

**AGRICULTURAL COMMERCIALIZATION – A STRATEGIC
DIRECTION FOR FARM FAMILIES TO OVERCOME POVERTY
IN LAO PDR**

**A paper contributed by the
Lao PDR National Strategy Team**

Introduction

Agriculture is the main and important sector in Lao PDR. It is a major component of total cross domestic production (GDP) (see Annex 1) of over 70-80 percents of Lao people is engaged in agriculture. However, majority of poverty seem to be in agriculture sector due to ineffective farming system as most of Lao farmers accustom with subsistence farming which derive from unsupported agro-business environment including inadequate infrastructures (road, irrigation, extension facilities, etc.). Nevertheless, the low level of commercialization in agriculture production states as a significant cause of low income for farm family and poverty incident (see Annex 2). Therefore, agriculture has become the first priority for development and poverty reduction.

A priority program of Promotion of Commodity Production Program (PCPP) was introduced by the government, after the enactment of New Economic Mechanism (NEM) in 1986. The main focus of PCPP is to support the transformation from subsistence economy to a market-oriented one by promoting commercialization in agriculture production. However, on the one hand, in the past the agricultural development policy seemed to be too general and did not in the same line with other sectors policies. On the other hand, farm family itself is not well aware of commercialization that helps sustain their farming activities, particularly in this era of regional integration.

This paper aims to review significant issues related agriculture system in Lao PDR, some key constraints, policy implications and some recommendations in order to support agricultural development and other significant issues ensuring the contribution to increase farm family income and poverty reduction in the country as the whole.

Current Agriculture System in Lao PDR

The majority of agricultural production in Lao PDR is based on subsistence agriculture in a low-input low-output production system. The introduction of New Economic Mechanism (NEM) was aiming at transformation of the subsistence into a commercialized way of market-oriented approach. This is believed as the most appropriate and effective for agricultural development. After application of NEM, the economy in the Mekong corridor began transitioning into a market-based system, small-scale subsistence farmers became increasingly integrated into national and regional markets (MAF 1999).

In 1986-1993 the socio-economic indicators for the two agro-economic zones were in the same order of magnitude (MAF 1999). During 1995-1998 the development paths of the two zones dramatically diverged. The Mekong corridor and the lowland areas entered a period of agricultural transformation and economic growth, while development in the upland areas stagnated (MAF 1999).

Currently, agriculture production system in lowland areas and along the Mekong corridor is well developed comparing to other areas due to more opportunities in market access and the markets are relatively well functioning and the extent of infrastructure linkages (transport and communication) are higher than in upland areas. Agro-geographic conditions favor lowland farming systems over upland farming systems in terms of soil-fertility, ease of farming, and access to appropriate technology and inputs.

The development of irrigation system and water management has significantly improved the management of local water resources in lowland agriculture system. The availability of high quality agriculture inputs including fertilizers, pesticides, seeds, etc., due to easily access to neighbouring markets increased agricultural productivity; land productivity has also been improved deriving from the increasing of mechanization and new tools. Nevertheless, working and investment capital through rural banking services and credits began to expand production. These transformations of the rural economies in lowland areas enabled farm families to produce agricultural surpluses; achieving food security as well as increasing farm incomes through selling their surpluses in local, provincial and regional markets.

In contrast, upland areas in Lao PDR have stagnated as poor and underdeveloped infrastructure contributed to low levels of market access and technology penetration. Level of access to markets, credit, technology, inputs and irrigation systems is also very low in upland area combination with the

traditional agricultural way of slash-and-burn and shifting cultivation have resulted in reduced farming systems productivity; leading to food insecurity, depressed farm incomes as well as environment issues, which contributes to poverty in the areas.

Therefore, specific development strategy in these upland and lowland areas is needed to enhance the divergence of their agriculture systems. Although, market expansion and development stated as the main target for agricultural development in both areas, but priorities and activities in each area should be different in accordance with real situation of each region (MAF 1991).

Main Constraints in Agriculture Sector and Farm Family¹

From farmers' perspectives, some problems relating to their farming and livelihood system as well as problem associated with government policy and regulation system have been identified. The most responses were obtained for the following problems considered of most importance, in ranked order of frequency of response (highest to lowest):

1. Affected by Disaster (Flood, Drought)/ Low Productivity
2. Lack of Agricultural Land (Paddy Land)
3. Lack of Capital/ Money/ Fund
4. Crops Destroyed (Diseases, Insects etc.)
5. Insufficient Food (Specially Paddy)
6. Lack of Irrigation

These are the most indicative problems that Lao farmers identify their current constraints. Either no solution for these problems has identified in order to solve the problems.

Furthermore, the following is the list of indicative government policy and regulatory problems and their importance for farm family households. In total, 18 different types of problems were identified by households. Of these problems, the ones that had the highest number of responses indicating a "large problem were (in descending order):

1. Lack of Capital/ Issues
2. Lack of Irrigation
3. Lack of Electricity
4. Other
5. Poor Households/ Poverty/ Poor Situation of Villagers
6. Lack of Agricultural Technology/ Low Productivity

The results indicate that for the majority of the major problems the respondents did not have a viable solution other than to ask the government to help. For the lack of capital and the lack of irrigation the only other solutions advocated by a large number of respondents was to provide a fund for credit with a low interest rate and to provide irrigation systems respectively.

Nevertheless, MAF (1999) notes that the major constraints to agricultural development in Lao PDR also derives from the following issues though there might be differed by each agro-geographic zone but the lowland area are:

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.

Whilst upland areas have lower levels of market integration and suffer from the following constraints:

1. Lack of markets and market information flows;
2. Inadequate access to transport and road links;

¹ According to the survey of Improving Farm Family Income in Lao PDR, 2005; the survey took place in 8 villages of five provinces of Luangproabang, Xiengkhouang, Houaphanh, Savannakhet and Attapue. There are 145 total respondent households.

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.

Overall constraints of agriculture sector in Lao PDR, is a traditional way of production of Lao farmers as subsistence system. According to previous assessment survey, there are 4 levels of agriculture production in Lao PDR while majority of Lao farmers engage in subsistence system (see Annex 3).

Key Response Policies on Agriculture Sector

The introduction of New Economic Mechanism (NEM) in 1986 is a significant milestone of current policies including agriculture policy. Since then number of reform has been carried on which undertook significant restructuring of all level of state enterprises and decentralized responsibility for agricultural production decisions down to the household level. Appendix 4 outlines the major reforms and policy changes since that time.

The NEM recognized the dominant role of agriculture and sought to address weaknesses in the sector through significant reform measures paving the way for an open market economy. The private sector, foreign investment, and trade were expected to play an increasingly important role in the achievement of the development objectives of the Government beginning with the agriculture sector.

