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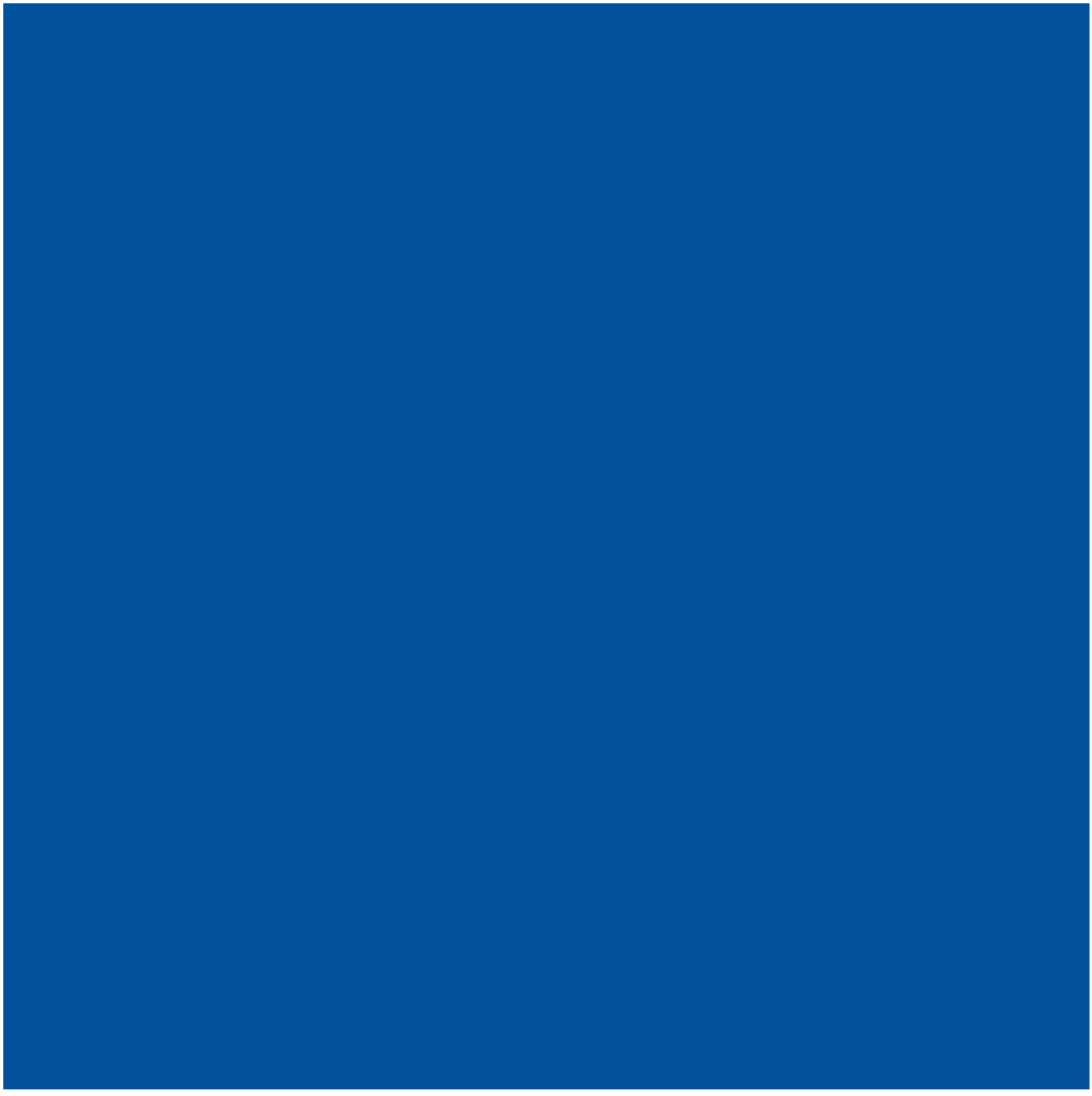
Country Analysis

# Laos PDR



# Content

# Basic Facts

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|---|---|
| Population | 5.3 million |
| Population growth | 2.2% |
| Population density | 22 persons per $km^2$ |
| Population living in rural areas | 80% |
| Ethnic linguistic composition | 230 ethnic groups belonging to 4 different ethno-linguistic families: Tai-Kadai: 66.5% (30% Lao), 23.5% Mon-Khmer, 7.5% Hmong-Mien and 2.5% Tibeto-Burman* |
| Human Development Index (HDI) | 143 |
| Gross Domestic Product (GDP) per capita | USD 331** |
| Life expectancy at birth | 53 years |
| Adult literacy rate | 70% |
| Net enrolment rate, primary school | 76% |
| Infant mortality (per 1000 live births) | 90 |
| Maternal mortality (per 100,000 live births) | 650 |

Sources: UNDP Human Development Report 2002 unless otherwise indicated.

* Participatory Poverty Assessment, 2001.

** Draft NPEP, May

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# Executive summary

## Poverty reduction

Laos has experienced a reduction in material poverty in the last 10 years. The share of the population below the poverty line fell from 46 per cent in 1992–1993 to around 30 per cent in 2002–2003. Poverty reduction, however, has been combined with increasing inequality. People on the plains and in urban areas have gained from development whereas the people in the uplands have neither benefited from nor been given the opportunity to contribute much to economic growth. The divisions between rural and urban areas, between people in the lowland and the uplands, and between the ethnic majority population and the various ethno-linguistic minorities are widening and becoming more apparent in Laotian society. These divisions are reflected not only in levels of income and consumption but also in other indicators of poverty. The upland population has worse social indicators, more limited access to water and sanitation facilities, and poorer road access than the lowland population. In addition, upland inhabitants have less access to information and to decision-makers and are also less able to make their voices heard and to influence decisions affecting their livelihood. Although the upland population displays a high and increasing level of material poverty, it is neither endemic nor manifested in hunger. Yet, these people are becoming increasingly vulnerable.

Even though the majority of the poor are found in the uplands, it appears that modernisation and regional integration are also taking their toll on the urban population. Begging street children are still a rare but yet not an uncommon sight in Vientiane and other cities. Increasing drug use among young people, trafficking of children and adults, and prostitution are creating new vulnerable groups. Higher movements of people across the borders and sparse knowledge of Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS) increases the risk that the low prevalence of HIV/AIDS will rise. Lack of employment opportunities, particularly in urban areas, places the new-comers to the labour market at risk. Unemployed young people are easy targets for drug use and trafficking.

Although the constitution guarantees equality between men and women, gender inequality persists. Women have lower literacy rates than men and girls a lower primary school enrolment than boys. Women

remain under-represented in public or political positions, and men are under-represented in the small-scale business segment. Some gender inequalities have been reduced over time. The increase in school enrolment of girls is now higher than that of boys. However, development seems to affect men and women asymmetrically, with women benefiting much less than men.

The economic growth Laos has experienced in the last 10 years—after the introduction of the New Economic Mechanism (NEM)—is an important factor behind the reduction in material poverty but has more or less bypassed the upland population. Linkages between upland and lowland economies and the labour market remain weak.

In the past, the government's development efforts have focused on the lowlands and urban areas. The upland regions of the country have been discriminated against concerning public investments and services. In addition, the upland population has been the victim of well intentioned—but misguided—policies. The heavy-handed implementation of the policy decision to eliminate shifting cultivation—the dominating production system in the uplands—and eradicate poppy cultivation has had serious implications on the livelihood of the upland population. The policy has been enforced by a combination of political coercion and a reduction in the amount of land available for rotational shifting cultivation within the framework of the government's land allocation policy. Since the areas to which the upland villages have been relocated often lacked a social infrastructure, and sometimes even land, people have suffered. That the shortage of cultivable land and the relocation of villages have contributed to the prevailing material poverty in the upland districts is well documented.

Given the spatial and ethno-linguistic poverty divide—and the weak linkages between the market-based urban economy in the lowlands and the largely subsistence-based upland production and livelihood system—economic growth alone is unlikely to decisively affect the root causes of material poverty, particularly in the uplands. The poverty situation in the uplands must be addressed via a combination of high and inclusive economic growth in combination with targeted interventions. A rights approach to development would need to address the pro-urban, lowland bias in public investments and services.

Since 80 per cent of the population derives their livelihood from agriculture, fishery, and forestry, the keys to national development and poverty reduction are the agricultural and other natural resource policies. Common pool resources are essential to the livelihood of the poor. Since ill-defined or absent property rights often result in market failures in the governing of these resources, close attention must be paid to the institutional framework and particularly to its ability to secure informal property rights and good management of common resources if private sector development and markets are to work for the poor.

The Laotian population is very young with 45 per cent below the age of 15. More than 100,000 Laotians seek to enter the labour market every year. The formal sector including the public sector can absorb only around 10,000. To minimise the risk of increasing urban poverty, economic policy must not only focus on economic growth but also more on how to create jobs for the rapidly increasing numbers of better educated

entrants to the labour market. Efforts must be made to give young people a say in matters that re important to them in the spirit of the Convention on the Rights of the Child (CRC). Unemployment places young people at great risk. Concerning illicit drug use, the government is advised to target the increasing use of amphetamines rather than focus their full attention on poppy eradication.

## Economic Development

During the first half of the 1990s, economic reform progressed well. The government privatised state-owned enterprises (SOEs) and improved conditions for private sector development and foreign direct investment. The reform paid off, and Laos benefited from increased economic growth. The growth process slowed down during the latter part of the 1990s when Laos was also hit by the Asian crisis. Foreign investment fell drastically. The macro-economic situation had deteriorated rapidly by the end of the 1990s, partly as a result of the Asian crisis, partly due to bad monetary policy responses. The economy went into free fall. With financial and technical support from international financial institutions, the macro-economic situation was brought under control in 2000–2001.

With the resumption of macro-economic stability, progress in reform resumed in 2002. New measures were undertaken to encourage direct foreign investment further. A decision was made to restructure the practically insolvent banking sector as well as reform the trade regime. As a member of the Association of Southeast Asian Nations (ASEAN), Laos agreed on a time-table for dismantling trade barriers in line with policy commitments made under the ASEAN Free Trade Area (AFTA). The long-term growth scenario is built on the assumption that the export of electricity from a string of hydropower investments and the revenues from new mining investments will increase. In the medium term, the government is suffering from a range of structural problems. One is the low productivity in the manufacturing sector. Even though the SOE sector has been gradually dismantled, past losses have left a significant amount of non-performing loans in the banking sector. Another weakness is the under-developed legal and regulatory framework.

The most serious weakness in the government's macro-economic management system is the fiscal and public expenditure policy. Laos has a very low revenue/GDP ratio. The government is at present unable to mobilise sufficient resources of revenue and falls regularly behind annual budget estimates. On the expenditure side is a severe imbalance between capital and recurrent expenditures. Another feature is the imbalance between social and economic sectors. The government's financial management system still suffers from non-transparency, even though the government now regularly publishes the annual budget and expenditure outcomes.

Laos has a relatively high debt stock, but the debt-service burden remains manageable owing to the level of concessionality of the debt. Although the country is eligible for support under the enhanced HIPC initiatives, Laos has not applied for debt relief.

## Social Development

Despite improvements over the last decade, continued poor access to and low quality of services means that Laos still has some of the poorest social indicators in the region. The net enrolment rate in primary education is close to 80 per cent, but drop-out rates are high. Only half of the children that begin primary school reach grade 5. Non-Lao speaking children of the ethno-linguistic minorities in the uplands are particularly disadvantaged in the education system. Health indicators are equally poor. To the existing problems should be added an increase in sexually transmitted infections and HIV/AIDS, increased drug use, traffic accidents, and higher mortality related to smoking and alcohol consumption.

Access to both health and education services is highly uneven between geographical areas and ethno-linguistic groups. People in the cities and, to a lesser degree, in the lowlands along the Mekong River have relatively ample access to educational and health facilities. In the uplands and other remote areas, people must make do with incomplete schools—if they exist at all—many offering only grades 1–3, and highly irregular and inadequate health services. In combination with staff that is often inadequately trained, the quality of public social services deteriorates dramatically as distance to the cities increases. In remote areas, infant and maternal mortalities are 3–4 times the national norm.

The government's stated commitment to the delivery of high quality social services in the National Poverty Eradication Programme (NPEP) and elsewhere is not reflected in the national or provincial budgets. Only a meagre 20 per cent of the government budget is allocated to health and education. Since the middle of the 1990s, the share of the national budget dedicated to social sectors has actually fallen. In the medium term, allocation to health and education will gradually increase to 25 per cent. A particular feature of the social sector budget in Laos is the imbalance between the capital and recurrent budget with the major portion of the budget allocated to capital expenditure. The government is highly dependent on international assistance for improving access to education and health, for distribution of equipment and material, and for quality enhancement. The government's recurrent budget covers little else than the salaries of the staff.

### Political Reform and Democratic Governance

Although the country has made substantial progress towards economic reform over the last decade, the political architecture remains largely untouched. The Lao People's Revolutionary Party (LPRP) remains the leading nucleus of the political system and the only legal party. The government structure continues to be intermeshed with and controlled by the LPRP. Yet, duplicate party-state institutions are gradually being eliminated. The new legislature is becoming increasingly vocal, and members of the assembly are more openly questioning the government's performance. The debate is broadcasted.

