and evaluating a conclusion of its own implemented plan. A real matter is making the leading officers and relevant technical officials of the district understood the system and the method of planning, by the comprehension of the planning method, the written method of the project, the method of implemented monitoring, the method of making report summary in the conduction of plans and projects correctly according to the general rules and regulations issued.

A development plan of district does not differ much with the provincial plan, but it is simpler. Moreover, some of the works are carried out by the province, but not available in the district. Th development plan of district is an arrangement of modifying guidelines, tasks and major works of the country and province as detailed works and projects. According to the district plan, most of the plan purposes stressed on the exploitation of potential applications and various resources in the area of district efficiently namely agro-forestry production and handicrafts (a rural town), services (a

municipal town and a big town) and the socio-cultural sector. The district plan should be in line with the characteristics and potentials of each provincial area such as any area is suitable for the agriculture and livestock, any area suitable for industrial crops, any area for processing industry and handicraft and so on. The expectation figures of the district will be shown out in each section such as the expectation of production, service and socio-cultural sectors. For the indication of macro figures, the province is assigned to be responsible for them. The calculation of Gross Domestic Product (GDP) is quite difficult in the province including the other macro expectations, due to the lack of the completed data.

For the district investment plan, it also includes a State investment, a domestic private investment and an investment of villagers.

The plan of State investment composes some projects and some activities assigned to the district by the province according to the division of management level, especially the project in the focal point of rural development, a small-scale project, which are not exist in the provincial administration. Moreover, the district has also indirectly charged of the central and provincial projects, which are implemented in the area of such district.

The investment plan of private and villager may be followed up with the development plan proposal of village and the proposal requests for operating a small-scale business of villager and businessman. In the foreign investment, the district should help the province and the central for facilitating the project implementation, especially in providing socio-economic data of district, the area of concession and security. Furthermore, the district will also monitor the obligations of investors according to the mentioned contract namely the local employment, an environment protection, the respect of customs and traditions, and the contribution for the society. Additionally, the district is also responsibility to direct and give a close assistance in the establishment and planning management of village.

Each district should have its five-year plan and its annual plan.

The State Planning Committee has some instruction books regarding the establishment of planning and the writing of report for the district. They are currently propagandized in some districts. In addition, they will be still followed to propagandize broadly.

The formation of district becomes a planning unit. It has been closely related and contemporaneously conducted with the formation of political base root and integrated rural development. Thus, the task is directly charged by the district party committee in directing and implementing.

An important issue is the formation of district officials and assists it in the field of the technical works. Therefore, the central and provincial authorities should have paid a special attention in this task.

The technical officials of State planning committee will be sent to help the province in training, formatting the planning staff in some districts if necessary.

(c) Regarding the formation of village as implementation basic unit.

Based on the division of responsibility in the development between the central and local authorities, the village is a basic organization under the leadership of any base root party, is responsible for the actual implementation of the guidelines, policies, projects and works, which are issued by the Party and State. Therefore, the village has played the most important role to the success of plans and works.

The village should have a plan to develop itself. The plan of village development reflects to the guidelines, resolutions of the Party and State. It also reflects the directions of works and various attempted expectations, which defined by the Party base root of village. At the same time, the activities and various works that will be implemented next also followed up. With the main purpose for expanding production and service in order to solve the living standard of the people and the poverty will be eliminated within the village.

The establishment of plan should be begun from the data collection of village and living conditions in each family. Based on the collected data analysis, the village is able to analyze the advantages such as potentials, and some disadvantages, which detain the development of village; analyze the condition of each family (subsistence or rich family). From this, according to the policy guidelines, regulations and laws of the Party and State in order to define the tasks, functions and various projects solve the basic shortcomings and help the serious poor family for surviving. By aim at setting up the village without criminals, village without social issues, village with 3 hygiene cleanliness, village with ending slash-burn cultivation, village with goods production, village eliminated illiteracy, village eliminated poverty.

The village plan starts from the plan of each family and the implementation arrangement is the family. Most of the funds in implementing project and activities is the funds of the family and family group. Therefore, the village should instruct and encourage each family with the plan and monitor their implementation in each period.

The State shall provide the fund to help the village or village group into the necessary projects or activities in the development of socio-economic infrastructure such as bridges, roads, irrigation, schools, hospitals, but the

people must share a common contribution. In the projects of production and service, the village should exploit and mobilize the funds in the development with the contribution of funds, which are collected in the development reserve of village.