Eight priority programmes (including food security, rural development, human resource development, infrastructure development, shifting cultivation stabilization, commodity production promotion, service sector development, and foreign relation development) were introduced by the government in order to support socioeconomic development of the country. Agriculture commercialization, a mechanism of mechanization especially in agriculture production has been implemented under the Commodity Production Promotion Programme. This policy considered as an important policy of the government for agriculture reform in Lao PDR in order to enhance agriculture development, income raising and support poverty reduction in especially rural areas.

As to ensure the ultimate development goal of graduation the country from the status of Least Developed Countries (LDC) by the year 2020, the government set its national development of the country in consistence with the country vision introduced in the Party Congress as follows (PCC 2001):

Socio-Economic development of the Lao PDR must be balanced between economic growth, socio-cultural development and environmental preservation. Social development must be proportioned between sectoral and regional development, and between urban and rural development so as to fully and efficiently utilize human and natural resources. Socio-economic development must be based on sound macro-economic management and institutional strengthening through national solidarity and cohesiveness and the promotion of the people's democracy in society. Through a combination of utilizing the nation's potential and strength with global opportunities, the country will be able to participate in regional and international economic integration. Socio-economic development is to be closely linked with national security and stability.

As clearly notes in the National Growth and Poverty Eradication Strategy (NGPES), agriculture is the first priority sector among those four main priority sectors to ensure poverty eradication process in Lao PDR. Furthermore, the policies for agriculture sector are set out in both long-term development strategy (2010-2020) as well as the mid term development plan of the government (Five Years Social and Economic Development Plan 2001-2005 and also 2006-2010). The Ministry of Agriculture and Forestry (MAF 1991) also notes that:

"The Government clearly recognizes the need to redress these zonal imbalances between the sloping land and flatland areas and is embarking on 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.”

In order to enhance agriculture development vision, the government envisages seven Thematic Approaches to development as follows:

1. MAF Planning and Decentralization;
2. Human Resources Development;
3. Business Regulatory Adjustment;
4. External Trade;
5. Lowland Transformation;
6. Sustainable Sloping Land Development and Environmental Management / Shifting Cultivation Stabilization; and
7. Irrigation.

These Thematic Approaches are set specifically for each area as follows:

In due consideration of the constraints and priorities for agricultural development, government policies for lowland agricultural development include (MAF 1999):

1. Increase production capacity with a view to agricultural diversification including cash crops and livestock and fisheries production;
2. Develop the agricultural processing industry through domestic and foreign capital investment in agribusiness and increased value added;
3. Increase the efficiency of agricultural marketing and distribution through the promotion of government and private sector sponsored market research, market information systems, and improving regional linkages between producers, distributors and consumers;
4. Development of internationally accepted product grades and standards;
5. Expansion of rural credit facilities at market interest rates;
6. Expansion of rural and agribusiness lending by State Owned Commercial Banks and Private Commercial Banks; and
7. Rehabilitation, expansion and intensification of dry season irrigation schemes with participatory community based management.

While policies for upland agricultural development include (MAF 1999):

1. Land use zoning based on bio-physical and socio-economic parameters;
2. Participatory land allocation and land-use occupancy entitlement;
3. Community management of natural resources;
4. Diversification of farming systems and development of agro-forestry through adaptive research, trials and demonstrations on farmer's fields;
5. Expansion of small-scale community managed irrigated systems;
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 extension of micro-credit;
9. Development of a competitive rural finance system with market interest rates being applied in most areas and subsidies given in other areas to promote technology adoption amongst 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.

The policies for development of the agricultural sector are implemented through various decisions, decrees and laws. The main ones of relevance to farm families and agricultural commercialization are outlined in Annex 4.

Issues for Consideration

Through previous study on the “Improving of Farm Family Income in Lao PDR” under the Macroeconomic of Poverty Reduction suggested that in order to improve production in agriculture and ensure improvement of farmer family income, the following issues should be considered:

- Agriculture commercialization is a significant approach for improving income of farm family. The previous study under macroeconomic of poverty reduction project indicates that area where level of commercialization is higher especially through non-farm activities in the area, average income of household is also higher. Annex 5 presents the result of the research on improving farm family income in 8 selected villages indicates that those villages of more non-farm activities are more developed, average income of those villages is also higher. Non-farm activities in Xebangnoua, Xekhaman-neua and Pongvan villages are more if compare to farm activities and the average income of these villages are higher than other surveyed villages. While, most of non-farm activities represents those activities that are more commercialized.
- Improvement of market access is also significant as a mean for development of commercialization. Annex 6 and Annex 7 show how significant of market access in commercialization development as those villages that market access is easier, there more non-farm activities exist in the villages and average income is also higher. Where market access does not present only distance to market but quality of market access in also important.
- Diversification of livelihood activities from purely rely on agriculture into a more value-added activities targeting niche market is also a mean to improve farm family income in Lao PDR. Gnum Chong village is an exception of other surveyed village under previous research while looking at agriculture and non-agriculture activities (Annex 6 and 9). Agriculture is main activities of the village’s livelihood. Of significant that, diversification of those agriculture activities by targeting niche market develops value added in their agriculture products. Consequently in income development and higher if compare to some other villages.
- The core problem for the improvement in incomes for farm families and the development of agricultural commercialization is the absence of a network of functional Value Chains (see Annex 10). The lack of functional Value Chains is responsible for the low state of agricultural commercialization and depressed farm family incomes. Smallholder farmers are isolated or organized in small groups and have difficulty in accessing inputs, credit and technology. Their limited knowledge of technology and markets is reflected in low productivity which in turn results in a lower than potential income. Enterprises, farmers and marketers are unable to link with each other effectively and are less able to capture opportunities arising from rapidly growing urban, regional or international markets. Because they do not belong to a commercial network, they find it difficult to gain access to these markets, and to the knowledge necessary to improve quality, add value and make innovations. Unless the demand for high value products and quality is recognized and acted upon, there is little incentive for developing post-production systems. Isolated smallholder farmers and agro-enterprises are less able and/or willing to invest in new technology, infrastructure, production and processing assets. The adoption of new technology by smallholder farmers is retarded by the absence of mechanisms that allow risk sharing. Production grows at a slow rate and employment opportunities for the landless, poor and vulnerable remain limited. Farmers wait passively for markets to come to them, rather than going to the markets. Spot markets rather than contracts are the usual type of financial transaction. The result is high variability of prices and income and a diffuse belief that the traders are exploiting farmers. The overall impact of a low level of agricultural commercialization is a situation characterized by low rural income, slow growth of agricultural value added and persistence of poverty.²

Recommendations

As mentioned earlier, functional value-chain is significant in order to improve and develop farmers’ production. The capacity of farmers to produce crops for markets very much depends on the interaction

² T. D. Purcell, Improving Farmer Family Income in Lao PDR, Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

of their knowledge and skills; the effectiveness of extension services; the available of technologies; access to information, credit and finance; and access to land (including land tenure issues).