A reform of the public administration is underway. The reform aims at "achieving a stable and open people's democracy where the rights of the people are guaranteed by an efficient administration of the law and with a broad and active participation in all national and international

activities". The process has only begun. The governing regime is still characterised by a lack of transparency and accountability. Setting and applying targets are still central in public management. In addition, public administration is constrained by inappropriate administrative structures, inadequate resources, low salaries, and unqualified staff. In 1998, the government embarked on the process of decentralisation. This was a potentially good decision, but local administration was not prepared to take on the new tasks. There is little evidence that decentralisation has broadened decision-making or enhanced accountability.

It is believed that public graft and corruption proliferated during the 1990s, particularly at the provincial and district levels. Political authorities are expressing concern over the increase in corruption and have taken administrative measures to reverse the trend. There is a growing public debate on corruption, and the media is encouraged to address the matter.

**Rule of Law, Human rights, and Civil Society**

The Laotian government has committed itself to the rule of law and continued legal sector reform, but the judiciary remain intermeshed with the legislative and executive branches and are subject to interference from the government and the LPRP. The courts are seriously understaffed, and most staff lack qualified judicial training. There is no system for legal aid, and the Bar Association is not independent. One particular problem is that the National Assembly often entertains two functions: that of the legislature and that of the arbitrator. The right to fair trial is severely compromised in Laos.

Access to the judicial system is limited. Rural people in general—and ethnic minorities in particular—are for many reasons particularly disadvantaged. The courts remain a distant reality to most people, and laws are implemented in an unpredictable manner. Many disputes are settled at other venues, frequently through mediation at the village level. Despite current problems, reform is progressing, although slowly. Continued reform will inevitably raise important structural issues.

The political structure—in combination with low human rights awareness and a very weak civil society—effectively curtails the enjoyment of many human rights. Personal freedoms and integrity are certainly improving, but law enforcement agents are believed to act with impunity, and there are reports of torture and other inhuman or degrading treatment. In the year 2000, the government signed the two United Nations (UN) covenants on human rights and is now planning to seek ratification of the covenants in 2005. In addition, Laos is preparing the ratification of ILO Conventions 138 on minimum age and 182 on child labour. It is expected that progress in the human rights area will continue within the context of the existing political system.

Civil society remains very weakly organised. National non-governmental organisations (NGOs) are not allowed even though international NGOs are allowed. However, in recent years an increasing number of community service groups, local religious-based groups, private training centres, schools, and professional and vocational associations have emerged. The government is considering drafting a legal framework under which national NGOs are expected to operate.

**Sustainable Development, Natural Resources, and the Environment.**
Laos is not as adversely affected by environmental degradation as many of the neighbouring countries. But the rates of industrialisation and urbanisation are on the rise. Urbanisation will require massive investments in urban planning, wastewater treatment, and solid waste management in coming years.

Apart from the threat posed by unexploded ordnances from the war, environmental degradation has so far mostly been related to deforestation of the natural forests. Forest cover is now down to 39 per cent of the land area. Forest degradation is the result of many factors including commercial logging, legal or illegal; expansion of agriculture; and pioneering shifting cultivation. Poor people in general and ethnic minorities in the uplands in particular are those most adversely affected by the degradation of the natural resource base, not least by the depletion of the non-forest timber resource base and other common pool resources.

The legal framework for environmental protection has improved considerably. Enforcement is still weak, and it is believed that many environmental problems go unattended. Weak transparency in and little public information on public decision-making make it difficult for the general public and civil society to react against environmental mismanagement.

The natural environment in Laos is not necessarily protected by the development of more policies, laws, and regulations. Priority must be given to the enforcement of the existing regulatory framework. Experience has, however, shown that the government alone cannot protect the environment. Collusion between business interests and government officials always threatens the due process of the authorities. The general public needs to be empowered and given the possibility to react to environmental mismanagement.

**Lao National Poverty Eradication Programme**
The government's NPEP—which is the Laotian equivalent to a Poverty Reduction Strategy Paper (PRSP)—was presented at the 8th Round Table Meeting in early September 2003. The government's foundation for poverty reduction is based on macro-economic stability, economic growth, and regional integration.

Accelerated poverty reduction will be achieved through reformulated rural development, education, health, and infrastructure sector policies and strategies. Agricultural development will focus on improving household food security—particularly in the uplands—and on market-based development in the lowlands. Targeted interventions will aim at reducing the disparities between lowland and upland production systems. In the education sector, the policy is to increase access and enhance quality, including teachers' qualifications. In the health sector, priorities are to improve the quality of primary health care and access to water and sanitation. Poverty reduction priorities in the infrastructure sector include maintaining existing primary and rural road networks and developing rural roads further to increase access. Complementary cross-sector priorities encompass environmental conservation and sustainable natural resource management while focusing on gender equality.

Rural development is central to poverty reduction strategies. The strategy is to improve access to essential factors of development such as infrastructure, technology, markets, social services, and rural finance and to strengthen the village planning process. Forty-seven poor districts across the country have been selected for targeted interventions.

The weakness of the NPEP lies in the lack of clear indications of how the government will translate policy statements into action. There is also a lack of prioritisation. The NPEP is based on certain assumptions for future growth, rate of inflation, and the GDP/revenue ratio. This growth scenario seems somewhat optimistic, given the inherent weaknesses in the Laotian economic structure. One weakness in NPEP is that the capacity of the economy to generate employment has not been analysed.

Implementation of the NPEP will require considerable public resources to expand public social services. Per unit cost will certainly escalate as the ambition to reach people in remote locations grows. So far, mobilisation of revenues has historically been very weak in Laos. In the NPEP, the government identifies some concrete measures to improve fiscal policies and make tax administration more efficient. If the NPEP approach is to succeed, the government will need additional sources of revenue. This, in turn, will require accelerated fiscal and tax administration reform. In the NPEP, the government strongly commits itself to fiscal reform. It is important that this commitment is followed up by strong action. Otherwise, implementation of the NPEP will not meet expectations.

Economic growth is to be achieved by focusing on measures that promote private sector development and increase foreign direct investment. Other parts of the reform policy include streamlining the government's approval and licensing procedures. Through NPEP, the government also recognises that the functioning of the judiciary is important when investors make their choices.

# Poverty Reduction for All? – Trends and Potentials

Any attempt to analyse the status of absolute and relative poverty including poverty trends in Laos will be based on an inadequate information base. Yet, in the last 10 years, the availability of both quantitative and qualitative data has grossly improved, which means that any analysis will be more reliable than before. We can now base our poverty analysis on two Household Expenditure and Consumption Surveys (LECS), a recent Participatory Poverty Assessment (PPA), an Agricultural Census, and a number of other special reports and studies.

In the latest LECS from 1997–1998, 41 per cent of the population was reported to be below the poverty line, compared with 48 per cent in 1992.[1] This means that about 1.9 million people lived in a state of poverty in 1997–1998. The overall incidence of poverty fell at an annual rate of 3.3 per cent between 1994–1995 and 1997–1998. Since Laos has an annual economic growth rate of 4.6 per cent, the fall in poverty is modest. Alarmingly enough, the severity of poverty did not decline during the period.[2] In 2002–2003 a third LECS was carried out. The survey has been completed, and data are being processed. Preliminary results suggest that only about 30 per cent of the population now exist below the poverty line.[3]

Per capita real consumption in rural areas has been growing at an annual rate of 2.3 per cent and in urban areas at 5.1 per cent. Increasing inequalities are reflected in the fact that between 1992–1993 and 1997–1998, rural per capita real consumption as the percentage of urban per capita consumption declined from 73 to 63 per cent. In 1997–1998, 41 per cent of the rural population fell below the poverty line compared to 27 per cent of the urban.[4]

The northern region has distinctively higher poverty rates than the central and southern regions. Vientiane Municipality has by far the lowest incidence of poverty. In the north, the severity of poverty increased at a rate of 3.7 per cent and in 5 of 17 provinces. Further disaggregation of data by applying vulnerability indices and using both income and non-income indicators has revealed that 57 of 134 districts are considered poor

1 National Statistical Center (NSC), Lao Household Expenditure and consumption Survey (LECS) 1997/98.

2 CPC/NSC, Poverty in Lao PDR during the 1990's by Nanak Kakwani, Gaurav Datt, Sounthavy Sisouphanthong, Phonesaly Souksavath and Limin Wang, 2002.

3 CPC, RTM News Letter, May 2003.

4 CPC/NSC, op. cit.

or very poor.[5] These districts are almost all located in the mountainous part of the country along the Vietnamese and Chinese borders.

By international standards, inequality is not large—but it is increasing. The Gini coefficient increased from 32.6 to 37.1 per cent. Consumption by the bottom 20 per cent of the population declined to 7.4 per cent while that by the top 20 per cent increased to 45.3 per cent.[6]

Summarising the above, poverty—as defined by LECS—is more a rural than an urban problem, and in rural areas, poverty is more prevalent in the uplands where people are primarily dependent on swidden-based subsistence production systems than in the lowlands where wet paddy cultivation dominates. Poverty in the lowlands is the exception, not the rule.[7] Since the uplands are inhabited largely by ethno-linguistic minorities, poverty in Laos has a distinct ethnic dimension. There are also significant differences between ethnic groups. The Mon-Khmer ethnic linguistic family, which represents around 23 per cent of the population, comprises 56 per cent of the poor. Similar figures for the Hmong-Mien, Tibeto-Burmese, and Thai-Kadai families of ethnic groups are 7.5 and 15 per cent, 2.5 and 9 per cent, and 66.5 and 20 per cent, respectively.[8] A similar picture emerges from an analysis of rice sufficiency. The Mon-Khmer population reports a sufficiency in rice for around 6 months a year compared with between 9 and 11 months for the Lao-Thai population.[9]

Poverty in the uplands is not considered endemic. Thanks to low population pressures and a generous endowment of natural resources, people in the past have not experienced material poverty in the traditional sense.[10] Even today, poverty does not take the form of hunger.[11] What appears to be happening now is that the system of swidden cultivation, upon which upland people depend, is being traumatised by a combination of natural disasters, pests, relocation, and land allocation.[12] Poverty in the uplands is inextricably linked to culture and ethnicity. Culture in turn forms an integrated part of the livelihood system.

There is little information on within-family poverty or on gender aspects of poverty. How poverty affects the conditions of men, women, and children in rural society depends on traditional beliefs and customs that affect the division of labour and status in the household. Among the ethnic minorities practising swidden agriculture, the division of labour varies between different groups. However, generally speaking, women work more than men do, especially in the poorer villages. When the means for making a livelihood deteriorate, demand for women's labour increases. Women are forced to work more for less, which compels women to bear the burden of compensating for and correcting the deleterious effects of the various causes of poverty.[13]

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5 World Food Programme, Draft Vulnerability Analysis, August 2000.

6 CPC and NSC, Poverty in Lao PDR during the 1990's by Nanak Kakwani, Gaurav Datt, Sounthavy Sisouphanthong, Phonesaly Souksavath and Limin Wang, 2002.

7 Asian Development Bank, State Planning Committee, National Statistics Center, Participatory Poverty Assessment Lao PDR, June 2001, hereinafter PPA.

8 PPA.

9 ibid.

10 ibid.

11 James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, a report prepared for the Embassy of Sweden, September 2002.

12 PPA.

13 ibid. p 128.

The latest LECS links poverty with a number of socio-economic characteristics. Not surprisingly, data indicate a correlation between illiteracy and poverty. Households with illiterate heads are disproportionately poorer. Poorer households tend to be larger than non-poor households, and they tend to be concentrated in areas where the infrastructure is less developed. However, both the poor and the non-poor have similar access to a primary school in their community or village.[14]

As the country opens up and becomes more commercialised, indications that the social fabric is beginning to crack—particularly in the cities—are appearing. There are also indications that economic growth has adversely impacted the very poor in urban areas, and the incidence of urban poverty is growing. The problem is not obvious yet, neither is it diminishing. Increased substance abuse among urban youth (and in rural areas) is a growing social problem, which, however, may not necessarily be linked to poverty. Lack of employment prospects for the growing number of new entrants to the labour market places many young people at risk.

Street children are a new phenomenon in urban areas. Most street children are boys between 6 and 10 years. Poverty, violence in the family, and functional impairment increase the risk of children ending up on the streets. Vulnerable children are in principle protected by law, but application of the law is faulty. Since these children are often excluded from education, they run a higher risk of being trafficked and sexually exploited than children in well-functioning families.[15]

Human trafficking is a growing problem in the country. Laos is primarily a source country but also a transit country for people being trafficked from Vietnam and China to Thailand. Most of the Laotians who are trafficked to Thailand end up working as prostitutes, as domestic workers, or in the agricultural sector; they come from the areas along the Mekong; they usually do not belong to ethnic minorities; and economic necessity is seldom the main reason for their move. The girls being trafficked to Thailand have a comparatively good education according to Laotian standards. In Laos, the slowness of the economic development combined with the lack of a labour market and increasing levels of education and access to information on opportunities in Thailand have been pull factors in trafficking. That Laos and Thailand are culturally and linguistically similar has also been a factor.[16] Trafficking of children within Laos also exists. Girls are being recruited from rural to urban areas for prostitution.[17]

Laos is not normally badly affected by natural disasters. Flooding in parts of the country is a fact of life, and livelihood systems are based on these premises. However, recent years have seen an increasing ferocity in flooding patterns, which affects districts in the central and southern regions. In some of these districts, more than 40 per cent of the areas

[14] CPC and NSC, Poverty in Lao PDR during the 1990's by Nanak Kakwani, Gaurav Datt, Sounthavy Sisouphanthong, Phonesaly Souksavath and Limin Wang, 2002.