Regarding the formation and implementation of the family, the family should carry out by itself with its funds and labors according to their characteristics and potentials. The village will give an instruction and support in the monitor of implementation in order to ensure the created plan is really implemented without the waiting of State funds. In the monitor of production plan, that has a seasonal characteristic. The village may instruct each family to create the table of production operation in each week or each month. After that will monitor and inspect it in the table. For the village has still had poor families, the village must pay a close attention in the instruction, with the division of responsibility for the village party unit and chief of village. Such poor families must be closely monitored in order to instruct them to find how to do for a living and progress toward a subsistence family based on their potential and capacity.

In the formation of village as implemented basic unit, it is necessary to ensure the implementation of 4 expectations and 4 contents of mobilization works, the creation of political base root is determined and do as routine work. Therefore, the works are directly charged by the village party unit.

(d) Procedures of implementation

Because we have no experience much, the implementation shall be instructed in each following step:

- In January – March 2000 as the period of documentary preparation studies, and is announced to use and spread through the provinces, municipality, and special zone. The general meeting may be held in Vientiane Municipality or each area such as northern province, central province and southern province in order to propagandize the documentary and study how to implement it together.
- In March – April 2000, the provinces, municipality and special zone co-ordinate with the technical staff of State Planning Committee implement to propagandize and instruct how to do to some districts and some villages. After that a few suitable district may be selected by the province to make a trial for the implementation under the co-ordination between the central and provincial officials and the district officials to make a model trial and withdraw a lesson. In the district, which is made a trial, it may arrange the training for the village chief and assistants of village chief in order to manage the plan and budget.

- In September – October 2000, the meeting for lesson withdrawals will be held in order to improve the instructed documentary and implement throughout the country.

(3) MOF decree No. 1823 dated 24/11/2000 on the village fund.

- Reference on the law of Government's budget. No 05/ PA dated Jan 18, 1994.
- Reference to resolution on general regulation of Government 's accounting No 20/ PM. Dated the Feb 18, 1993.
- Reference to Prime Minister's resolution related to the execution of law on Government's budget No 192/PM. Dated the Nov 02, 1999.
- Reference to recommendations by the Prim Minister on the creation of the province into strategic unit, district as plan unit –budget, and village as basic unit of execution, No 01/PM. Dated the March 01, 2000.
- Reference to the role, duty and authority unit of Finance Ministry.

Article 1: Objective, meaning of village finance.

Objective: Insurance of collectivity basis, unity in the execution finances policy and Government budget throughout the country.

Extension of ownership's right and initiative of the village in the supervision incomes-expenses of the budget according to the law prescribed and the limit of assigned duties.

Establish village's finances into a strong process, thus to evaluate into self sufficient on necessary expenditures.

The meaning of the village: Village is one of the base where in sprang out strength force of the nation, and the execution is the place where the population lives and make their living, it is the actual execution place of different policies of the Party and law-regulations of the government and also the place to execute the right and actual obligations of the population of their four works: national defense and security, economic development, socio-cultural and building up democratic process of the grassroots. Therefore, the establishment of village's finance is an ex-intrinsic necessity.

The meaning of village's finances: The village finances is not an independent unit of the budget, and is not one level of regional budget either recording to the resolution prescribed on the executive organization of budget's law by Prim Minister No 192/PM, but it is only one basic unit set up for the collection of some incomes and to supervise expenditures allocated by the district, which is related to the place on socio- economic development of the village, and actual production plan of each family.

Article 2: Basic procedures.

- 2.1 Basic procedures for the collection of village's incomes: equality, justice and collective democracy, which means:

Guarantee the execution of duty on the payment of citizen's obligations to government's budget to be fair, those who have more incomes, must pay more, while those who have less, must pay the same amount of obligations, should not take advantage on one another.

Guarantee the activity of taxation's personnel with village's administrative authority should be equal to law and regulation, further more to be able to check back each other.

Guarantee democracy and open finances among village's authority and the incomes collection unit with the village's population.

- 2.2 The planning of annual expenditures of the village must refer to the share income collected for the district the welfare fund of the district the contribution fund of the people in concordance to socio-economic plan of the village, but must be unanimous with the office of finances of the district first, before being submitted it for the approval of the mayor.

Article 3: Structure of the organization, and personnel.