Therefore, several specific policies on particular crop production are important in order to improve the capacity of farm families especially in agriculture production to meet the demands of a more commercialized industry and marketing system. In essence, a demand driven approach to commercialization will have more effect than targeting specific commodities on the basis of a transitory notion of competitiveness.

As such, the report highlights some specific opportunities for increasing farm family incomes involving the following interventions:³

1. The development of linkages between stakeholders and improving access to markets;
2. The development of contract based production systems;
3. The linking of smallholders with agribusiness enterprises through:
 - a. The development of best practice models of contract farming; and
 - b. The development of Nucleus estates and large enterprise models;
4. Improving value added along the marketing and value chain;
5. Strengthening quality control;
6. Linking value added production with markets; and
7. Strengthening market information systems.

The objective of the policy is to increase the degree of farm family commercialization in Lao PDR by promoting the development of a network of well-functioning value chains that are competitive and innovative. There are several characteristics of the policy:

Firstly, the policy recognizes the key role of networks in the development of value chains. The strategy facilitates the emergence of a network of well-functioning agricultural value chains and provides institutional mechanisms through which the key stakeholders and their service providers can effectively link to each other by forming partnerships and alliances. Stakeholders participate in a commercial agriculture network when they recognize that participation in the network increases their opportunity to establish mutually beneficial partnerships and alliances.

Secondly, the policy proposes methods for sharing information. Constraints related to limited access to information and access to capital are addressed through improved marketing information services. Sharing information, however, is not going to be translated into higher incomes and more effective services unless complemented by other mechanisms that give stakeholders the means to make investment decisions needed to move to higher levels of commercialization.

Thirdly, the policy builds and strengthens existing capacity of service providers to facilitate the development of commercial agriculture. Improved capacity of service providers facilitates the development of commercial agriculture in two ways: by directly providing better services to currently well-organized commercial stakeholders and by mobilizing and organizing currently loosely-organized farmer groups operating at a low-level of commercialization.

In order to achieve the overall objective of increasing farm family incomes through moving to a higher level of smallholder commercialization in Lao PDR, the strategy envisages several components:

1. Commercial Agriculture Network
2. Strengthening of the Agriculture Market Information Service
3. Strengthening BDS for Smallholder Commercialization
4. Institutional Capacity Development for Commercial Agriculture
5. Improvements in rural infrastructure by promoting the construction of farm-to-market roads and enhanced communications through the provision of a Rural Infrastructure Fund (RIF).

³ T. D. Purcell, Improving Farmer Family Income in Lao PDR, Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

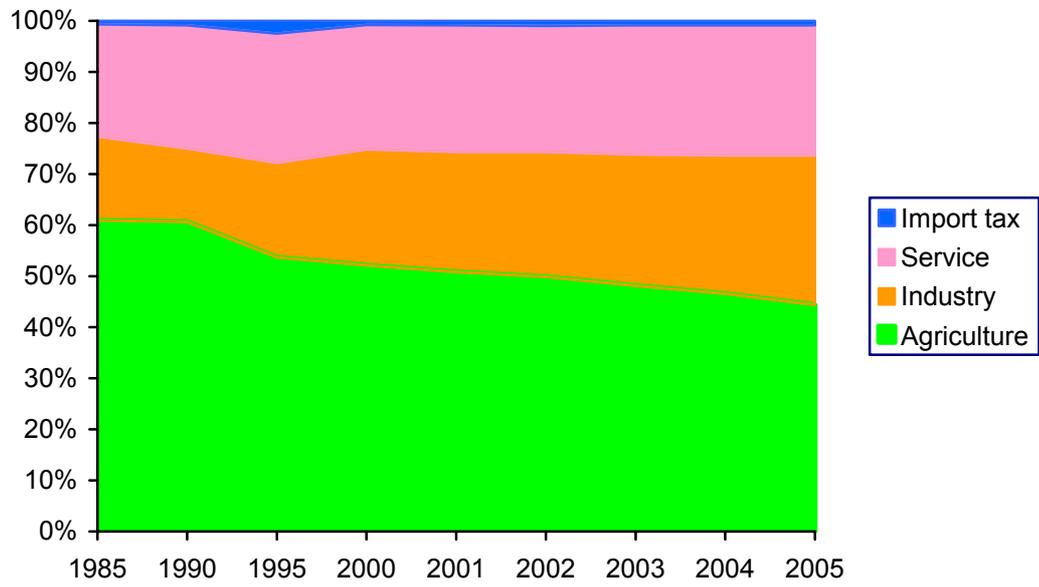
Conclusion

The initial assessment on how to develop agriculture/crop production of farm families in order to generate more income, suggests that villages that diversify their livelihood activities into non-agricultural value adding activities tend to generate greater average household incomes than those villages that rely predominantly on agricultural livelihood sources. However, if all households start undertaking the same sorts of activities (and try to do everything), it is more likely their average household income will be lower. The key to improving individual household incomes (as opposed to the village as a whole) is to specialize in fewer activities. To increase farm family incomes the results suggest a strategy of diversification out of agricultural production and into higher valued non-agricultural production, coupled with a strategy of niche marketing and specialization. As an enabling factor, access to markets play a key role in transforming a diversified income source from a merely risk reduction strategy into a commercialization strategy. In conclusion, commercialization in farmers' livelihood activities is a key to improve their income earn. As the level of commercialization indicates a more diversification on their production and livelihood; a more market-link; a more opportunities in employment and income sources, which considered as a more appropriate and effective in Lao PDR, agriculture commercialization through PCPP is one of a significant policies in agriculture development, raising farmers' income and leave out of poverty.