[15] Street Children and Child Beggars, Lao PDR, Ministry of Labour and Social Welfare and UNICEF, 2001.

[16] Trafficking in Women and Children in the Lao PDR: Initial Observations, Ministry of Labour and Social Welfare, United Nations Interagency Project, Vientiane, October 2001; Preliminary Assessment on Trafficking of Children and Women for Labour Exploitation in Lao PDR, Inthasone Phetsiriseng,PADETC and Ministry of Labour and Social Welfare, not dated.

[17] How I got here, Commercial Sexual Exploitation of Children in Lao PDR, Ministry of Labour and Social Welfare and UNICEF, 2001.

have been damaged. These areas are showing signs of higher vulnerability as the livelihood systems are challenged by repeated flooding.[18]

The poverty situation has not gone unnoticed by the Lao People's Revolutionary Party (LPRP) or the government. Poverty reduction objectives and targets are now routinely incorporated in policy and planning documents. In 1996, the 6th Party Congress identified "sustainable growth with equity" as the strategy to graduate the country from LDC status by 2020. The 5-year plan emphasised "poverty reduction, especially in the rural areas where most of the multi ethnic population lives".[19] In the current 5-year plan, the focus on poverty reduction has been retained.

The poverty objectives were reiterated in the government's report to the 7th Round Table Meeting (RTM), which took place in December 2000 in Vientiane. In the report to the RTM, the government's commitment to poverty reduction was summarised as follows: "the objective of alleviating poverty has been the basis of every development effort undertaken by the Lao government over the last 25 years".[20]

To meet the requirements of the international community, the government has agreed to prepare a Poverty Reduction Strategy Paper (PRSP). An interim PRSP (I-PRSP) was submitted to the International Monetary Fund (IMF) and the World Bank (WB) in 2001.[21] In the paper, the government's overriding goals, development objectives, and priority programmes from previous planning documents reappear. Growth with equity remains the pillar in poverty alleviation strategies. New in the I-PRSP is an outline of a broad strategy framework for poverty reduction, which is based on the concept of participation and decentralisation with the Laotian mass organisations playing an essential role.[22] Four sectors were identified as particularly important for poverty alleviation: Agriculture and Forestry, Education, Health, and Road Infrastructure. Improved governance and sound macro-economic policies are outlined as underlying and enabling conditions for poverty reduction. The I-PRSP was accepted by both the WB and the IMF, which gave Laos access to new lending instruments. The I-PRSP has been elaborated in a National Poverty Eradication Plan (NPEP), which was presented at the 8th RTM in September 2003. The NPEP was preceded by numerous consultations with donors.

As suggested above, Laos experienced some improvements in the poverty situation in the 1990s. Preliminary data from LECS III suggest that this trend continues. However, the pace is slow, and in many aspects, Laos is falling behind other countries in the region. It is believed that the slowdown in economic growth and the fiscal crisis—which led to sharply reduced government spending on social programmes such as health and education—has not improved conditions for those people who were falling behind before the crisis.

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[18] Based on information collected by the WFP, 2002.

[19] The National Socio-Economic Development Plan 1996–2000.

[20] LAO PDR, Fighting Poverty trough Human Resource Development, Rural Development and People's Participation, Vientiane 21–23 November 2000.

[21] Lao PDR, Interim Poverty Reduction Strategy Paper, March 2001, hereinafter I-PRSP.

[22] Mass organisations in the Lao PDR include the Lao Women's Union, the Lao People's Revolutionary Youth Union, the Lao Front for National Constructions, and the Lao Federation of Trade Unions.

The government has committed itself to achieving the Millennium Goals, including the goal to halve poverty by 2015. As shown, the country has come a long way in realising its goal to eradicate poverty. But Laos still has far to go. One major challenge is how to overcome the growing inequality in income and the ethnic, geographic (upland versus lowland), and gender divide. A pre-condition for sustainable poverty alleviation is continued economic growth.

# Macro-Economic Analysis and Private Sector Development

Laos registered impressive growth in the 1990s. GDP grew by 36 per cent in the first half of the 1990s. In the second half of the decade, the economy was affected by the Asian financial crisis and was further aggravated by the government's expansionary fiscal policy. Yet GDP managed to grow by another 33 per cent. During the first half of the 1990s, growth was driven primarily by expansion in non-agricultural sectors (including forestry) and in the second half by agriculture. Crop production increased by an impressive 55 per cent in terms of value between 1996 and 2000.[23] Manufacturing and trade also increased, although growth was less impressive than in the first half of the decade.[24]

The previously state-dominated non-agricultural sectors have been fundamentally transformed since the launching of the economic reform programme (NEM – New Economic Mechanism) in the late 1980s. Prior to 1990, state enterprises accounted for virtually the entire modern industrial sector and employed some 10 per cent of the non-agricultural labour force. Ten years later, state enterprises accounted for no more than 15 per cent of industrial production and were insignificant as a source of employment. Of 640 SOEs in 1989, only 93 remain fully state owned today, some of them public utilities firms. Yet, the official stand remains that SOEs are a major pillar of the economy.[25] The problem with the remaining SOEs is that past and current losses have created significant non-performing loans in the banking system.

Weak revenue collection is one of the most serious economic problems that the country faces. It compromises the ability of the government to fund crucial social expenditures and makes it difficult to rebuild the deeply eroded real wages of civil servants. In the years after the Asian financial crisis, government revenues increased to over 13 per cent of GDP. However, revenues as a percentage of GDP have since fallen. The main cause of the disappointing revenue performance lies in weak political commitment to fiscal reform and inefficient tax administration. The government's decentralisation initiative may have exacerbated the problem. There are now strong indications that political leadership is

[23] Actual production was probably somewhat less than that officially recorded in 1999.

[24] Some of the economic figures should be interpreted with caution. The sharp decline in forestry, in particular, appears to be well outside the margin of the credible.

[25] This was articulated at the 7 th Party Congress in March 2001.

more committed to reform, and the government has taken important steps to revitalise the process.

Another weakness is the government's system for expenditure management and control. The political emphasis on investments in infrastructure has resulted in a situation wherein capital expenditures consistently exceed recurrent expenditures. The share of expenditures devoted to wages fell from almost 25 per cent of the budget to only 10 per cent in 1998–1999 and has yet to recover. Another characteristic is the imbalance between the social and economic sectors. As an example, in 1998–1999 the education sector was only 11 per cent of total expenditures. A third problem is the lack of transparency in public financial management. The government ceased publishing the budget and the expenditure outcomes after the Asian crisis but resumed doing so with the 2000–2001 budget. Disaggregated data are now again being published, but it is still difficult to monitor spending by programmes within sectors. Reports on military revenues and expenditures are also sparse. Given the military's non-transparent links to SOEs, off-budget expenditures, and control of forestry areas, such information is important but is excluded from national disclosures.[26]

Laos has a relatively high total external debt stock, but the debt-service burden remains manageable owing to the level of concessionality of the debt. As of the end of 2001, the total external debt stock in convertible currency is estimated at USD 1.5 billion (75 per cent of GDP), and the total debt service at 15.5 per cent of exports. This level of debt service includes commercial borrowings by private investors in the hydropower sector. The public debt service burden relative to exports is expected to increase in the short term—to 7.5 in 2002 and 8.7 in 2003—as a result of higher debt service to commercial creditors. In addition to the debt in convertible currency, Laos has a debt to the Russian Federation. The two governments are currently negotiating the value and the terms for rescheduling of the debt. According to the IMF's recent debt sustainability analysis[27], the net present value of the Russian debt would amount to USD 386 million.[28] Laos' total public debt would then amount to USD 1.6 billion, which is 177 per cent of exports, just above the HIPC initiative cut-off point. Laos is eligible for support under the enhanced HIPC initiative, but the authorities have not applied for debt relief under this initiative.

Private sector development has accounted for the overwhelming share of growth and employment creation in the secondary and tertiary sectors in the past decade. Development has been driven by foreign direct investment. Foreign direct investment increased exponentially in the years leading up to the Asian crisis, from USD 60 million in 1992–1993 to a peak of USD 378 million in 1997–1998.[29] The crisis led to a virtual collapse of the inflow of foreign direct investment, which fell to no more than USD 33 million in 2001. However, by 2002 there were indications

[26] Jacquelyn Chagnon, Dirk van Gansbergh, Binh Vongphasouk, Roger Rumpf, Looking Back to See Forward, Consultations about Good Governance and Participatory Development in the Lao PDR, Vientiane, December 2002, hereinafter Study on Good Governance.

[27] IMF (2002), Lao People's Democratic Republic: Selected Issues and Statistical Appendix, IMF Country Report No. 02/61, March, Washington D. C.

[28] Using the official exchange rate of SUR 0.6 per USD and a 70 per cent upfront discount.

[29] Macro-Economic Policy and Reform Framework (2000).

that foreign direct investment was beginning to pick up again. More than a fifth of all households have their own business, implying a total of 164,500 household businesses, equivalent to almost 20 per cent of the recorded GDP.[30]

The Laotian financial system is dominated by three State-Owned Commercial Banks (SOCBs), which together account for almost three-quarters of the total assets of the banking system. The SOCBs have failed to improve their performance, despite a re-capitalisation in 1994. The accumulation of non-performing loans has continued. With non-performing loans accounting for over 60 per cent of total loans on average, the three main SOCBs are technically insolvent. The government has now begun implementation of a multi-year reform programme in the financial sector. The programme includes phased financial and operational restructuring, re-capitalisation, and the development of a market-based commercial banking system.

Small- and medium-scale enterprises (SMEs) play a crucial role in the dynamic development of the non-agricultural sectors. The close links between a continued development of the agricultural sector and a diversification of the local economies put SME development in focus. The positive indirect effects of foreign direct investment in the form of backward and forward linkages and technological spill-over are important in terms of economic growth, employment, and income generation and require a broad spectra of domestic firms of different sizes. A conducive business environment is crucial to such development. Although the vast majority of the many small businesses are unlikely to have either the capacity or the inclination to grow much, it is nevertheless in this category that the main sources of the future development of the non-farm sectors in Laos are to be found. However, such a broad-based development has yet to take off in Laos. The preconditions are far from ideal. Lack of infrastructure and a non-functioning financial sector impose constraints. The regulatory and administrative framework is far from conducive. Establishment of firms is unnecessarily complicated and restrictive.[31] These impediments impose high costs on entrepreneurs. Inexpensive and relatively easily implemented reforms to remedy this situation would give high returns in terms of economic growth, employment and income generation, and reduced poverty. In May 2002, the government organised the first domestic and foreign investment forums. The forums concluded that the main constraints for investment in the Lao PDR include the lack of information to and consultation with the private sector and unclear legal, regulatory, and administrative procedures.[32]

The opening up of the economy to the outside world has been a central aspect of the economic reform programme launched in the late 1980s. Membership in the Association of Southeast Asian Nations (ASEAN) has important economic consequences, as it sets a firm timetable for the dismantling of trade barriers within the region.[33] The opening

[30] LECS II.

[31] The average business registration in Laos may take 45–60 days of work, compared to about 7 days in Vietnam.

[32] CPC, notes from the foreign investors forum, 2002.

[33] Customs duties on all goods imported from other ASEAN member countries will have to be brought down to a range between 0 and 5 per cent by 2008.

up of the country and the economy is not only reflected in trade but also in capital flows, foreign direct investments, and migration. The integration of Laos in ASEAN takes place from a weak and precarious position. Along with Cambodia, Laos is the economically least developed country in ASEAN. Its economy is still poorly monetised and geographically and ethnically fragmented. There is a risk that regional integration will be confined to Vientiane and the areas bordering primarily Thailand, but also China and Vietnam, thus exacerbating the domestic fragmentation of the economy.

Substantial liberalisation of the trade regime has taken place in recent years. Laos' total external trade (exports + imports) as a percentage of GDP exceeds 50 per cent. However, Laos ranks second from the bottom on this scale of "openness index" compared to other ASEAN member countries.[34] Looking ahead, a further reduction in tariffs and non-tariff barriers will result from trade policy commitments under the ASEAN Free Trade Area (AFTA) agreement, which accounts for a large volume of trade as well as accession to the WTO. While the gains to be had from liberalising trade are well documented, the cost of implementing WTO rules is often considerable.

The tariff structure has been simplified and the rates have been lowered in recent years. By the end of 2000, the tariff structure comprised six rates between 5 and 40 per cent with a relatively low, simple, average most-favoured-nation (MFN) rate of 9.5 per cent.[35] However, the tariff structure suffers from a widespread use of tariff exemptions and a system of discretionary reference prices used to assess tariff charges. Another feature of the tariff structure is that some import-substitution industries receive substantial protection. On the export side, duties are levied on selected exported products.

Non-tariff barriers are the main obstacles to trade.[36] Most imports are not subject to restrictions, and licenses are issued automatically. Importers of ordinary consumer goods are required to submit an annual business plan to the provincial trade office; imports are permitted to the extent that, at an aggregate level, imports are consistent with the annual "import-export equilibration" plan. Imports of most luxury goods are subject to controls, and quotas apply to several products.

Important trade policy reforms will be implemented within the framework of Laos' membership in ASEAN and its accession to the WTO. As an ASEAN member, Laos has committed itself to implement all ASEAN Agreements and Protocols, including the Agreement on a Common Effective Preferential Tariff (CEPT) and the establishment of AFTA. Under this agreement, Laos has committed to reduce import tariffs from other ASEAN member countries to a range of 0–5 per cent and eliminate non-tariff barriers. Thus, the implementation of AFTA will imply a significant change in the trade regime as some 70 per cent of the country's formal imports originate from ASEAN members.