The view to make the village an integrated development, strong and straight forward, to become a basic unit of the organizational execution of financial plan to have efficiency, the government of Lao PDR granted the establishment of village finances at a nation level, the finance office of the district makes proposal, the mayor makes nomination the responsible of village finances by selecting the responsibility of the village or any body, whom he sees as having the knowledge and capacity to fit the requirements of the work together with 2-3 assistants on the basis of unanimity with village administrative authorities.

Article 4: The prescription of income, which the district authorizes the village to collect.

The district authorizes the village to collect some types of income by having a detailed list according to the following structures:

- Land taxes according to land use types.
- Tax on resources.
- Tax on bids by entrepreneurs, who have income of less than 12 million kip per year.
- Tax on fluvial communication.
- Animal registration.
- Duty tax on different documents of the village.

- Income taxes from the rent of equipments (bulldozers, tractors, transport trucks, which have not been registered). and the people within the responsibility of his village.
- Income taxes from construction enterprises, and repairs of the people within the responsibility of his village.
- And other duty taxes officially authorized by the district.
- Market tickets.

Article 5: The share of utilities to the village from the collection of incomes

For a village located in the highly developed economy, will receive of a 4% share of total money collected.

For a village located in the medium developed economy, will received of 6% share of the total money collected.

For a village located in normally developed economy, will receive of 10% share of the total money collected.

For villages located in the half developed economy, according to season and in far remote areas, we will receives 15% shares of the total money collected.

For village locates in mountainous areas, dangerous, and far remote we will receive 50% share of total money collected.

The classification of the said areas is authorized to mayors in unanimity with concerned administrative authorities.

Especially for incomes from irrigation the prescriptions are of followings:

- The over flowers: collected for village development fund 80%, turn over to district budget 20%.
- Electrical pump , collected for village development fund 85%, turn over to district budget 15%.
- Motor oil pumping: collected for village development fund 90%, turn over to district budget 10%.

Article 6: Role-duty of the village finances are of the followings:

Coordinate firmly with leading members on the collection of land taxation of the village, completely collected land taxes according to annual land registration, which turn over by district.

Coordinate firmly with personnel of district finances; make diffusion on prescription, rule of law, and other duty fees related to finances.

Coordinate firmly with personnel of duty-tax of the district, collected statistical data of each type of businesses within the village clearly and specifically as base

for the calculation of tax collection, within the limit of right given to village for supervision.

Organize village meeting having village chief as President, and having participation of village organizations for research, comments, and having approval on different levels of taxation of business units within the responsibility of the village, which have been proposed by district taxation office, on the basis of the rule of laws and different duty fees issued prescribed.

Follow up and promote villages to pay taxes and different obligations conformed to policy and time.

Give consultation to business units with your responsibility related to their obligation's fees, together make research on the proposals, complaints of business units to be submitted to village meeting for research and decision, then reported the said decision to district finance office to further submit to mayor's decision on solution.

Supervise each tensor of the village, and openly reported the tensor's cash to village meeting every 3-6 months, and yearly.

Make plan on incomes collection and expenditures for 6 months and yearly according to authorization granted by district, where you are relevant to.

Article 7: Right's limit of village finances.

7.1 The village finances has the right to collect different incomes, which have been granted by the district only, have no right to issue any special rule for collecting additional incomes, aside those specified the rule of laws. One's works activity are under the indication, follow up, and direct control of Party's members, related village administration committee and district.

7.2 The village finances has right to make plan of its expenditures according to the shared amount of money from one's village incomes, has no right to issue plan of expenditure over the amount of incomes of one's own shares.

Article 8: The prescription on the basic goal of expenditures

Economic expenditures.

The construction of road into the village, construction and reparation of dikes, small irrigation weirs, under ground water, spring water, digging ponds, agricultural commercial products, solving poverty within village responsibility.

Expenses on social welfares of social center of the village, which is the gathering place for the diffusion of political thinking, agricultural technicities and others, village's library, up grading village cultural unit, village dispensary, and other social welfares of the village.

Expenses on administration mechanism of the village.

Restricted expenses on management as follows:

- Paid for water-electricity and sanitation of village administration office.
- Paid for necessary office materials.
- Paid for annual, and 6 months meeting of the village.

Expenditures on bonuses of village finance, calculated on 30% of the amount of money, which the district granted over. Village's income, divided onto: bonuses for village's Party member, financial responsible members, share to village's treasury village people's organization; the detailed granted to mayor to specify the apportionment as fit to each region.