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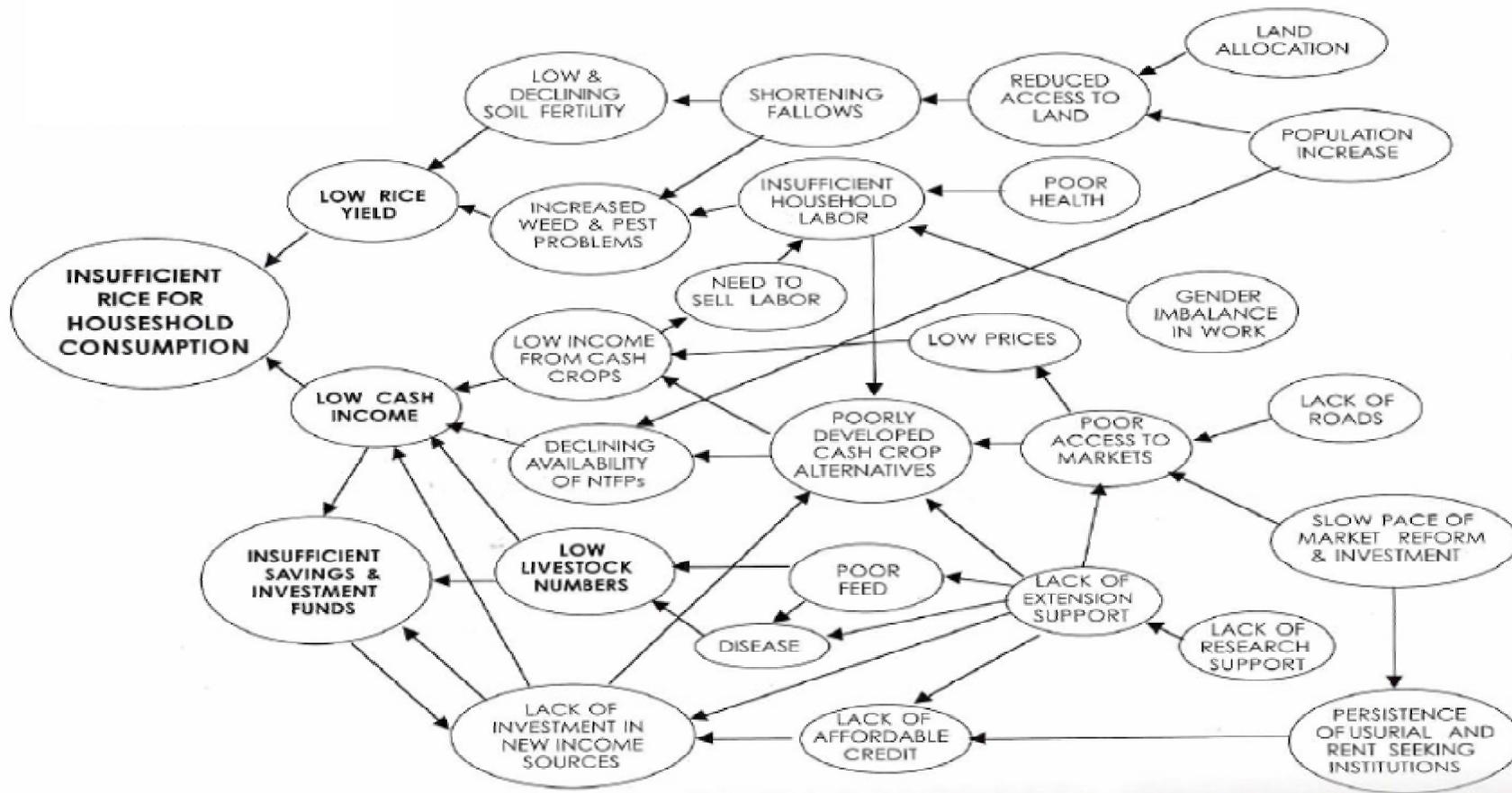
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**Annex 1:
GDP Component by Sector 1990-2004**



Source: National Statistic Centre, Committee for Planning and Investment, 2006

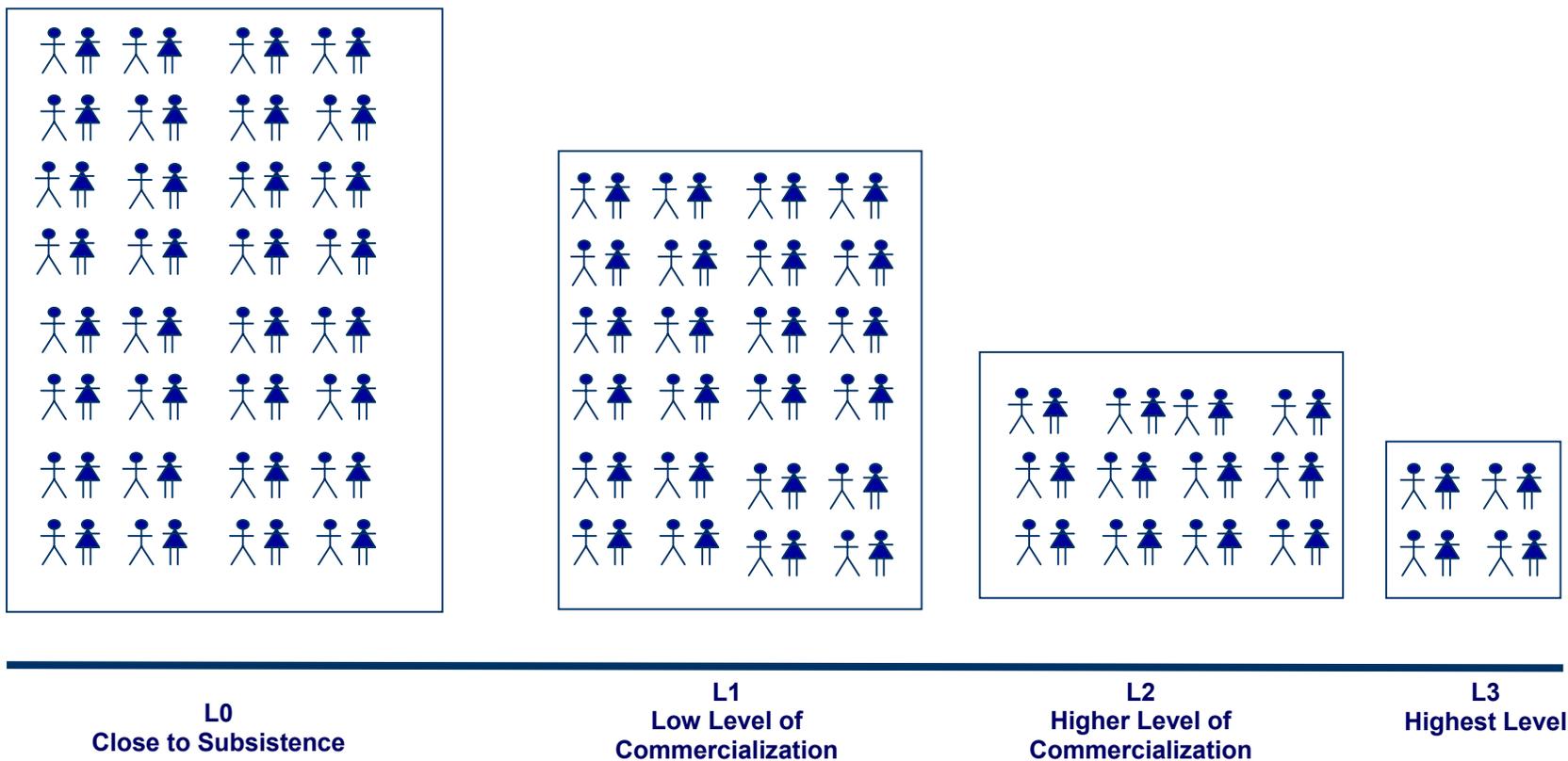
Annex 2:
Causal Diagram of the full set of relationships implicit in the people's poverty analysis



Source: Human Development Report, Lao PDR, UNDP, 2003

Annex 3

Level of Commercialization and Distribution of Farmers in Lao PDR



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

Annex 4

Evolution of Reforms under the New Economic Mechanism Affecting Farm Family Incomes and Agricultural Commercialization