[34] Lao PDR: Medium-term Strategy and Action Plan for Industrial Development, UNIDO, 2003.

[35] IMF (2002), Lao People's Democratic Republic: Selected Issues and Statistical Appendix, IMF Country Report No. 02/6, March, Washington D. C.

[36] ibid.

Laos has applied for WTO membership.[37] In the context of its WTO accession, Laos will pursue a wide range of reforms in the area of tariffs and non-tariff barriers. Current WTO negotiations may result in additional areas to be included in the WTO, including competition, investment, trade facilitation, and environment. Recent studies have indicated that the costs involved in the implementation of WTO rules may be substantial.

The trade balance has been negative for many years and the trade gap, measured as import over exports, is considerably larger than the current account deficit. Imports exceed exports by some 60 per cent or 13 per cent of GDP.[38] Indeed, the deficit is in reality likely to be even larger. Four commodities dominate exports: electricity, garments, timber and wood products, and coffee. Export of electricity to Thailand has overtaken timber and garments as the largest foreign exchange earner. With the planned completion of the Nam Theun 2 hydro-electric plant in 2008, electricity exports to Thailand will increase by some USD 220 million per year.[39] Garment exports to the EU have grown rapidly and are today a major export earner. It remains to be seen whether the Lao garment industry will be internationally competitive after the abolishment of the quota system. Imports consist in approximately equal measure of consumer goods, investment goods, and intermediaries. There is a need for continued economic and institutional reforms and for an economic development strategy aimed at promoting entrepreneurship and enterprise development with a view to create a diversified market economy. Despite low nominal labour costs in the Lao PDR, value added and output per employee are at the bottom compared with the same in other countries in the region. The comparative advantage of low labour costs must be combined with reasonable labour productivity. Training of staff and upgrading of technology are key issues if Laotian manufacturers are to exploit the comparative advantage of low labour costs.[40]

There is also the danger, pointed out above, that regional economic integration will exacerbate internal economic and social divisions along ethnic and geographical lines. The irreversible integration of Laos in the region is yet another compelling reason for pursuing a domestic development strategy that focuses on integrating all ethnic groups and all parts of the country into the mainstream of economic development on an equal footing.

While a strategy of rice-based growth may have served Laos well during a period of economic crisis in the region, it will hardly suffice as a basis for sustained growth and poverty reduction. Rapid continued integration of the Laotian economy in the region will present both challenges and opportunities. Continued integration will require intensification and diversification of agriculture with a greater focus on producing high value products for the market, diversification of the economy as a whole through development of the non-agricultural sectors, and the

[37] The Working Party on Lao's accession was established on 19 February 1998. The Memorandum on the Foreign Trade Regime was circulated in March 2001. The Working Party has not yet met.

[38] Average for 1999–2001.

[39] At present levels of export, this would imply an increase in total exports of over 60 per cent., However, the net impact on the balance of payment will be much less due to payments of principal and interest on loans taken to finance the plant.

[40] Lao PDR: Medium-term Strategy and Action Plan for Industrial Development, UNIDO, 2003

inclusion of the entire country and population in the mainstream of economic development on an equal footing.

Continued economic and institutional reforms and development of a physical infrastructure are needed to underpin such a development. Much remains to be done—not least in the field of institutional development—to construct a sound basis for a market economy. Strengthening the rule of law, including the establishment of secure property rights; improved transparency at local, provincial, and national levels of government; and the fostering of a facilitating rather than a predatory or a malign attitude to entrepreneurship and private sector enterprises need to be part and parcel of such a development. Equal treatment in all respects of enterprises, irrespective of whether they are state owned or private, is an essential aspect of the creation of a level playing field. Much remains to be done when it comes to the development of the financial sector.

The past decade has seen a growing divide develop between the Lao-inhabited lowlands and the uplands populated by ethnic minorities as economic development and poverty reduction have by and large been confined to the former areas. If left unchecked, this development is likely to continue and indeed to accentuate. The dangers of such a development can hardly be exaggerated. Not only would it result in an economic growth and poverty reduction far below the country's potential, but it would also leave large parts of the population marginalised by the wayside in deep and increasing poverty. It would also potentially threaten the stability of the country as the divisions between those who are part of and those who are outside the mainstream of development run along geographic and ethnic lines. Somewhat paradoxically, it may well be the case that the uplands has a potential comparative advantage over the lowlands as the country becomes increasingly integrated in the region. Natural and climatic conditions suggest that agriculture, fishery, and forestry in the uplands may complement rather than compete with that of neighbouring countries. Great natural beauty and unusually rich cultural diversity also suggest an important potential for tourism, in a region where tourism is rapidly on the increase. A strong and diverse handicraft tradition can serve as a basis for up-market, labour-intensive manufacturing. However, in the absence of concerted and broad-based efforts to bring the uplands and the upland population into the mainstream of development, these potentials will come to naught.

# Evolution of the Political Regime

Although the country has made substantial progress towards economic reform over the last decade, the political architecture has remained largely untouched since the formation of the new regime in 1975. The country remains a People's Democratic Republic.[41] The LPRP is the nucleus of the political system and the only legal political party.[42]

Despite the unique position of the LPRP in society, little is known about how it functions and how decisions are made. The main bodies of the Party include the Party Congress, meeting every 5 years, the Central Committee (at present 52 members), and the Politburo (10 members). Membership in the Party remains selective. Membership is by appointment. The majority of the approximately 60,000 members are civil servants, army and police personnel, leaders of mass organisations, and so on. Few private citizens are believed to be party members.[43] The LPRP maintains a presence at all levels of society down to the villages. Political leadership is characterised by extraordinary stability and is still largely in the hands of first generation leaders. The current President, H. E. Khamtay Siphandone, is one of the founding members of the Party. In 2001, the 7th Party Congress returned all current members of the Politburo and voted in three younger members. Two of these have been appointed vice prime ministers, forming an embryo of a new generation of party leaders. The 7th Congress otherwise reaffirmed the Party's opposition to political pluralism.[44] The LPRP maintains strong links with its Vietnamese sister party.[45]

The National Assembly has traditionally a limited role in politics. In Laos, it is becoming increasingly important. Elections for the present national legislature took place in 2002. The turn-out was over 99 per cent. All candidates, with one notable exception, were members of the LPRP. The electorate was able to choose between different candidates. It did use this option, and the candidates were indeed chosen in a different order than the one in which they were listed. One-third of the deputies were voted in for the first time. The new legislature was generally

[41] Constitution, article 2.

[42] ibid., article 4.

[43] Study on Good Governance.

[44] Political report from the 7th LPRP Congress.

[45] In July 2002 the parties celebrated the 25th year anniversary of the Lao–Vietnam Friendship and Cooperation Treaty; it was then stated that a close co-operation between the parties is essential for the continued success of the revolution; The new Vietnam Party secretary made his first overseas trip to Laos

[46] Study on Good Governance.

younger and better educated. The share of seats occupied by women increased in number, although not by much. Representatives of ethno-linguistic minorities decreased substantially, both in numbers and percentage. Members of the Thai-Kadai ethnic-linguistic family gained a substantial number of seats at the expense of the Mon-Khmer group in particular. The drop is a reflection of the constant problem of the low level of education among certain ethnic groups, which prevents entry into public service.[46]

Stability is also a characteristic of the composition of the government. Few changes were made between the 6th and 7th Congresses. Portfolios were reshuffled, but few new names appeared. All ministers—with the exception of the one non-party member minister—and all provincial governors are members of the Central Committee. Most senior government officials are also card carrying party members. The link between the government and the National Assembly is cemented by the fact that many cabinet ministers and other senior civil servants are also members of the National Assembly.

The army remains another pillar of the political society and retains a significant, though not particularly visible, role in politics.[47] As of May 2003, seven out of ten members of the Politburo have a military rank. Several provincial governors also have military backgrounds. The armed forces comprise about 30,000 men and women. Ethnic minorities form a considerable share of the armed forces. There is also a village militia of similar strength. Because the external threat to Laos has diminished, it is believed that the government has not allocated resources to modernise the army. Existing hardware is mostly from the 1970s. The small fleet of MiG aeroplanes has been grounded for years. The main role of the armed forces is more to address internal rather than external threats.

As in other People's Democratic Republics, civil society is generally not separated from the state.[48] Instead, civil society continues to be organised by the various mass organisations, which are linked to the LPRP. National NGOs or public interest groups of the type we find in other countries are still not authorised.[49]

Although the constitution suggests separation between the party and the state, the government structures continue to be tightly intermeshed with, and controlled by, the LPRP.[50] "The Party leads and the State implements" is an oft-heard slogan, but in reality the Party is more operational than that. It continues to approve all choices for senior and decision-making government positions, including the prime ministers, ministers, and directors as well as provincial and district governors. There are party committees at all levels in the administrative structure. The general public's perception is that the functions of the party and the state remain indistinguishable. Excluding mid-level and senior government personnel in Vientiane, most civil servants and common citizens continue to speak of the state and the Party as one entity.[51]

[47] Jonsson, Kristina, Globalization, Authoritarian regimes and political change in Vietnam and Laos.

[48] Fredriksson, G. and Falk, H., Step by Step, a Study of the State of Democracy and Human Rights in the Lao People's Democratic Republic, Stockholm 1998.

[49] However, international NGOs are allowed to operate as service deliverers as long as they have foreign management.

[50] Fredriksson, G. and Falk, H., Step by Step, a Study of the State of Democracy and Human Rights in the Lao People's Democratic Republic, Stockholm 1998.

[51] Study on Good Governance.

Yet, some reforms are emerging. The LPRP has begun to eliminate duplicative party–state institutions in areas such as personnel selection and audits. The Party also abolished its Leading Committee for Rural Development in early 2002, partly because of its overlapping mandate with other institutions.

Politically, Laos remains in principle faithful to Marxist/Leninist ideology and to the principles of democratic centralism. It can be argued that strict adherence to Marxism/Leninism definitely precludes certain aspects of economic and social reform. Recent history, however, has demonstrated that the Party has managed to unexpectedly change its political course and backtrack on decisions which had proven to be wrong. An example of the latter is the decision to abolish collective farming. The decision to introduce the NEM at the end of the 1980s, which signalled a new market-orientated economic policy, is another example. Economic realities have and will likely in the future force policy changes that from a strict ideological perspective would be unappealing.

There are no indications that the political regime will change fundamentally in the near future. Political plurality is not in sight. The authorities acted swiftly to quell manifestations for political rights in 1998. This means ideological constraints will continue to narrow choices and somewhat limit the room for manoeuvre in the Lao PDR. For example, for ideological reasons, the authorities are highly ambiguous with regard to the role of civil society and the media in development. This is reflected in the government's report to the RTM on governance.[52] The government intends on the one hand to open up society and on the other hand to retain control over information. The unwillingness of the LPRP regime to recognise the concept of civil society and organisations independent of the state—which would allow Laotian citizens to enter into social and economic development work—means in reality that society deprives itself of opportunities that would be beneficial for social development.

The political ideology also affects the value system and norms governing public administration and discourse. Despite the fact that decision-making is based on consensus building and that the 'command element' of the government management system is to be replaced by participatory approaches, setting and applying targets are central in public management. Yet even in Laos, ideological purity will probably continue to be diluted. Pragmatism, within limits, will continue to be the rule of the game as indeed is the case in Vietnam and China. It is, for instance, unlikely that any political ideology will be able to stand against the march towards a market economy.

## Media

Laos has the least developed media in Indochina. This conclusion was based on the observation that although there is no outright censorship, the government still controls and monitors all domestic journalistic work in the press, radio, and TV through the Mass Media Department of the Ministry of Information and Culture. The staffs of the national press,

[52] Public Service Reform, People's Participation, Rule of Law and Sound Financial Management, A Policy Paper of the Government of Lao PDR on Governance Issues, Roundtable Process, Vientiane, March 2003, hereinafter Policy Paper on Governance.

the news agency, and radio and TV basically comprise civil servants.[53] In a ranking of countries (2002) based on press freedom, Laos was ranked as 133 of 139 countries, just below Vietnam but above Myanmar.[54]

The total circulation of the Lao language press is not more than about 15,000 per issue. Access to newspapers is highly uneven. Basically, only Vientiane has an assured supply of newspapers. Hardly any newspapers are published outside Vientiane, even though there are newsletter-type publications in some provincial cities. Even in Vientiane, the interested reader must know where newspapers are sold. Newspaper stalls are few and far between. In addition to Lao printed media, Thai newspapers are relatively easily available along the border to Thailand; other international newsmagazines are also for sale, but irregularly. The Internet is a new addition to the arena of written media and is readily available in the cities. Internet cafés have sprung up across the country but particularly in places frequented by tourists. There were two Internet servers in 2002. Although the government has published a code of conduct with regard to the Internet, there is in practice almost unlimited access to the internet. The main constraint lies in poor telecommunications.

Given the limited spread of written media in Laos, Laotian radio is by far the most important source of information and entertainment. Laos has 15 provincial radio stations that reach 70 per cent of the population. Some of them broadcast in minority languages. Laotian radio faces strong competition from at least ten Thai radio stations. In other parts of the country, people have access to Chinese and Vietnamese broadcasts. Laotian National Television broadcasts on four channels, of which one is in Vietnamese, but it has a more limited geographical coverage. Along the Mekong River Laotian viewers can receive Thai TV. Viewers also have access to international networks including BBC by satellite dish.