Article 9: The collection and the turn in the incomes to the village

The office of district finances establishes land taxation's register, calculates duty fees on entrepreneurship, and level of new patent/ license, together with units taxes to be turned over to village finances for collection.

Personnel of taxation office takes the list of business men together with values of the taxes and other obligations, which they have to pay posted at village finances office, and taxation servicing places for public notification of the village.

Particularly, for villages which have facility, locate next to district finances, must go to pay directly to district's treasury; as for distanced villages, every month the personnel of district finances will go down to coordinate with village administration authority for the collection of taxes and other obligations, then turned them over to district's treasury. As for others, which cannot be registered like markets' tickets, granted to village finances to over to district finances to collect, them turn over to district finances on time.

Article 10: The supervision and spending of village's treasury.

Every incomes section which is the part of the village for which the district had apportioned for, must be turned on to the village account opened in the district treasury; the district treasury will not allow to village finances to keep money in the village, outside treasury proceeding, and also not to any other places.

The expenditures of village treasury must be executed according to opened process, the people of the village every 3 months, or year, so that the people can have participatory follow up, and control on village finances.

Article 11: Method of keeping the accounting.

The village finances must record the accounting on primary basis, by holding 2 registers such as: register on the collection of incomes; and the register on detailed expenses, such as follows:

Every incomes collected, must be recorded into the accounting register number one (income follow up). Every cash collection must have receipt issues by the treasury of he finances to payers of obligations, and also make daily summary, and clearly classily by each incomes section.

Every expenses according to plan of expenditure approved by the district, must be recorded into expenses follow up register number 2. (expenses register) . Not allow expending outside of the goals' plan, which had been approved by the district.

Must make detailed summery on the work of incomes collection, and the execution of village finances expenditures, by week, moth, portion, 6 months, and year; for information and report to Party's members, administration members of the district, and finances office regularly.

Article 12: The following up control of village finances.

Party's members and administration members of the village, must control the works of village's finances regularly; incase of necessity, should make proposal to superior inspector: district, or province level to come down for inspection.

Article 13: Granted to district finances by firmly coordinated with administration level of concerned villages takes this resolution, and the actual capacity of each region.

Through organization execution, if there are any non suitable, which must be modified, or additionally solve, make report address to Ministry of finances for consideration on solution, through the cover of district and province finances acknowledgment.

The seal must use that of the village, to certify on every receipt -expense of the village finances.

Article. 14: This resolution takes effect for the execution, starting from the day of signature on ward.

(4) Savannakhet SPC decree No. 46 on establishing village master plan.

Reference to the No 01- PM order dating 11/3/2000 concerning the establishment of the province as a strategic unit, the district as a budgeting-plan and the village as an executing unit.

Reference to the No 128/ SPE of the State Planning Committee dating 1/3/2000 concerning the execution of the No 1-PM order,

After studying and learning from the past experiences and experiments, the provincial SPC issue the instructions concerning the village level development data investigation and collection, and planning as follows:

(a) The study teams

The teams will be composed of 10 to 15 persons depending on the target village size (small- medium – large).

The field personnel should be as follows:

- The district governor or his deputy or one of the party's permanent committee members, as the head (1 per.).
- The head or his deputy or the technician of the district planning service (1 per.).
- The head or his deputy or the technician of the district rural development service (1 per.).
- The head or his deputy or the technician of the district finance service (1 per.).
- The deputy or the technician of the district communication service (1 per.).
- The head or his deputy or the technician of the district personnel service (1-2 per.).
- The commandant or his deputy of the district military H.Q, (1 per).
- The commandant or his deputy of the district police H.Q, (1 per).
- The president or the vice president of the district level women union, (1 per.).
- The secretary or his deputy of the district level youth union. (1 per.).
- The president or vice president of the district national front for reconstruction (1 per.).
- The deputy or the technician of the district agriculture service, (2-3 per.).

(b) Tasks to be performed.

- Investigation of the village characteristics, strengths and priority projects,
- Drawing of the village map,
- Interview with people to study socio-economic conditions including poverty.

- Investigation and evaluation of the village party organization, the authority and state of affairs of the mass organizations.
- Investigation and evaluation of the village national defense and security activities.
- Budgeting for each village.
- Summarizing the master plan or the village integrated development plan.

(c) Responsibility of survey teams

The team for village survey will be staffed by 3-5 persons (at the village level staff included) who describe the village characteristics, soils, forestry, river, pasture and others conditions. After defining the priority projects in investment, development of each village, the report and the draft map will be made.