Year	Policies, Instruments and Milestones
1986	4 th Plenary Meeting of the Party Central Committee institutes the New Mechanism of Economic Management (NEM), or more generally called the New Economic Mechanism. This creates scope for a market economy
1989	By PM decree No. 49 on interest rate policy issued in 1989, interest rates for loans were to be higher than inflation rates and long-term rates are to be higher than short-term rates.
1990	Contract Law. Specifies basic types of contract, regulates who can enter into contracts, and specifies provisions for enforcement.
1990	Decree 17/PM: Privatization. Specifies procedures for privatization of State enterprises
1991	New Constitution formalizes the market-orientated economy, rights to private property, and an “Open Door Policy” towards foreign investment. 5 th Plenary Meeting of the Party Central Committee reiterates the role of the market economy, identifies the agriculture sector as the “number one battlefield”, and confirms the farm household as the main unit of agricultural production.
1991	Guideline No. 333 issued by the central bank, Bank of the Lao PDR (BOL), on 26 September 1991 provided new maximum and minimum interest rate guidelines.
1993	Decree 102 (1993) on the Organization and Management of the Villages identifies rights, duties, and responsibilities of the village community in the use and management of natural resources
1993	Ministerial Decree No. 464/KKh (8/12/1993) gives opportunities for all people to enter into retail trade by following established tax and arbitration regulations. This Decree helped liberalize trade, particularly at the retail level
1993/94	Decrees No. 169 and 186 support the decentralization of resource use and management to local authorities and communities
1994	Foreign Investment Law. Details incentives aimed at attracting FDI. Only limited details of investor rights and protection. The 1988 Foreign Investment Code was streamlined and replaced by a new law on the promotion and management of foreign investment in April 1994. The new law provides protection to business investors (against nationalization, allowing repatriation of profits, etc.). Applications for foreign direct investment in business (excluding trading) are to be approved by the Foreign Investment Management Committee (FIMC) under the Prime Minister’s Office.
1994	A new business law enacted in August 1994 gave the Ministry of Commerce (MOC) the duty to issue all business and trade licenses. As the one-stop agency issuing licenses in Vientiane, MOC adopted regulations and procedures to simplify licensing. Presently, MOC deals only with large import-export companies, and local and foreign investors, while the smaller size local retailers or traders are attended to by MOC’s provincial and district trade divisions.
1994	Labour Law. Protects rights of workers, imposes limits on working hours, and specifies minimum wage of labour in business sector. The Labor Law enacted in March 1994 contains no restriction on the movement of labor. Travel authorization documents are no longer required and an identity card is sufficient for domestic travel. Nevertheless, a citizen is still required to inform and register with the local authorities if he intends to stay long in the new area. An impact of this greater labor mobility is that a large number of young farmers leave their village after the rice harvest and go to urban areas or to Thailand to look for new jobs.
1994	Decree No. 40 supports the devolution of responsibility for planning and implementation of rural development to Provincial and District Authorities
1994	Import taxes on agricultural inputs such as fertilizers, pesticides, agricultural tools, and equipment were lowered in 1994 (Prime Minister Decree No. 187) to 3 to 5 percent ad valorem and ceased to be imposed from the beginning of 1999.
1994	In an effort to reduce the subsidy to the irrigated pumping schemes, Electricité du Laos increased the tariff to KN9/kilowatt-hour (kWh) in 1994.
1995	Tax Law. Provisions on individual and corporate tax. Corporate taxes include: (i) turnover tax (5-10%); (ii) excise tax (5-60%); (iii) profit tax (35%); (iv) minimum tax (at least 1.5% of total income), and (v) service and commission fees (variable). Foreign investors profit tax is only

Year	Policies, Instruments and Milestones
	20% and capital equipment imported at 1% tax under FDI law.
1995	Positive real interest rates were charged for loans in all sectors until 1995. In view of soaring inflation, BOL issued in July 1995 guidelines removing ceiling interest rates for all State-owned commercial banks, except for the Agricultural Promotion Bank (APB), which continued to extend agricultural credit at broadly 10 percent for short-term, 8 percent for medium-term, and 7 percent for long-term loans. Technically, the policy has been reversed for credit extended through APB since 1995 given that the real rates were negative through 1999.
1996	Decree No. 131 supports the devolution of responsibility for management of agricultural and forest land to Provincial and District Authorities, with advisory and technical assistance provided by Central Authorities
1996	Forestry Law
1996	Water Resources Law
1994	In an effort to reduce the subsidy to the irrigated pumping schemes, Electricité du Laos increased the tariff from KN9/kilowatt-hour (kWh) in 1994, to KN14/kWh in 1996.
1997	Joined ASEAN/AFTA. Joined ASEAN and committed to start implementing Common Effective Preferential Tariff (CEPT) scheme by 2003, moving to meeting all AFTA commitments (all tariffs =< 5%) by 200
1997	In April 1997, the National Assembly enacted the Land Law giving citizens the right to own, use, and transfer land.
1997?	The importation and sale of publications, magazines, and newspapers to promote wider access to market information are permitted under Notice No. 129 of the Ministry of Information and Culture.
1998	Agricultural Law
1998	There are no export taxes on agricultural products. PM Decree No. 241 dated 25 December 1998, however, increased the turnover tax on agricultural products from 3 to 5 percent for products sold locally. Prior to the decree, there were five categories of turnover taxes for various goods, the lowest being 3 percent for agricultural and other low-value products. In compliance with IMF's recommendation to simplify the collection of taxes by reducing the categories of turnover taxes, the Government collapsed the five categories into two of 5 and 10 percent, effectively raising the turnover tax for agricultural produce by default.
1999	Environmental Protection Law
1999	In an effort to reduce the subsidy to the irrigated pumping schemes, Electricité du Laos increased the tariff from KN14/kWh in 1996 to KN50/kWh in January 1999 with a reported schedule of a monthly increase of 3.5 percent for the year.
1999	Agricultural Sector Strategic Vision. Identifies a dual track policy for upland and lowland areas, particularly along the Mekong corridor. Lowland areas should maintain and accelerate the pace of agricultural diversification and intensification with increased land productivity, improved value added processing and expanded marketing and sales. For the upland areas emphasis should be on participatory land use zoning and sustainable land use management, along with diversification of farming systems and the development of agroforestry. Extension of new technologies and microcredit facilities. Access to markets through feeder-road construction.
1999	Prime Minister's Decree No. 11 on the management of forestry operations and businesses
2000	Instruction PM No.1 on decentralization
2000	Socio-economic Development 2001-2010 Focus on improving infrastructure particularly road, electricity and water supply accesses to create new business
2000	Vision to 2020 in Lao PDR Vision that by 2020 Lao PDR no longer a least developed countries, and is developing as an industrialized country
2001	Decree 205: Trade Liberalization. Facilitates exports and imports. Removed requirement on need for import and export license for each shipment. Licence still requires on annual basis, but all shipment within agreed annual plan allowed without need for additional license. Follow-up orders issued in 2004 to improve implementation.
2001	Under Decree No. 755/KKh (20/6/2001), the Ministry of Commerce controls the establishment and control of markets, which stipulates the role and function of district and provincial governments. The decree instructs district and provincial authorities to organize a Market Management Committee for each market