Given the nature of the regime and the government control of the media, domestic media are used by the authorities as an instrument for disseminating information on government polices and decisions. There is traditionally little unbiased reporting and free debate. However, signs that things may change have appeared. In recent years, the press has become more alert to reporting unpleasant events. As an example, disclosures of corruption in the country are frequent, a topic which previously would have been taboo. A recent policy document states that "mass media is an important tool for holding public officials accountable for their actions, as part of our strategy to reduce corruption in the country". The same document further states that "the government encourages journalists to report increasingly on substantive issues and report of misdemeanours of interest to the people…". The government also proposes to introduce "legal" protection for individuals who provide information to the media on corrupt practices.[55]

At present, the media remains restrained and cannot go beyond what the authorities consider is politically acceptable. There is no room for an independent formation of public opinion. Moreover, access to the media, particularly the written media, is highly uneven. Rural inhabitants—and

[53] Jeff Hodgson, Laos, Media Needs Assessment, prepared for the Indochina Media Memorial Foundation and International Center for Journalists, July 2001.

[54] Reporters Without Borders <www.rsf.org>, visited April 2003.

[55] Policy Paper on Governance.

particularly the ethno-linguistic minorities—are discriminated, even though limited broadcasting occurs in many local languages. International aid organisations have not been permitted to print their messages in languages other than Lao.[56] Access to less biased international media is relatively free but is largely restricted to those with a knowledge of foreign languages and the resources to subscribe to satellite networks.

## Participation and Civil Society

Right to association is restricted. The LPRP regime does not accept independent political or social organisations. People are encouraged to join so-called mass organisations that are responsible for different development issues such as women's rights (Lao Women's Union), minority affairs (Front for National Construction), youth issues (Lao Youth Union), and workers' interests (Lao Labour Union). Even though these may serve useful purposes, they cannot be considered part of civil society since all are party-based organisations. Civil society-based national NGOs do not exist, but there are a few local NGO-type organisations.

Lately the government has become more relaxed with regard to non-party and non-governmental organisations. Independent political organisations are still not tolerated, but the number of community service groups has increased in the last few years. Local religious-based groups are setting up small social service agencies. Private training centres and schools have been established in urban areas. A range of professional and vocational associations has also surfaced. These institutions require party and state sanction to exist.[57] The government also permits international NGOs to work in Laos. These are mostly engaged in service delivery on a project basis.

Despite some progress over the last few years, acceptance of social and other kinds of independent organisations still seems to be a sensitive issue. At present, the political will to allow national NGOs appears to be lacking.[58] That local NGOs are forbidden is an obstacle to development: it restricts the alternatives available to solve problems because civil society organisations often play an important role in advocating new approaches to development, introducing new ideas, and contributing to service delivery to poor and marginalised people. A change in policy may be underway. The government has publicly stated that preparation of a legal framework for independent organisations is under consideration.[59]

[56] UNICEF has asked to publish messages in minority languages but was denied permission by the Ministry of Information and Culture.

[57] Study on Good Governance, pp 73-74, 78.

[58] ibid., p 75.

[59] Study on Governance

# Changes in Governance and the Human Rights Regime

The government's most updated position on governance and governance-related issues was presented in April 2003.[60] In the policy paper it is stated that

> The government aims to achieve a stable and open people's democracy where the rights of the people are guaranteed by an efficient administration of the law, with broad and active participation in all national and international activities, in order to ensure stable socio-economic conditions in the country, improve constantly the living standards of the Lao multi-ethnic people, create the conditions for the eradication of poverty, and create a modern, industrial and successful country. Constantly improving governance is essential to achieving these objectives.[61]

Governance is considered an intersectorial priority in the NPEP and a vital link between economic growth and poverty eradication as it contributes to the achievement of a macro-economic framework for sustained development that will improve all areas of state management.[62] Four areas for reform have been identified: public service, people's participation, rule of law, and sound financial management. The problem analysis is frank, and many issues that Laos will have to deal with in the governance sector are addressed. The position paper also deals with human rights issues, but far less comprehensively.

## Good Governance

The country has a three-tiered administration: provinces, districts, and villages. Even though improvements have been made, public administration suffers from a multitude of governance-related weaknesses. Many are linked to a poor human resource base while others are more structural. During the autumn session in 2003, the government approved a law on local administration.

[60] Public Service Reform, People's Participation, Rule of Law and Sound Financial Management, Background Paper on Governance, Roundtable Process, Vientiane, March 2003, hereinafter Background Paper on Governance; Public Service Reform, People's Participation, Rule of Law and Sound Financial Management, A Policy Paper of the Government of Lao PDR on Governance Issues, Roundtable Process, Vientiane, March 2003, (Policy Paper on Governance).

[61] Policy Paper on Governance, p 5.

[62] Policy Paper on Governance.

For the government of Laos, "good governance" means

- Respecting law and order as the basis of a stable and equitable society
- Responding better to the needs of the people by making government institutions and service delivery more efficient
- Enhancing transparency by increasing the quality and quantity of information
- Improving the decision-making process through dialogue and participation
- Rationalising relationships, both within the central government and between the central and local authorities
- Enhancing predictability and accountability under the rule of law by ensuring that state institutions and every natural and legal person abide by the Constitution and the laws of Laos and the many international conventions to which Laos is party.[63]

The most serious constraints that need to be addressed are the lack of a clear framework for administrative accountability, the lack of effective mechanisms for policy development and co-ordination, the lack of domestic resources, inefficient systems for public service management, and underqualified staff.[64] Effective public service management is currently constrained by the lack of appropriate organisational structures, inadequate staffing, low salaries, weak control and personnel management systems, inadequate personnel management information systems, and the misallocation of human resources.

Civil service ranks include teachers, health workers, administrators, judiciary personnel, and civil servants appointed to the Party and mass organisations, totalling about 90,000.[65] The civil service is young (82 per cent are under 40 years) and active mainly at the provincial and district levels. Representation of women in government remains low, particularly at the management level. Women work primarily in health and education. No statistical breakdown by ethnicity is available. Studies suggest that ethnic minorities are severely underrepresented. In minority dominated districts in Luang Prabang in which xx of the population belongs to ethnic minorities, only xx per cent of the staff is of minority origin. About one-half (80,000) of government-paid employees—that is, military and police forces, workers in SOEs, and contract workers—are not part of civil service statistics. No statistics on this group are available.[66] The government is aware that there is a mismatch between supply and demand of staff in the public sector—an oversupply of staff in some instances and a severe lack of qualified staff in others—and has decided to implement "rightsizing" in the civil service to reduce the total number of staff.[67]

In 1998 Laos embarked upon a process of decentralisation, and in 2000 a Decree on Decentralisation was issued.[68] This Prime Minister's Instruction states that the province should be the strategic unit, the

[63] Ibid, p 4.
[64] Interim Poverty Reduction Strategy Paper, 2001, p 29.
[65] Background Paper on Governance, p 30.
[66] Study on Good Governance, p 46.
[67] Background Paper on Governance, p 28.
[68] Instruction No. 01/PM (11/03/2000).

district the planning unit, and the village the implementation unit. A complete regulatory framework for decentralisation is not yet in place. The direction towards decentralisation is sound and timely, and in the long term the government seems committed to this concept. In practice, decentralisation is being carried out as deconcentration, and not as a comprehensive devolution of authority.[69]

Human capital constraints are important, but there are also serious weaknesses in the basic systems and procedures for budget planning, execution, and control. The distribution of authority, responsibility, and accountability among the various public sector agents is not well designed and not always clear. There are serious gaps between what is supposed to happen and what happens in practice.[70] Fiscal decentralisation and tax collection are the most difficult areas of decentralisation, and the weakest link for decentralisation is at the district level.[71] The lack of human resources is most evident on lower levels, and with decentralisation and the transferring of responsibilities to lower levels, the problem of underqualified staff becomes even more apparent.

There is little evidence that decentralisation has broadened decision-making authority. A small elite core of leaders prevails over administration, largely due to the Party's control and to the limited numbers of persons at the district and community levels with sufficient education. Decentralisation has not made women more visible in provincial and district administrations.[72]

The financial management system is a manually kept system with associated problems in reconciliation and timeliness. Additionally, the system is very cumbersome in some areas and suffers from a lack of adherence at the decentralised level to rules and regulations on revenue collection and submission and budget execution. The civil service lacks sufficiently qualified staff, and it is difficult to hire and retain qualified staff because of low salary levels and the uncertain timing of salary payments.[73]

The control system comprises several different authorities. The State Audit Authority was established in 1998 and is the supreme audit institution in the country. It is still very weak but has addressed the issue of misappropriation of funds in some specific cases. The office is, however, not independent and lacks in both competence and resources. The State Inspection Authority was established in 2001 and has a mandate to prevent and suppress corruption on all levels. It acts on instructions from the Prime Minister and on citizens' complaints. There is no clear distinction of responsibilities between the State Audit Authority and the State Inspection Authority. The Central Committee for Control (CCC) is charged with supervising overall anti-corruption progress in co-operation with a number of other government agencies.[74] In addition, the CCC controls the discipline and ethics of party officials.[75]

[69] Study on Good Governance, p 5.

[70] Lao PDR Public Expenditure Review, June 2002, p 1.

[71] Study on Good Governance, p 5.

[72] ibid, pp 7–8.

[73] K2 Consult and Malay Kongprachith, Report on Study on Financial and Administrative Systems in Lao PDR, October 2002, hereinafter Financial Management Study, p 1.

[74] Decree no. 193/PM on Anti-Corruption, 2 November 1999.

[75] Policy Paper on Governance, p 13.

It is widely assumed that public graft and corruption proliferated during the 1990s and that corruption is widespread.[76] According to SIA, corruption is widespread, especially at the provincial and district levels. SIA also says that corruption is prevalent at the central level, but only at the executive level.[77] The new economic policies diversified the sources of corruption. The rapid growth in businesses, established by both Laotian citizens and foreigners, quickly overloaded an unprepared and cumbersome bureaucratic apparatus.[78] The same theme is reported in the press. For example, it has been reported in the Vientiane Times that "there are some state officials who co-operate with private companies to avoid correct tax payment. Over the previous years some corrupt officials have been found. Some have been educated while others were demoted".[79] Even more recently the Vientiane Times revealed in a front-page article how truck drivers bribe the staff of the weighing stations to let overloaded trucks pass.[80] SIA's findings indicate that corruption, bribery, stealing, and fraud of public property are common but difficult, if not impossible, to address in some cases because high officials are involved.[81]

These quotes would suggest two things. One is that corruption in Laos has reached such a level that it is impossible to ignore. The second is that corruption issues have been brought from behind closed doors into the public domain. Another indication of the latter is that corruption is openly discussed in the National Assembly. However, many cases remain unpublished.

It would be wrong to say that the authorities are oblivious to the situation. They have taken several measures in recent years to address the situation.[82] In 1999 the government issued an anti-corruption decree whose purpose was "to raise the effectiveness of prevention and suppression as well as to increase the public awareness on regulations and laws". The decree sets the procedures to deal with corruption.[83] In the Policy Paper on Governance, the government states that it is committed to addressing corruption as it endangers the stability of Laotian society and jeopardises social, economic, and political development. It further states that priorities for the future are (1) education and awareness raising to prevent corrupt behaviour in society, (2) institutional reforms to strengthen accountability and transparency in public sector management, and (3) improvement of legal enforcement to detect, prosecute, and punish corrupt behaviour.[84]

Civil service reforms have been slow, and civil servants claim progress has been disappointing. Selection and recruiting; mechanisms for reducing nepotism, cronyism, and patronage; personnel performance evaluations; and anti-corruption measures continue to be underdeveloped. Reform is underway in some areas: personnel management has moved from the Party to the government, a review of salary structures is

[76] Financial Management Study.

[77] ibid., p 36.

[78] Grand Evans, A Short History of Laos, the Land in Between, 2002.

[79] Vientiane Times, 27–29 August, 2002.

[80] ibid., 17–18 November 2002.

[81] Financial Management Study, p 36.

[82] Financial Management Study.

[83] Decree no. 193/PM on Anti-Corruption, dated 2 November 1999.

[84] Policy Paper on Governance, p 14.

underway, and a new performance evaluation system is being created. Reform of the incentive structure continues to be the most urgent aspect of administrative reform. The level of consciousness about gender, ethnicity, and poverty is rising. However, progress at provincial and district levels remains inadequate.[85]

A badly functioning public administration hurts the poor. Delivery of services by the government to the poor has been less than adequate, even though, in many areas of concern, policy and programmes may be adequately designed. The gap between policy and implementation is a problem, especially in villages that have become poor as a result of the lack of capacity on the part of the provinces and districts. Sensitive policies that directly affect people's livelihoods have been executed in an incompetent way that have made it worse for villagers rather than helped them.[86] In addition, it often occurs that civil servants charge extra for public services. This hurts the poor especially as they are the ones who cannot pay and hence are denied access to public services or get public services of inferior quality because of corrupt civil servants. In addition to affecting poor people directly through badly implemented government programmes, an inefficient and poorly trained civil service is an obstacle in the development of a macro-economic framework conducive to development with equality.