The size of a team for family survey will depend on the units and family numbers within the village. For each unit, there should be 2-3 persons in charge of interviewing according to the forms given (the poverty survey form included.). After completing the interview, the summary should be reported to the responsible person for the master plan.

The team for village organizations will consist of 2-3 persons headed by the district personnel staff. The team is in a charge of collecting in-depth data and of evaluating the activities of the party's committee, group, cell and member as well as the village mass organization and authority such as, the village head, its deputy, groups and units. Then the data summary should be reported to the responsible person for the master plan.

The team for security will consist of 2-3 military officers and policemen. The group is responsible for data collection and for the evaluation of the village national defense and security activities, i.e., its strengths, its weaknesses, the people's activities, mass control, the family record and the crime-conflict record. The summary data should be reported to the responsible person for the master plan.

(d) The village plan formation

During the operation, 1-2 persons should be designated to write up the village general plan. They are in charge of supervision of the surveys and of collecting supplementary data. They are also in charge of managing the different groups' daily feedback and reporting.

After summarizing the village master plan, the responsible person will present it to the committee for discussions and debates. Then the plan will be debated, discussed and approved by the whole village. It won't be completely finished unless the village head signs the document.

In the financial aspects, the costs should be computed by the concerning technicians, then the revenue collecting authority will be given to the village according to the rate mentioned in the revenue rule.

(e) Organization

During the approval session for village development plan and the budgeting delegation, the 2-3 persons in charge of the village planning and finance will be selected. The planning staff will be separated from or accounted together with those responsible of finance, depending on the village reality.

The district governor has the authority to nominate the village financial staff. All the financial operations are regularly supervised and controlled by the district financial service and concerned sections.

The head of the provincial SPC has the authority to nominate the village plan staff. All the planning activities are supervised and controlled by the provincial and the district SPCs as well as by the different level authorities and concerned sections.

The above is the provincial SPC method of carrying out the survey and data collection, and establishing the village development plan. These procedures have been successfully performed in experiments with the average period of 4-5 days.

CHAPTER 2 GOVERNMENT FINANCE

2.1 The Fiscal Situation

The overall government fiscal situation for the five years ending 2000 highlights some salient features of the Lao PDR fiscal accounts. The overall picture in Lao is that government expenditure as a percent of GDP has been over 20% each year while government revenues has been around 8-9% of GDP. Foreign financing, including grant aid has played a very important role in bridging the deficit. The Five Year Plan target was for revenues to reach 16% of GDP. However, as is seen from the table below revenues have fallen short of this target by as much as four percentage points in most years.

Government has been making an effort to increase tax revenues. Most important tax revenues are import duties, timber royalties, turnover tax and profits tax.

Government Fiscal Accounts (as Percent of GDP)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Revenue	12.2	13.0	11.3	11.2	9.9	11.6
Tax Revenue	10.2	10.8	9.3	8.8	8.2	
Nontax Revenue	2.00	2.2	1.9	22.3	1.7	
Expenditure	21.9	22.1	21.3	26.9	20.2	
Current balance	1.4	2.8	1.8	3.0	6.4	
Overall Balance						
Incl. Grants	-4.2	-5.6	-6.5	-10.0	-4.5	
Excl. grants	-9.7	-9.1	-10.0	-15.8	-10.3	-9.0
Domestic Finance	-0.4	-1.1	0.9	3.3	-0.6	

Source: Ministry of Finance and IMF

2.2 Central-Provincial Fiscal Arrangements

The fiscal arrangements between the central and local governments were formulated only a few years ago and are in the process of evolving to a more decentralized system. The budget law of 1994 stipulates that all revenues and expenditures of the State must be entered into the national budget. Revenues were allocated to line ministries and the provinces to cover expenditures approved by the National Assembly. This covered both capital and recurrent expenditures. Provinces had little flexibility in carrying out the expenditure program approved by the National Assembly. By Decree 192 of November 1999, expenditure responsibilities of local governments were expanded. These included responsibility for administrative expenditure, salaries, payment of principal and interest on foreign loans for projects at the local level, education and health expenditures, welfare support, local area infrastructure and counterpart funds for foreign assisted projects. At the same time, the share of government expenditure by the provinces which was 30/70 in 1997/98 has gradually increased and is now 70/30 in favor of the provinces.