Year	Policies, Instruments and Milestones
2001	Interim Poverty Reduction Strategy Paper
2001	7 th Plenary Meeting of the Party Central Committee stressed the need for policies to upgrade the capacity of domestic companies to compete in international markets and to cooperate effectively with foreign companies and generally to facilitate beneficial participation in AFTA, AIA and to prepare for WTO membership.
2002	Decision 013/I/CPC. Sets out details on the implementation of the Law on the Promotion and Management of Foreign Investment Projects in Lao PDR. Decree includes time limits for Government agencies to process applications.
2002	Decree 46/PM. Decentralizes approval of small FDI projects (USD<1million) to the provinces. Vientiane Municipality, Savannakhet, Champassak and Luang Prabang allowed to approve projects up to USD 2 million.
2003	Land Law (replacing 1997 Land Law). Includes provisions on types of land use rights that the State grants to citizens (including maximum sizes for different categories of agriculture land), land classification, and land administration (including administrative responsibilities for land management) and to transfer rights to use land. Ongoing initiatives to improve land titling, but continuing ambiguity in exercising and transferring property rights to use land.
2003	ASEAN Economic Community. Non-binding agreement for ten member countries (including Lao PDR) to form a single integrated market by 2020. Agreed 2003. Implement by 2020
2003	ASEAN/China free trade. AFTA-China to be on AFTA terms. "Early harvest" provisions enable earlier steps (e.g., Thailand/China trade in selected agricultural goods); Agreed 2003 Implement by 2012
2003	ASEAN+3+1 economic cooperation. Involves increased economic cooperation and free trade between ASEAN member countries and China, Japan, South Korea and India.
2003	Decree 177/PM: Seno special economic zone. Specifies regulations and special policies regarding the planning, management and promotion of domestic and foreign investments within the Seno Special Economic Zone, Savannakhet province, in view of attracting and encouraging investment in the fields of production, export, trade, tourism, services, warehousing and in-transit passengers and goods transportation
2003	PM Decision. Establishes National Land Policy Committee to resolve policy issues related to land management, and to develop a comprehensive land policy framework.
2003	Decree 125/PM: Lao National Chamber of Commerce & Industry. Establishes the rights of all business (private, State and foreign) to establish business organization to protect the rights of members.
2004	National Growth and Poverty Eradication Strategy. Private sector identified as "the main engine of growth". Repeated references to the important role of the private sector in promoting growth and development. Identifies macroeconomic stability and a better enabling environment as important policy initiatives in promoting private sector investment.
2004	Law on Civil Procedures. Specifies principles, regulations and court procedures for solving civil, commercial and family disputes.
2004	Law on Judgement Enforcement. Specifies measures to enforce court judgements, with a strong focus on measures to enforcement of decisions relating to commercial issues.
2004	Normal Trade Relations with USA. Implementation of this agreement is still ongoing.
2004	Decree 42/PM: SME Development and Promotion. Defines SMEs, institutional arrangements to promote SEM development, and various initiatives (including SME fund) to promote SME development. SME promotion committee established to implement decree.
2004	Order 24/PMO and Instruction 1691. Commands all provincial authorities to implement trade decrees, to establish one-stop trade services, and to abolish import-export licences (except for gold copper, precious stones, vehicles, spare parts, petroleum and gas, and "other prohibited goods" which require licenses from Ministry of Commerce. Paperwork for import clearance simplified. Import and export plans only have to be submitted for monitoring purposes. Officials are instructed to apply technical certification for goods in less than 2 days.
2004	Decree 119/PM Domestic & Foreign Investment. Enhancing an enabling business environment to attract domestic and foreign investment. Decree retains some difference in policy treatment between domestic and foreign investors.
2004	Decree 15/PM on trade competition. Specifies key principles for regulating monopolistic practices and promoting fair competition. Specifies responsibilities for ensuring a free market,

Year	Policies, Instruments and Milestones
	and for guaranteeing the participation of all sectors in the economy.
2005	Secured Transactions. Amendment aims to strengthen credit enforcement, by allowing banks to seize security without court intervention. Removes restrictions on the types of securities for movable assets.
2005	Five-Year Plan 2006-2010. Draft emphasizes expanding domestic and foreign market in terms of quality and quantity of product to competition with abroad. Giving priority to expanding of product, attract labour for increasing export. Linking and corporation between domestic investors and investors in abroad. Promoting business of handicraft such as: hand-weaving and furniture.
2006	8 th Plenary Meeting of the Party Central Committee under preparation
Under Consideration	Commercial Banking Law. Draft aims to lower barriers to the entry and expansion of private commercial banks, and thus to increase competition in commercial banking.
Under Consideration	Draft decree on microfinance institutions. Rural and micro-finance committee established in 2002 with the aim of developing action plan to develop micro-finance institutions. Draft decree expected to provide broad range of options for establishing micro-finance institutions.
Under Consideration	WTO. Initial steps taken towards joining WTO (possibly by 2008) with consequent obligations.
Ongoing	Greater Mekong Subregion (GMS) Program. Program promoting coordinated development and integration in Cambodia, Lao PDR, Myanmar, Thailand, Viet Nam and Yunnan Province of PR China).

Source: (PCC 1987; MAF 1999; UNDP 2001; Mallon 2005) and (Konishi 2005).