Regardless of physical location, poor villages remain psychologically isolated from the mainstream; they do not comprehend government thinking; and in most cases they have only a vague idea of what a government is. Many poor villagers cannot name the president, the prime minister, the provincial governor, or the district chief. These people do not figure in the daily life of the poor.[87] A lowland worldview continues to dominate the thinking of local officials, and ethnic minorities are often blamed for the government's own inability to communicate with the poor.[88]

A well functioning public administration is crucial if urgent development problems are to be addressed. The government realises the need for reform and has begun to address development issues in this domain. There is an increasing focus on provincial and district administration. Considering the state of public administration and the political framework, Laos has much to do to achieve a transparent governance regime responsive to all Laotian inhabitants without discrimination. In addition, the LPRP regime restricts policy options and strategic choices, which slows down any kind of reform.

## Rule of Law and Human Rights

The concept of rule of law is a relatively new phenomenon in Laos. The Constitution was written in 1991, and the country has less than 50 laws, most of them developed since 1991. Large sectors in society are still unregulated, even though new laws are passed every year and old laws amended. The laws that exist are often of low quality and at times contradictory. The status of international law in Laos is not clear, but the problem has been noted and is being addressed.

[85] Study on Good Governance, p 19.

[86] PPA, pp 132–137.

[87] PPA, pp 132–137.

[88] ibid., p 132.

The constitution divides the judiciary into two components: the People's Supreme Courts—presided over by the Supreme Court—for purposes of the resolution of cases and the Office of the Public Prosecutor. Both report to the National Assembly. The provincial and district courts are under the administrative supervision of the Ministry of Justice.

The prosecutor's office is a strong force compared to the court system. Independent lawyers do not exist. There is a Bar Association consisting of about 20 lawyers, but they cannot freely act as counsel in specific cases. Fair trial cannot be guaranteed. Most processes are only interrogations of the defendant, and most defendants are not represented by counsel. No legal aid system exists in the country, even though the Ministry of Justice claims that their district offices fill this role.

The constitution stipulates that judges shall be independent during trial and that they should act in accordance with the law. In reality, however, the system is severely flawed. The judiciary is not independent from the party and government, and it functions badly. A system of military courts exists, about which little is known.

The judiciary suffers from a lack of human and financial resources. Many professionals working in the legal system have no or only very basic legal training. The local courts often have no access to either the infrastructure or all the laws. However, it is possible to see positive changes in the area of human resource development. Even though they are still few, more and more people are coming back after university studies abroad and finding their way to the central legal institutions. These individuals are sometimes surprisingly open, but their ability to initiate change is restricted by the overarching political system and the Party's control.[89]

For many people in the country, the formal legal system is a distant reality. Awareness of the legal system varies widely in the country. Traditionally, conflicts are solved on the village level through mediation. People see a value in settling local problems in the village and not in the district court.[90] Many people from ethnic minorities do not speak Lao, making them unwilling to address their complaints to the court system.[91] A process was begun in 2002 to formalise conflict resolution at the village level by establishing conflict resolution committees. In practice, these would be the first instance in the court system for certain types of cases.

Enforcement of the law remains a problem. A case can be reopened several years after a final judgement by the Supreme Court has been made. This is done through special committees at the Provincial National Assembly's Offices around the country. These extra-judicial committees consist of representatives from the police, the prosecutors' office, the National Assembly, the mass organisations, and the LPRP. The committee will, if necessary, then resubmit the case to the prosecutors' office for a new trial. The result is that only about 10 per cent of all judgements in Laos are actually enforced. With the proposed introduction of a fourth court level—appeals courts—these committees at the provincial level would cease to be a problem. Progress is visible in some areas, for exam-

[89] Evaluation report, Strengthening the Rule of Law in Lao PDR, 1992–2000, Miomir Serbinsson, Anna Collins-Falk, and Björn Birkoff, 2002.

[90] Study on Good Governance, p 39.

[91] Policy Paper on Governance, p 47.

ple, concerning vehicle safety and registration; regulation of business operations; and collection of road, land, business, and custom taxes.

Another problem with the judiciary is that specific cases are appealed to institutions in the government system outside the courts, for example to the National Assembly. The National Assembly hence rules in these cases at the same time as it is supposed to oversee the legal system. The result is that the legitimacy of the court system is further undermined and enforcement problems exacerbated.

The government has stated that it is committed to the rule of law and that judicial reform is an important part of redefining the state. The government is committed to increasing its efforts to strengthen the rule of law by developing and constantly improving legal frameworks, improving the quality of judicial decision-making and legal enforcement, and improving public awareness on existing laws and regulations.[92] In the Policy Paper on Governance, the government spells out many of the problems in the sector, but the basic principle of independence of the judiciary is not addressed and is a basic flaw in the problem analysis.

The government considers lack of qualified personnel a major problem in the legal sector and has stated its intention to develop a coherent, credible, and predictable legal framework and an efficient, effective, equitable, and accessible justice and law enforcement system. The government proposes to do so by (1) ensuring the establishment of a complete, clear, and coherent legal framework; (2) strengthening the capacity of all institutions in the legal and justice sectors; (3) strengthening informal and formal mechanisms for dispute resolution; (4) ensuring predictable and transparent mechanisms for legal enforcement; and (5) improving accessibility of the justice system and public decision-making process to all Laotians.[93] The Policy Paper is not very comprehensive in describing *how* the government intends to accomplish these goals. In addition to the Background and Policy Papers on Governance, the Ministry of Justice has set up a strategic plan for the justice sector through 2010 and 2020.[94] The strategy is not entirely clear; it is rather narrow and to some extent utopic. According to the strategy:

- Village mediation units should be established as well as divisions and units for enforcement.
- The Bar Association should be qualitatively improved.
- Appellate courts should be established to off-load the Supreme Court.
- Legal staff should know about domestic as well as international law, and international law should be analysed and compared to national law.
- Laws should be disseminated to local level to officials, soldiers, police, and chief of villages.
- New laws should be developed.

To address these issues, the strategy suggests that systematic training of legal officials is necessary, and to reach the targets, the budget must be increased and help should be sought among donors.

[92] I-PRSP, Lao PDR, 2001, p 30.

[93] Policy Paper on Governance, p 39.

[94] The Strategic Plan on Justice Framework, Up to the Year 2010 and 2020, Ministry of Justice.

The sector is characterised by lack of planning, lack of a systematic approach, secrecy, lack of information sharing, and lack of co-ordination. Development is to a large extent donor driven. The legal sector is indeed a "weak" sector, as regards both financial and human resources. Despite political and practical restrictions, reform is on-going and things are slowly changing. The country is moving in the right direction, and some progress is visible, albeit within the existing political framework. However, most changes are formal, that is, establishing new structures and institutions. It is difficult to know if the reforms are actually improving the situation for ordinary people. It is believed that reform and development in the legal sector will continue. However, for any substantial progress in the sector, basic structural and political issues will need to be addressed which, considering the political system and the vested interests in the legal sector, will be difficult.

The Laotian constitution guarantees a series of human rights even though many of the guarantees are vague. Most rights are conditioned and can be restricted in law without special procedures. Laos has ratified some human rights conventions: the International Convention on the Elimination of All Forms of Racial Discrimination (CERD), the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), and the CRC.[95] Laos signed the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR)[96] in 2000. One of the eight fundamental ILO conventions has been ratified: C29 Forced Labour Convention. No reservations have been made to any of the conventions. Laos has not kept up with reporting for any of the ratified conventions requiring reporting. Currently, work is in progress on the reports to the CRC Committee and the CEDAW Committee.

The political structure of the country obviously seriously restricts civil and political rights. Personal freedoms and integrity are also restricted, and the state's control is still vast, even though personal freedoms are increasing, albeit slowly. There is no information on politically sanctioned killings or politically motivated disappearances. Torture and other inhuman and degrading treatment are not uncommon. Prison conditions are bad, and no independent inspections are allowed.[97] It is believed that those responsible for torture and other inhuman and degrading treatment can act with impunity. No cases of police or military personnel being prosecuted for human rights abuses are known.

The Laotian criminal code includes a provision for capital punishment for crimes related to national security. However, Laos has maintained a *de-facto* moratorium on capital punishment since the second half of the 1980s. Appeal against a death sentence can be issued by the President of Laos. In 2001, a death penalty for drug-related crimes was introduced, and in May 2002, three people, the first, were sentenced to death for drug-related crimes. These were the first known cases of the death penalty for many years. Since then, more drug traffickers have been sentenced to death. None has been executed so far. Laos has a

[95] International Convention on the Elimination of All Forms of Racial Discrimination, Convention on the Elimination of All Forms of Discrimination Against Women and Convention on the Rights of the Child.

[96] International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights.

[97] Amnesty International, Lao People's Republic "The laws are promulgated but have no impact on the people": Torture, ill-treatment and hidden suffering in detention, ASA 26/004/2002, July 2002.

number of political prisoners, and those who have been sentenced have not been sentenced in fair trials. Arbitrary detention is a problem, and people are imprisoned for long periods without being accused of a crime. Involuntary relocation still occurs, although to a lesser extent than earlier.

Freedom of expression and freedom of the press as well as freedom of assembly and association are severely restricted. In 1999 some students made an attempt to demonstrate for democratic change in the country. It is known that five persons were arrested and later sentenced to many years of imprisonment. Other students fled the country. Freedom of religion is restricted, even though some changes were visible during 2002. A Decree on Religious Activities[98] was promulgated in July 2002, and in connection with this, many individuals who had been imprisoned for their religious beliefs were released.

Forced labour is not a problem in the country. Child labour exists; some children are found in the garment factories and some working as prostitutes. In the last year, children from Vietnam have been seen selling things on the streets. The right to organise is restricted, and no unions independent of the LPRP are allowed.

The constitution guarantees women and men the same rights within political, economic, cultural, and social life. However, despite legal guarantees for equality between men and women, development is different for men and women, as evidenced by social indicators in the fields of health and education. Women from ethnic minorities are especially discriminated. Women are underrepresented in the Party and the government. The situation differs between different ethnic groups. Among most ethnic groups, women work harder than men[99] and play less of a role in decision-making. Increased poverty affects women to a large extent in the form of an increased work burden when growing rice. Among Lao-Tai in urban areas, women often earn more than men when the men work for the government where salaries are very low. To what extent violence against women exists is not known. A study is currently being done on this.[100] Rape within marriage is not criminalised. Polygamy exists among some ethnic minorities. Gender awareness has increased over the last few years, but the traditional roles of men and women still prevail.

According to the Laotian constitution, everybody, regardless of ethnicity, is equal before the law. In practice, however, ethnic minorities are discriminated, as stated elsewhere in this country analysis. Ethnic minorities belong to the poorest sections of society, and their social development is weaker than that of the ethnic Lao who dominate political and social life. Ethnic minorities are underrepresented in politics and in government. Laotian society is based on the culture and language of the Lao-Tai groups, especially the Lao ethnic group. This exacerbates the exclusion of ethnic minorities from all segments of society. The use of minority languages is regulated, and all education in public schools is in Lao, which restricts the right to education of non-Lao speaking ethnic minorities. The government's language policy encroaches on people's rights in other areas as well, for example, in health and access to justice.

[98] Decree for the Administration and Protection of Religious Activities in Lao PDR, promulgated July 2002.

[99] PPA.

[100] To be carried out by the Gender and Development Group (GDG). The report is estimated to be available in 2003.

The government has a tendency to address the problem, not by adjusting the system to the people but adjusting the people to the system, which seems like assimilation.

No independent public institution—such as an Ombudsman—for defending and promoting human rights exists.

The general understanding of human rights in the country is very low. Non Lao-Tai speakers are poorly informed about their rights due to the remoteness of where they live and language barriers.[101] The results from a recent study show that knowledge of the concept of child rights and of the CRC in particular is low with both teachers and government officials. Thirty-four per cent of government officials and 48 per cent of teachers have "never heard of rights" or "don't know what rights means". The study also showed that the inherent sense of what is right and wrong is quite consistent with the ideas put forth in the CRC. Quite many, however, often express opinions or actions that are inconsistent with the principles of the CRC. The respondents in the study often felt a strong loyalty toward government policy; they placed government policy ahead of the wishes of the parents and, according to some, ahead of the best interests of the child.[102]

Although the correlation between poverty and remoteness is high, poor access to services is also exacerbated by a widespread lack of knowledge about rights and about how government works, which contributes to exclusion from decision-making.[103]

In recent years, improvements in the areas of personal freedoms—and in the last year, of religious freedom—have been made. With the Internet, access to information has improved for many sectors of the population. Some increase in openness about discussions of human rights is observable, and the concern for children's rights appears to be genuine. Training in human rights is also allowed, and several donor-financed projects address human rights issues.[104]

Rule of law and human rights frameworks provide a normative base for poverty reduction. The roots of poverty can often be traced to unequal power relationships. Enhanced rule of law and respect for human rights could balance existing inequalities in Laotian society—whether economic, social, or political—and improve access to services by the poor and discriminated and their choices of how to live.

It is anticipated that progress on human rights will continue—albeit slowly—and only within the context of the existing political system. Such progress, however, will not occur without external pressure and input since human rights is still a sensitive issue. There are no domestic organisations that advocate human rights, it is not a priority in the budget, and the country still lacks a basic human resource base to draw from.

Economic, social, and cultural rights are not addressed here in as much detail as in other parts of this country analysis.

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[101] Study on Good Governance, pp 76, 80–81.

[102] Knowledge, Attitude and Practices Study, Convention on the Rights of the Child, Kate Medlicott, for UNICEF Lao PDR, with National Commission for Mothers and Children, Ministry of Justice and Ministry of Education, December 2002.