The government has also taken steps to strengthen the revenue position of the provinces through a tax sharing arrangement introduced in 1999. Provinces are now assigned a revenue target as before, largely based on the collections in previous years. However, provinces are now given a stronger incentive to mobilize revenue in excess of their targets. Provincial governments now account for about 70% of total revenues.

Provinces with a strong revenue base collect more than their assigned targets and are in a surplus situation. Four provinces are classified as surplus. They are Vientiane Municipality, Savannakhet, Champassak, and Khammouan. If collected revenues are in excess of their assigned targets, these provinces could keep 40% of the excess for their own use and submit 60% to the Central Government. For other provinces that are in deficit or self sufficient if collected revenues are in excess of their assigned targets, provinces could keep 50% of the surplus for their own use. Expenditures financed by the surplus must be approved by the Central Government.

2.3 The Budget Process and Government Expenditure

The annual budget process begins early in the Calendar year at which time the line ministries submit investment proposals to SPC. Other proposals covering recurrent expenditures such as salaries, operations and maintenance are developed by the line ministries, the provincial offices of the line ministries and the Provincial Governors Office. These must conform to guidelines set up by SPC. These proposals are prioritized by the Cabinet about March/April. The MOF provides an estimate of expenditure level based on macro economic assessments and targets.

The program formulated by SPC is sent to MOF for budget reconciliation, as MOF has to ensure that the budget can accommodate the requirements for current outlays commitments and counterpart funds for donor projects that account for 80% of projects. In May/June MOF presents a draft budget framework including expenditure, revenues and balance to Government along with options. This is reviewed and revised by government and then individual spending ceilings are intimated to individual line agencies.

In June/July the line agencies and provinces formulate detailed spending proposals for submission to MOF. After consultation, MOF consolidates the spending proposals into a draft budget that is forwarded to Government for review and endorsement. The government may arbitrate among different Ministries and Provinces and when this process is finalized, it is forwarded to the National Assembly for adoption.

Two departments of MOF closely regulate implementation of the budget. The Department of the Treasury ensures disbursements by line agencies and provinces are in line with appropriations and that sufficient funds are available to cover

disbursements on any particular day by the aggregate of spending agencies. The Department of Budget pre-audits requests by line agencies for credits to cover all outlays. These pre-audits are to ensure that requests are consistent with budget appropriations and with the cash flow revenue projections.

Within the central budgeting system, provincial branches of MOF channel revenue collections to spending agencies in the individual provinces and within province cash flows are reported monthly to the central office. These are consolidated to ensure they are in line with line and item appropriations. Deficit provinces receive transfers from MOF in Vientiane to cover an excess of authorized outlays over revenues, as provincial governments have no authority to create debt instruments to finance deficit positions.

2.4 Impact of Donor Assistance on Government Budget.

Donor assistance is an overwhelmingly important component of government expenditure and bears importantly on the budget process. This is because donor assistance has accounted, on average, for about 80% of total public investment expenditure in Lao PDR. The Committee for Investment and Cooperation oversees both investment and donor assistance. The Committee must approve all foreign assistance. SPC and the Committee closely coordinate their respective activities to ensure that donor assistance is directed to priority programs outlined in the governments development plan.

The donor community, having such a sizeable contribution to public sector investment, also plays a major role in resource allocation in Lao PDR. However, donor assistance has always been inclined to support new investments. Even now, donor assistance pays insufficient attention to maintenance and operation of core investment programs such as road maintenance or school programs. Donor assistance also influences sectoral priorities. The table below on the foreign component of public investment programs shows that 56% of foreign funds for public expenditures between 1996-2000 were for transport and communications sector although the overall target allocation under the Public Investment Program was only 33%.

Foreign Component of Public Investment Expenditure

(Percent of Total)

Sector	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture	84%	76%	83%	78%	73%	70%	37%	29%	44%	74%
Industry	96%	92%	93%	84%	94%	94%	89%	90%	53%	74%
Communication & Transport	85%	89%	83%	78%	80%	77%	80%	89%	91%	94%
Education	31%	62%	65%	70%	64%	70%	72%	88%	73%	77%
Public Health	57%	67%	64%	69%	79%	81%	61%	90%	73%	88%
Information & Culture	0%	82%	69%	36%	8%	14%	30%	44%	48%	79%
Social Welfare	46%	0%	0%	0%	66%	0%	81%	91%	78%	82%
Housing	20%	0%	0%	8%	0%	0%	7%	14%	36%	64%
Rural Development	0%	0%	0%	0%	85%	67%	64%	87%	83%	63%

The sector allocation of foreign funds for the same period on an annual basis is as shown in the following table.