Annex 5

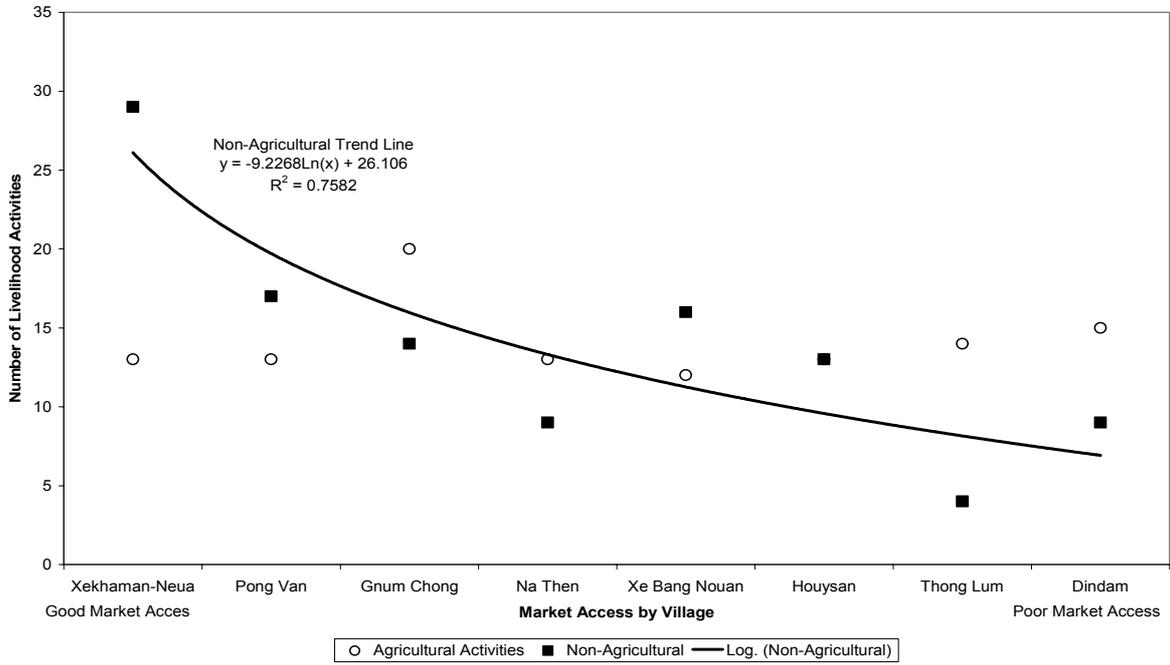
Livelihood Activities, Market Access and Average Incomes for Surveyed Villages

Province	Village	Livelihood Activities			Market Access		Average Household Income (Kip)
		Agriculture	Non-Agriculture	Total	Distance to District Town	Distance to Market	
Attapue	Xekhaman-Neua	12	29	41	0.5	1	13,320,151
Houaphanh	Na Then	12	10	22	5	6	5,493,478
Louangprabang	Pong Van	13	17	30	4	1	28,837,927
Louangprabang	Thong Lum	14	4	18	37	11	7,607,182
Savannakhet	Xe Bang Nouan	12	16	28	42	7	47,292,993
Savannakhet	Houysan	12	13	25	38	7	10,718,777
Xiengkhoang	Gnum Chong	19	14	33	10	6	16,206,252
Xiengkhoang	Dindam	12	9	21	14	12	4,950,264

Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

Annex 6

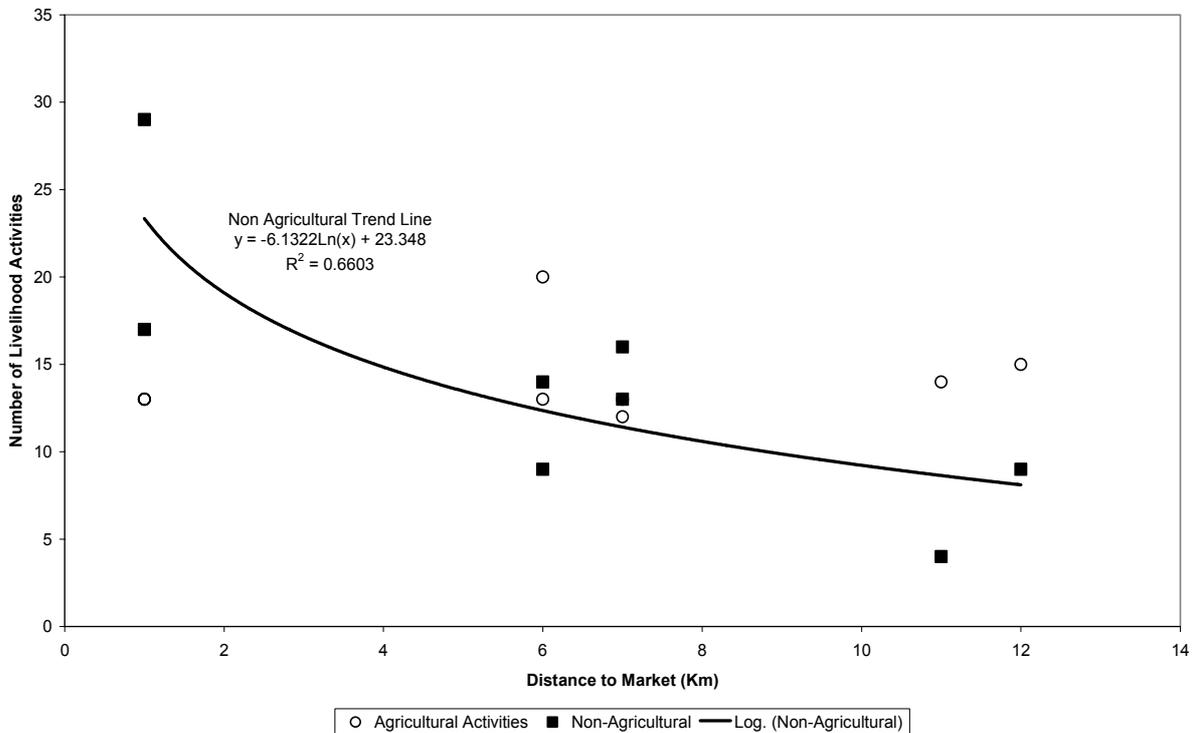
Relationship between Livelihood Activities and Market Access



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

Annex 7

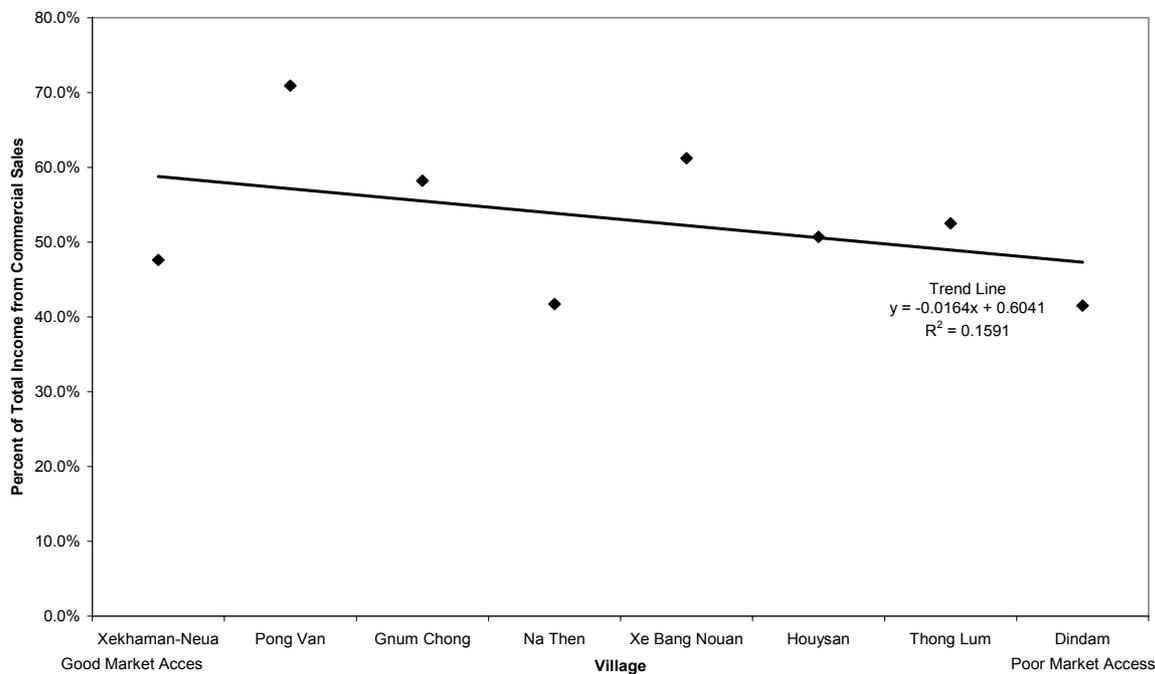
Relationship between Livelihood Activities and Distance to Market