[103] Background Paper on Governance, p 82.

[104] For example: Realising Rights for All: Promotion of the Convention on the Rights of the Child, 2002–2005; and Strengthening the Process of Signing, Ratifying, Implementing and Monitoring International Legal Instruments in the Lao PDR". In addition several projects address trafficking and juvenile justice.

# Demography

The last population census took place in 1995. The population of Laos at that time was 5.4 million. The next census is planned for 2005. Population growth remains high at approximately 2.5 per cent per year. The fertility rate recorded by the census was 5.4 per cent, which is high by any standard.[105] Even though the rate is declining—5 years later it had ostensibly fallen to 4.9 per cent—the broad base of the age pyramid will ensure that the high growth in population continues in the foreseeable future. In Laos, approximately 44 per cent of the population is below the age of 15 and some 51 per cent are of working age (15–59 age group), while only 5 per cent of the population are 60 years of age or older. The average population density is low, about 22 persons per square kilometre, making Laos one of the least densely populated countries in Asia. The population density naturally varies across regions and provinces with more concentration in the lowlands along the Mekong River.

Another significant demographic feature is the low pace of urbanisation.[106] In 1997 it was estimated that only about 17 per cent of the population lived in urban areas. Yet, demographic shifts are taking place as village cluster zones (called *khum ban* or *keht)* and small towns develop. These rural centres have a population between 2,000 and 15,000 inhabitants. These entities have yet to be recognised by the authorities, and policies need to be developed and administrative systems adjusted to cater for their development needs.[107]

Available information does not easily lend itself to further disaggregation of demographic trends by ethno-linguistic group or by an upland–lowland dimension. The 1995 census data allow us, however, to calculate relative percentages of ethnic minority populations by province (based on the government's ethnic classification system). These calculations show that the Tai-Kadai family makes up about 66 per cent of the population (of which 30 per cent are ethnic Lao). The Mon-Khmer family makes up the second largest group comprising 23.5 per cent of the population.

[105] National Statistics Center, Statistics of the Lao PDR 1975–2000, 2000.

[106] UNDP, Advancing rural Development, Human Development Report 2001.

[107] Study on Good Governance.

What is not known is what the population trends are among the various ethno-linguistic groups and between the highlands and lowlands. Unfortunately, internal migration and, particularly, migration within the uplands are not well documented.

Approximately 70 per cent of the population aged 10 years and above were registered as economically active in 1995. Men and women participate in the labour force in almost equal measure. Women tend to enter the labour force at an earlier age than men, reflecting a higher drop-out rate from school or non-participation in education. The high labour force participation rate reflects the fact that most people are self-employed, work in agriculture, or both. Wage employment in 1995 amounted to a mere 200,000. The state was by far the most important employer with the private sector being responsible for only 8,000 salaried positions. There is no information on participation of ethnic groups in the labour force.

The age composition of the population pyramid suggests that the working age population will increase rapidly in the coming decade, from 2.74 million in 2001 to approximately 4 million in 2010. At present, approximately 100,000 people enter the labour market each year. It has been estimated that the formal non-agriculture sector, including the public sector, under present conditions cannot absorb more than about 10,000 per year. The remainder need to seek gainful employment in farming occupations and in the informal sector. An unknown but probably considerable share of the labour force seek seasonal or permanent employment in Thailand. The employment arrangements are informal, but recently the two governments agreed on some formal procedures for labour exchange. The ethnic composition of the labourers seeking employment in Thailand is unknown, but it is understood that they are mostly of Lao-Thai origin. Few ethnic minorities are believed to seek employment in Thailand. Within Laos, a growing number of Vietnamese and Chinese nationals work more or less on a permanent basis.

Providing gainful employment for a growing population is a real challenge for the government. Over the next 5 years, more than 500,000 will join the labour market. Many of these will have little education. It is obvious that the state is unable to absorb more than a fraction of the new entrants to the labour market. The private manufacturing and service sectors will have to lead the way. If this is to happen, the country will need to provide conducive conditions for private sector development to increase the rate of economic growth. The governance regime needs to be strengthened for the country to be able to attract more foreign investors. The Thai labour market will continue to be a safety valve, but efforts must be made to permit increased labour productivity in the agricultural sector. The educational levels of the entrants to the labour market also need to improve.

# Uneven Social Sector Development

## Education

Human resource development is one of the government's eight National Socio-Economic Priority Programmes.[108] In policy statements, the government proclaims that a strong educational system is a necessity for poverty reduction in the Lao PDR.[109] Yet, the educational sector has a poor development record, and the country still has the lowest level of education in the region. In 2000–2001, the literacy rate reached 75.4 per cent for the 15–39 age groups.[110] Improvements in literacy are slower than the population growth. Discrepancies exist between men and women, between urban and rural areas, and between northern and central regions as well as between ethnic groups. There is a strong correlation between poverty and illiteracy. The group earning the lowest 20 per cent of income has the lowest literacy rate.

In 2001–2002, the net enrolment rate in primary school was close to 80 per cent.[111] Low enrolment in Laos is combined with a high drop-out rate and a high rate of repetition. Repetition is as high as 30–40 per cent in grade 1 and 20 per cent in grade 2. Only half of the children that start primary education reach grade 5. The majority drop out during the first 2 years. Even though figures are unavailable, it is believed that the differences between ethnic groups with regard to both repetition and drop-out rates are considerable. What is of obvious concern is that primary level enrolment the last 3 years did not increase by more than 1 per cent (girls 1.3%) per year. This means that the expansion of primary enrolment is lower than the population growth and that the overall enrolment rate must fall. There are also distinctive geographical differences. The expansion of primary education in four of the six poorest provinces[112] is higher than the national average, but primary education has also regressed in two poor provinces. Enrolment of girls was higher than that of boys. Nation-wide, the enrolment rate of primary students has slightly regressed for the majority Lao-Thai ethnic group (overall minus 0.26%, girls plus 0.03%) but increased from 3.7 to 9.8 per cent for

[108] Lao PDR, Fighting Poverty through Human Resource Development, Rural Development and People's Participation, Government Report to the 7th Round Table Meeting, November 2000.

[109] I-PRSP, p 26.

[110] MoE-Unesco survey, 2000–01.

[111] A study by Mike Lally indicates that NER is about 70% compared to the official figure of 79.8%.

[112] Phongsaly, Luangnamtha, Oudomxay, Huaphanh, Xekong, and Attopeu according to I-PRSP.

other ethnic minorities. The reasons are not fully understood but may be a consequence of an expansion of primary schools in rural, remote areas. In urban areas, almost all school-aged children are enrolled in primary schools, and the schools are congested.

At the secondary level, the enrolment rate is 35 per cent and is increasing rapidly by 8.3 per cent (girls 9%) per year and among the ethnic minorities by over 9.3 per cent (girls over12.1%). Here, too, the enrolment of girls and ethnic minorities has increased faster than the national average. The rapidly growing enrolment in lower secondary schools will increase future demand for upper secondary level education in higher vocational and technical education by 12.6 per cent and for tertiary level education by 9 per cent.

As noted above, children belonging to ethnic minorities have generally lower enrolment rates than other children, even though expansion in the enrolment of minority children in recent years has been higher than that of other children. Most minority children join local schools if they are available. To cater for the minority children's education needs, the government has established special Ethnic Boarding Schools (EBS)[113] in 17 provinces. The schools enrol about 6,000 ethnic minority children (girls 24.4%), of which 40 per cent represent primary students and 60 per cent secondary students.[114] Some schools do not have full boarding facilities.[115] The purpose is to provide basic education to ethnic minority children from poor families. All students receive a scholarship, but it is not enough to live on. The course combines general knowledge with courses in gardening and livestock to improve life skills. The curriculum is similar to that in other schools. Lao is the medium of instruction. Graduates are recruited to become untrained, contract teachers in their own villages.

Access to education is compromised by a poor or non-existent infrastructure. Only 35 per cent of the primary schools offer all five grades, while another 35 per cent offer only grades 1 to 3. Not only are many primary rural schools incomplete, but more than half of the physical infrastructure is in unacceptable condition. The allocation of funds for maintenance is well below actual needs. Classrooms are overcrowded in lower and upper secondary schools, particularly in urban areas, as the expansion of students is not matched by the expansion of facilities. This situation is likely to prevail in the mid-term as funding from most donors and agencies for school facilities focuses on primary schools in remote areas.

The quality of education is sub-standard at all levels. As a result, Lao students continue to perform poorly in an international perspective, and students must undergo 1–2 years of foundation studies before gaining admission to foreign universities. Perhaps the most important factor behind the low quality is the shortage of qualified teachers. This problem is growing, because teaching has increasingly become an unattractive profession. Salaries are not competitive, and payments are chronically several months in arrears in rural areas. Other problems include inadequate supplies of teaching and learning materials.

[113] Some have been converted into Non-Formal Education centres, for example in Phongsaly's Bun Neua and Namo districts.

[114] MoE, Department for General Education, Ethnic Minority Division, 2001–2002.

[115] Saravan, Xieng Khouang, Borikhamxay and Luangnamtha.

At present 11 teacher training colleges and schools[116] (TTC, TTS) produce teachers for the pre-primary, primary, and secondary levels. In 2000–2001, enrolment was 5,478 students (girls 46.8%) and graduates were 2,021 (girls 50.6%). There are no data on how large a share of teacher graduates actually join the teaching profession. Despite the shortage of qualified teachers, graduates are not guaranteed teaching positions because of the system of annual recruitment quotas.[117] The understanding is that a majority of graduates might actually not join the teaching profession.

In the absence of qualified teachers, the authorities have had to resort to hiring unqualified teachers. At present nearly 19 per cent of the primary teachers are unqualified. They undergo different in-service programmes. There are 19 provincial-based Teacher Upgrading Centres that provide in-service training. This system has been running for more than 10 years. The untrained teachers mostly work in remote areas. The Ministry of Education is now working for a unified system of pre- and in-service training, but given the lack of synchronisation between the production of teachers and the prevailing employment of teachers in the fast expanding, secondary school system, it is unlikely that in-service training for untrained teachers will be phased out in the near future.

Laos has a number of technical and vocational schools that train qualified workers (3,288 students, female 33.5%) and middle level qualified technicians (6,630 students, female 34.7%) in seven provinces, but the majority are in the Vientiane Prefecture. More technical and vocational schools are opening in other provinces in the near future to enrol lower and upper secondary graduates who do not continue to college or the university.

Tertiary level education remains under-developed. Around 17,000 students were enrolled in 2000–2001; about 35 per cent were female. Different campuses have been consolidated into the National University of Laos, which comprises 11 faculties. There are also seven privately owned colleges (4,187 students or 24.6% of the total, all categories combined). In 2001–2002, a new faculty of economics and a regional campus were opened in Luang Prabang and Pakse, respectively. With such low demand for university graduates, there is a risk of oversupply and increasing unemployment among graduates from higher education, given that 90 per cent of the labour force is active in subsistence farming and in the informal sector.[118]

Progress towards the goal of universal primary education is slow. The government is not living up to what they committed themselves to when they signed the agreement of Education for All and the Millennium Development Goals. Neither is the government able to live up its own development plans and commitments. We have already seen that the increase in enrolment at the primary level is lower than the population growth. This would suggest that the government gives higher priority to secondary and higher education. From a rights perspective, the difference between rural and urban areas, between the uplands and lowlands, and

[116] Including the Faculty of Education, Arts and Physical Education teacher training schools.

[117] 500 positions in 2000–2001, 1500 positions in 2001–2002, and 800 positions in 2002–2003, source: MoE/DoP.

[118] Hickling, Education Sector Development Plan. This was the first study to link education outputs (number of graduated at each level) to the labour market and the county socio-economic potentials, p 227.

between ethnic groups is a concern. It is, however, encouraging that enrolment of ethnic minorities and girls—albeit from a low level—increases faster than enrolment of boys in general.

An overriding problem with education in Laos lies in the financing. The education sector is by most accounts—and definitely compared with other countries, even those in the region—underfinanced. In addition, it is overly dependent on external partners for financial and technical support. As an example, in fiscal year 2001–2002, the National Assembly voted to allocate 11.3 per cent of the budget to education. This is lower than in most other countries. Adding insult to injury, this allocation has not materialised in its entirety. In reality, it appears that only 8.8 per cent of the total budget was actually spent on education[119]. This represents only 1.4 per cent of GDP. Since most education expenditures are controlled by independent provincial and district administrations—even though funds are provided by the central government—utilisation of the education budget will depend on priorities made at those levels. According to some information, local administrations in 2001–2002 did not spend more than between 3 and 9 per cent of their budgets on education.[120] Moreover, Laos has an imbalance between investment and recurrent expenditure with more resources allocated to the former.[121] Given the future investment plan for upgrading facilities, and given that teachers' salaries are largely unchanged, this imbalance is likely remain. Of the recurrent expenditures, it is estimated that 25–30 per cent of the earmarked budget goes to paying teachers' salaries in arrears. This is an increase from a low of 4 per cent in 1997–1998. Given the huge school construction programme, the problem of teachers' salaries is a subject of concern. Lack of incentive for multi-grade teaching, lack of budget to support technical activities, low budget support for service delivery (pedagogical advisors, school clusters, etc.), and poor school maintenance are other matters of concern. These problems have affected education performance and enrolment. The lack of common procedures in the decentralisation process concerning salary payment makes it difficult to address salary arrears. Provinces that have been self-sufficient for many years also have the same problems in some of their districts. The expansion of technical, vocational, and regional campuses; the introduction of a full scholarship scheme for all students in boarding and teacher training schools; and the increased number of administrative staff (7%–11%) due to the decentralisation process have increased budgetary constraints in the sector.