Sector Allocation of Foreign Funds

(Percent of Total)

Sector	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture & Forestry	15%	17%	17%	17%	12%	10%	7%	8%	7%	6%
Industry	32%	21%	19%	9%	23%	27%	21%	15%	2%	3%
Communicate. & Transport	48%	52%	54%	62%	49%	40%	53%	48%	73%	67%
Education	1%	5%	5%	7%	6%	7%	8%	9%	5%	5%
Public Health	3%	2%	2%	3%	5%	7%	3%	7%	3%	7%
Information & Culture	0%	3%	3%	0%	0%	0%	1%	1%	1%	3%
Social Welfare	0%	0%	0%	0%	1%	6%	4%	4%	1%	4%
Housing	0%	0%	0%	0%	0%	0%	0%	0%	3%	3%
Rural Development	0%	0%	0%	0%	4%	2%	3%	75	5%	1%

Source: SPC, Lao PDR

The past and present pattern of expenditure indicate some features that need to be understood in order to know what actions need to be taken in the future in relation to overall government expenditure for current and capital expenditure. It also gives us some indications that are useful for the future guidelines for donor assistance as well as the PIP formulation process.

Government expenditure allocations are made each year for general recurrent expenditure and PIP by MOF and SPC. In addition, the surplus provinces finance their expenditures with their own revenues. The total government revenues by each province and Ministry for the past two years are given in the Table below:

Lao - General Expenditure Government 1998-2001

(Billion kip)

	1998-1999			1999-2000			2000-2001		
	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital
Total	1802.7	452.3	1350.4	2488.2	705.4	1782.8	3132.4	1127.1	2005.2
Ministry	1484.2	304.5	1179.6	1639.6	473.0	1166.6	1842.1	792.2	1049.9
Provinces	318.6	147.8	170.7	848.6	232.4	616.2	1290.2	334.9	955.4

Source: Ministry of Finance

Government expenditures over the past decade have increased as a percentage of GDP. But the increase has been erratic with no clear trend and could not be sustained. In addition, the volatility in capital expenditure has been a feature of the last ten years with 1997-98 being the extreme case. The increase in expenditure has been most marked in the transportation sector, followed by agriculture, education and health. Although the government investment in the industry and energy sector is very low at about 2% of GDP, this should be the case in view of the move to a market economy, as there were large scale hydropower projects (over 100MW), but in the private sector. The table below provides details of the trends in total government expenditure by sector.

General Government Expenditure by Functional Classification 1991-98

(% of Total)

	1991	1992	92/93	93/94	94/95	95/96	96/97	97/98	98/99
Agriculture	7.1%	9.1%	9.2%	9.4%	9.7%	7.8%	5.7%	16.0%	11.5%
Current	14.8%	11.3%	10.8%	11.5%	15.1%	17.3%	19.9%	4.6%	5.6%
Capital	85.2%	88.7%	89.2%	88.5%	84.9%	82.7%	80.1%	95.4%	94.4%
Industry/Energy	11.6%	8.4%	4.9%	4.2%	7.5%	8.5%	10.8%	8.8%	2.4%
Current	0.6%	0.7%	1.2%	2.7%	2.3%	1.9%	1.8%	1.2%	3.8%
Capital	99.4%	99.3%	98.8%	97.3%	97.7%	98.1%	98.2%	98.8%	96.2%
Transport/ Communicate	19.9%	21.8%	19.4%	29.9%	23.8%	23.7%	27.5%	28.3%	28.4%
Current	2.3%	1.6%	2.4%	1.8%	2.4%	2.7%	1.6%	1.1%	1.0%
Capital	97.7%	98.4%	97.6%	98.2%	97.6%	97.3%	98.45	98.9%	99.0%
Education	7.5%	8.5%	10.5%	9.9%	11.7%	12.4%	12.7%	9.3%	8.4%
Current	79.6%	67.8%	66.5%	60.2%	67.1%	56.9%	58.2%	46.5%	46.1%
Capital	20.4%	32.2%	33.5%	39.8%	38.8%	43.1%	41.8%	53.5%	53.9%
Health	3.5%	2.9%	2.5%	4.5%	5.6%	6.9%	5.1%	5.9%	4.7%
Current	56.6%	56.9%	83.3%	65.8%	61.2%	38.2%	62.9%	31.2%	40.3%
Others	50.4%	49.3%	53.3%	42.1%	41.0%	40.6%	38.2%	31.6%	44.7%
Current	54.35	52.9%	61.5%	49.1%	48.6%	45.6%	46.6%	31.6%	43.1%
Capital	45.7%	47.1%	38.5%	50.9%	51.45	54.4%	53.4%	68.4%	56.9%