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

Annex 8

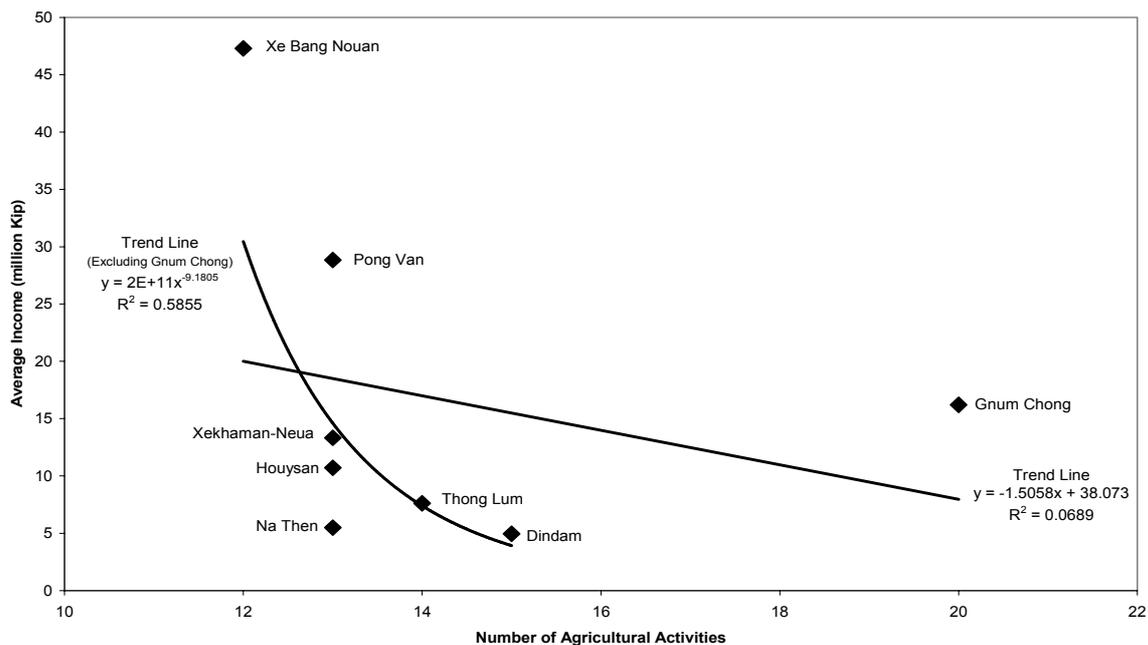
Relationship between Commercialization and Market Access



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

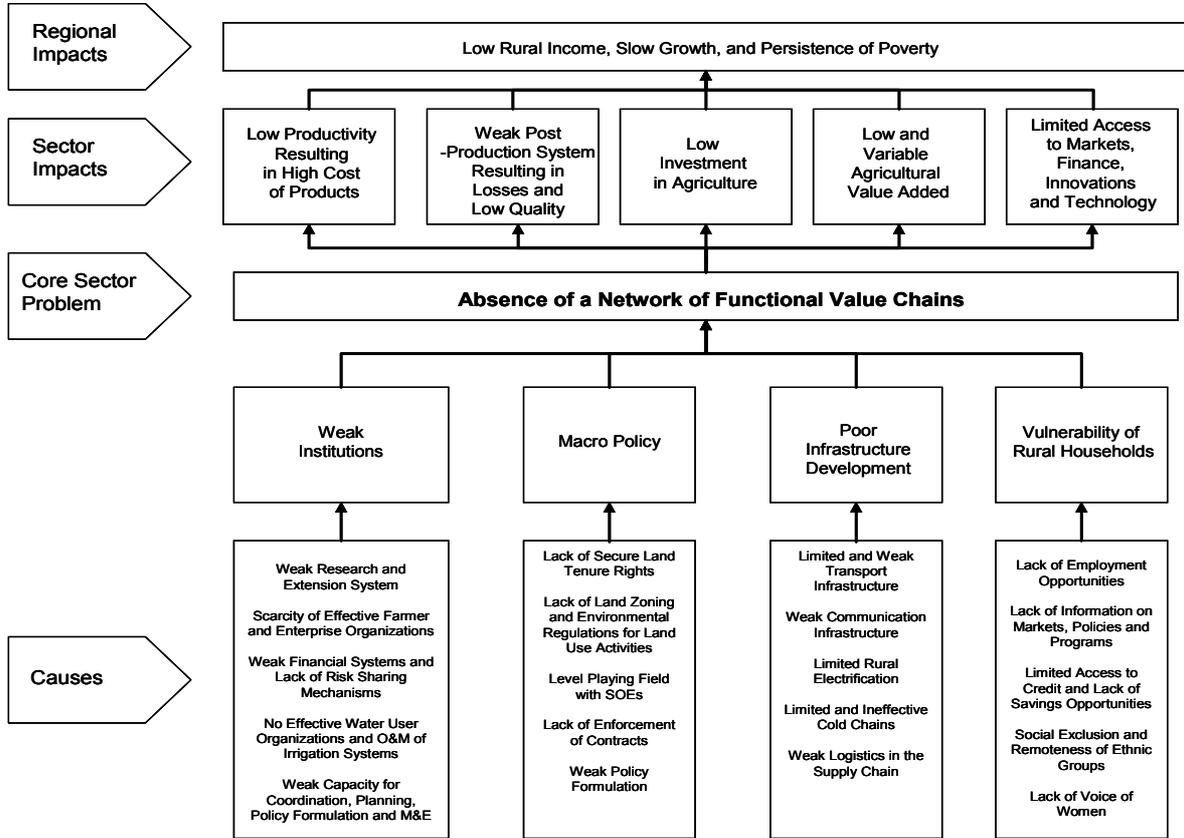
Annex 9

Relationship between Average Household Income and Number of Agricultural Activities undertaken by Village



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005

Annex 10 Problem Tree Analysis for Improving Farm Family Incomes



Source: Macroeconomic of Poverty Reduction Project, NERI/UNDP, 2005