Source: Ministry of Finance

2.5 Public Investment Program (PIP)

The PIP is only one component of the Government expenditure budget. However, this component is an important element of the government activity as it is the investment component as distinct from the recurrent expenditure component. The table below gives a breakdown of government expenditure and the PIP expenditure for selected years for the Ministry of Agriculture and Forestry (MAF) as an example of the total budget and the PIP component for selected years. The table shows that almost one half of government expenditure in the MAF is for recurrent expenditures comprising salaries, administration, social security and pensions. The investment totals shown here are for PIP. The corresponding data for the provinces is not available to MAF.

MAF Budget Data (Actual 1995-96 to 1999-2000) and Planned 2001-2002

Fiscal Year	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Capital (PIP)	2260.19	1589.17	1573.24	2500.00	2500.00	5200.00
Recurrent	1191.99	1389.77	1308.20	2302.89	3076.55	4484.74
-Salary	765.06	829.76	778.26	1499.73	2056.55	2782.04
-Administration	327.43	359.84	392.06	588.75	788.92	1141.70
-Pension etc	99.50	200.17	137.88	214.41	231.08	564.00
TOTAL	3452.18	2978.94	2881.44	4802.89	5576.55	9687.74

Source: MAF

Like the budgetary process, the PIP process also begins early in the Calendar year with the issuance of instructions by SPC indicating overall national policies, priorities, targets and guidelines. Proposals prepared and submitted by line agencies and provincial governors must contain basic information on capital and recurrent costs, financial and economic analyses, environmental implications and funding status.

The line ministries and provincial governments are responsible for project identification and proposal preparation and each line ministry develops and prepares its own sectoral plan based on national guidelines and targets set by SPC. Village and district authorities prepare and submit their development requirements to provincial authorities and Provincial Planning Departments hold meetings to build consensus and decide on provincial priorities. The process is a top down and a bottom up process.

During June/July SPC convenes regional meetings in the North, South and Central areas of the country which is review implementation, and discuss instructions and seek clarification on the preparations of PIP and the provincial agencies and line ministries report on their PIP activities and proposed plans.

After SPC has received finalized plans and projects prepared by the line agencies and provincial authorities, the PIP is submitted to government for approval and finally to the National assembly. After approval, the SPC issues implementing instructions to the line ministries and provincial governments.

The PIP as a percentage of total government spending has been increasing gradually and is currently over 50%. However, because of a big donor component, the PIP has been subject to wide changes. In addition, as was experienced in 1997/98, public investment jumped to unsustainable levels resulting in macro economic stability. Donor assistance has favored capital-intensive projects, notably road construction and improvement. In fact, the transport and communications sector has accounted for more than 50% of total public investment in the period 1996-2000.

Because of the large donor component in the PIP, there have been problems for the SPC to offer guidelines and have the flexibility in investment priorities and allocation of funds. There was an intention in the past years to shift the allocation of funds from transport and communications to education and health. In fact the

actual situation was that the allocation for transport and communications increased during those years.

In the case of the agriculture/forestry sector, the capital expenditures in 1997/98 were double the planned level followed by a sharp scaling back to well below the planned level. The lesson is that there are clear indications that the dependence on donor funds limits the ability of the government to plan effectively a program that caters not only for an public

investment program but that it also has problems in providing for the required recurrent expenditure for full realization of the returns on earlier investments.

The government budget revenue forecasts were not realized in recent years mainly due to a decline in economic activity. However, investment levels, through donor funds continued with the result that there have been insufficient funds for maintenance and other current expenditure. This is an important consideration for two reasons. Firstly, reduced recurrent funds means essential services cannot be performed such as teaching in schools and provision of basic health care. But also importantly is that the reduction in recurrent funds leads to reduction in returns from earlier investments and it seriously questions the viability of donor projects that were introduced in the first place based on an estimated rate of return which does not eventuate due to lack of recurrent funds.