Education has been designated a priority sector by the government. Unfortunately, this is not reflected in budget allocations and decisions by concerned authorities. Decentralisation seems to have exacerbated problems since decisions are made by local authorities who appear to have little interest in education. One problem with the present policy documents is that they lack in specificity and contain little prioritisation. They suggest what ought to be done but not how to do it. An education sector paper being prepared for the NPEP process is attempting to

[119] World Bank, memo summarising discussion with Ms. Khempheng Pholsena on the occasion of her mission to Washington.

[120] Statement made by Pr. Bosengkham Vongdara, Vice-Minister of Education at the EQIP II inception meeting, December 2002.

[121] MoE, Department of Finance. In Kip (nominal), the ratio of investment/recurrent expenditures has increased from 45/55 in 1997–1998 to 57/43 in 2001–2002.

address the problems in the sector from a poverty perspective. The paper is not yet ready, but drafts seem to indicate that the government will focus resources and actions on a limited number of districts with particularly poor educational standards. This may be one approach, but unless the leading politicians are actually allocating sufficient resources to education and are able to convince their province and district comrades to do the same, this will come to little.

One issue that is not often discussed in education is the language of instruction in Laos. With a large portion of the schoolchildren coming from families that have mother tongues other than the official Lao, it is not difficult to believe that language is a barrier to education and one reason for low participation in those areas of the country populated by ethnic minorities. It appears that the government is becoming more open to offering instruction in mother tongues at the primary level. This should be encouraged.

A further problem in the sector is the dependence on not only external financial support but also technical assistance and advice. Most funding goes to infrastructure development, but some is also allocated to capacity building. It is believed that hardly any government resources are allocated for capacity building, including in-service training, text books, and learning materials. The many donor-financed programmes obviously create problems of co-ordination and of fragmented resources. The Ministry of Education is aware of the problems and is working to develop a Sector Wide Approach Programme and to co-ordinate policy. Through these, the Ministry aims to co-ordinate programmes and projects and to strengthen its analytical capability in order to consolidate its internal planning and propose long-term solutions to sectoral constraints. Alongside this, a unified teacher education and a national teacher training plan to synchronise teacher production and students' enrolment will be in place. In light of the above analysis, on-going co-operation projects and programmes are at present outpaced by the growing numbers of untrained teachers, not only at the primary level, but also at the lower and upper secondary levels. A solution should be sought through co-ordination and synergy of different programmes and projects. Specific, pro-poor projects to address basic education in the six poorest provinces—with the Ministry of Education's minimal recurrent input for increasing access in remote areas and through integration with rural development schemes[122] and provision of school lunches[123]—are under way. Management is addressed in various projects by applying the Prime Minister Decree on decentralisation with regard to microplanning[124] and to strengthening institutional management[125] and the villages alongside schools as the implementation unit.[126]

[122] EC supported project in three northern provinces.

[123] WFP school lunch project in three northern provinces.

[124] French supported project in Champasack and Oudomxay.

[125] EQIP II's third component.

[126] ADBTA on decentralisation.

## Health

While health indicators have improved in the last 10 years, the figures are still poor. The infant mortality rate is 82 and under-5 mortality is 106 per 1,000 live births while maternal mortality is 530 per 100,000 live births. Overall life expectancy at birth has increased and in 2001 was about 57 years for men and 61 for women.[127] However, there are large inconsistencies between the government's data and data from international organisations. Moreover, while differences between rural and urban areas are large, they are even more pronounced for ethnic minorities living in remote areas. Infant and maternal mortality rates in these areas may be 3–4 times the national norm.[128]

The health situation of the population in Laos is characterised by a high prevalence of infectious diseases that mainly affects those who live in rural or remote areas. The most frequently occurring diseases are malaria, acute respiratory infections, diarrhoea, meningitis, and dengue haemorrhagic fever. In addition, tuberculosis, leprosy, hepatitis, and maternal and child injuries from unexploded ordinances are important causes of high morbidity and mortality. Sexually transmitted diseases, Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), and diseases related to smoking and excessive alcohol consumption are gradually increasing.[129] Trauma and fatalities due to road accidents are rising steeply, and the Lao PDR has one of the highest rates of road-related accidents in South-East Asia.[130] The Lao PDR was declared polio free in 2000.

The use of modern health services is low, with the majority of people seeking initial care from private pharmacies if they seek care at all. Irrational drug use is widespread, in both the private and the public sectors. Only about 10–15 per cent of births take place in a health facility, and only about one-third of the pregnant women receive any antenatal care. The low use of health facilities has many causes, including remoteness, low quality of services, inability or reluctance to pay user fees, traditional cultural beliefs, and lack of user friendliness in many of the facilities. Forty per cent of the villages are a day's walk away from a road, complicating service delivery and contributing to the low immunisation rate of only 32.4 per cent by the age of 1 year and the low use of maternal services. Mental health services are almost non-existent.[131]

For most of the past decade, public health policies have focused on building or upgrading hospitals, particularly the central, regional, and provincial hospitals. The focus has been on curative rather than preventive health services. Yet the quality of curative care is poor. The population/bed ratio is about 760, nearly double the ratio of 10 years ago. Most hospitals, especially on the district level, suffer from lack of medicines, electricity, water, and trained personnel. The rate of misdiagnosis appears to be high,[132] the referral system is weak, and utilisation rates

[127] National Statistic Centre, 1993–2001.

[128] Lao PDR Public Expenditure Review, June 2002.

[129] IHCAR/Dr Lamphone Syhakhang, The quality of private pharmacy services in a province of Lao PDR: perceptions, practices and regulatory enforcements, 2002.

[130] UN, Common Country Assessment, Lao PDR, 2000.

[131] Situation analysis, WHO, 2003.

[132] WHO, Integrated Community Health/Safe Motherhood Project.

remain low. Less than 30 per cent of those in need of medical services turn to the public health system for help, and there is heavy reliance on self-medication and private sources. The number of private pharmacies has increased from less than 100 in 1990 to more than 2,000 at present, but the regulations need to be enforced, and the quality of the drugs being sold is still often compromised. The human resource complement is weak. Low salaries and difficult working conditions discourage the recruitment of personnel. There are less than 100 doctors per 100,000 people, which is among the lowest in Asia. A series of vertical programmes were introduced during the 1990s to help overcome weaknesses in high priority basic services, including malaria and tuberculosis control, immunisation, water, and sanitation and reproductive health. Despite its benefits, the vertical programme approach to basic health care has proven fragmentary and inefficient. Now the government, with support from the donor community, is concentrating on strengthening the primary health care system. However, the many projects and programmes lack coherence and standards.

As mentioned above, geographic accessibility to health services is a major barrier for many villages, with the north being most inaccessible. The average distance to the nearest hospital in the north is approximately 26 kilometres, compared with 12 and 8 kilometres for the central and southern regions, respectively. Urban areas, in contrast, have virtually complete coverage.

Basic health services are more deficient in areas where the poor are concentrated. The non-poor have better access to all forms of health service including pharmacies, medical practitioners, community health workers, and immunisation programmes.[133]

The northern region has the highest infant, child, and maternal mortality and the lowest life expectancy; it also has the highest incidence of poverty and the poorest level of medical services. Many ethnic minority communities do not value social services; providers often have little understanding of their needs or values, and the quality of services in isolated areas with large ethnic populations is very low.[134]

The Participatory Poverty Assessment concludes that most poor villages have no access to a health centre. But even when there is one, there are two major problems: (1) too few medicines, or none at all and (2) language problems, that is, villagers and health personnel cannot communicate, with the result that the villagers do not visit the centre and health workers do no outreach work, which entails visiting the villagers in their homes.[135] There is no systematic process in place that will inform health workers of cultural factors, so decisions that affect the lives of the upland minorities are made almost entirely by persons with no training in the social sciences; hence these decisions are Lao-centric.[136]

The health sector is critically under-funded. Following the Asian financial crisis and the macro-economic instability in Laos, the government's budget allocation for health contracted sharply to just 4.7 per cent in 1998–1999. This was equivalent to little more than 1 per cent of the

[133] CPC/NSC, LECS 1997/98.

[134] ADB, Health and Education Needs of Ethnic Minorities in the Greater Mekong Sub-region, 2000.

[135] PPA, p 114.

[136] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002, p 68.

GDP, which is among the lowest levels in Asia.[137] Health care financing from all sources in Laos, including government subsidies, donor assistance, and household payments, was about USD 11.80 in 1999–2000.[138] Ten per cent of health care financing comes from Laotian government sources, 35 per cent from donor sources, and 55 per cent from household expenditure. An analysis of five provinces found that the total planned expenditures for 1999–2000 was one-third of the level for 1997–1998.[139] Since 1995, the population has increased by more than 15 per cent, yet government expenditures for the health sector have fallen in real terms by 20 per cent. Hyperinflation in 1998–1999 cut real wages in the health sector by more than half and salaries are still substantially below pre-1997 levels. The government plans to increase health expenditures to 7 per cent in 2002–2003,[140] but the actual outcome of this is yet to be seen. The Global Fund to Fight AIDS, Tuberculosis, and Malaria has approved funding to Laos.

Health services and drugs have been subject to patient fees in government facilities since 1995. Revolving drug funds have been established, currently covering about 11 per cent of villages. The policy to provide government subsidies for poor patients has not been systematically applied. The cost of drugs, health services, and transport remain insurmountable barriers for many of the poor and disadvantaged.

The key documents related to policy and planning for the health sector are the "National Socio-Economic Development Plan 2001–2005", "Health Strategy up to the Year 2020", and the "Lao Health Master Planning Study (2001–2002)". In addition, the government has prepared a draft "National Poverty Eradication Plan" for the health sector. The goals in these different documents are currently being harmonised. Laos is also a signatory to the Millennium Development Goals (MDGs) and the process of harmonising the MDGs with the Laotian government goals will be undertaken in 2003, as will the development of an MDG report.[141]

The general goal of the government is to create equitable access to health services by 2020. The strategic focus will be on development of preventive care through the primary health care system. The government's priority for the health sector, as seen from a poverty alleviation perspective, is to address the main weakness in the health care system, namely the human resources. The people living in remote areas and isolated ethnic groups have been identified as those for whom services are most needed. The issue of staffing of peripheral health facilities will be given high priority. Other government priorities consist of renovation and improvement of existing health care facilities, strengthening of the financing system, improvement of the legal and regulatory framework, and clean water for all.[142] Improved sector-wide co-ordination of the health sector is mentioned as a high priority.[143]

[137] Lao PDR Public Expenditure Review, 2002

[138] MOH and JICA, The Study on Improvement of Health and Medical Service in Lao PDR, Lao Health Master Planning Study, Progress Report I, 2001.

[139] ADB, Provincial Health Budgets and Expenditures, 2000.

[140] CPC, Public Investment Plan for 2001–2005.

[141] Situation analysis, WHO, 2003.

[142] I-PRSP, 2001; Government of Lao PDR, Fighting Poverty through Human Resource Development, Report to 7th RTM, 2000; MoH, Health Strategy up to the year 2020.

[143] MOH, Lao Health Master Planning Study, 2002.

In view of current developments, it is unlikely that Laos will reach its millennium health targets. If the health situation is to improve, health expenditures need to rise considerably. It is essential that health expenditures are used more efficiently and are more equitable targeted. Priority should be given to improving access to basic health services for the upland population. The imbalance between recurrent and capital expenditure in the public health budget needs to be addressed.

# HIV/AIDS analysis[144]

Among the Asian countries faced with the possibility of an HIV epidemic, the Lao PDR occupies a precarious position. Sharing borders with countries that are battling HIV in epidemic proportions, especially Thailand, Cambodia, Yunnan (China), and Myanmar, Laos nevertheless experiences a low rate of 0.9 per cent HIV infection, even among social groups usually considered as being at high risk. The country is thus in a mode of heightened vigilance, aware of the ominous prospect of a disastrous epidemic. As the potential for international trade increases and overland highway routes open up to connect with surrounding countries, the probability of HIV being introduced through migration and the mobility of populations in the hub of the Lao PDR is increasing as well. Villages and townships that were previously isolated to both the virus and to HIV intervention efforts are now more vulnerable to its spread than ever before.

By the year 2001, 932 people out of 84,137 blood tests have tested positive. UNAIDS estimates the prevalence of HIV to be 0.05 per cent among the general population. However, it should be noted that HIV/AIDS surveillance has just begun and the figures are based on a limited sample. The highest prevalence occurs among males aged 20–29, with heterosexual intercourse identified as the main mode of transmission. Awareness of HIV/AIDS is limited. Thirty-one per cent of women (urban 7%, rural 36%) and 25 per cent of young people between 15 and 25 have never heard of HIV/AIDS. There is evidence that the prevalence of sexually transmitted infections and reproductive tracked infections is high and increasing.

The national HIV/AIDS plan 2002–2005 provides a framework for a multi-sectoral response to HIV/AIDS at central, provincial, district, and community levels and the development of multi-sectoral plans involving all sectors. However, the implementation of the multi-sectoral programme is in its infancy. A number of key line ministries and partners are not yet involved. Several provinces have only recently organised committees on the control of AIDS. Most of the staff responsible for the

[144] Sources used for this section: Government of Lao PDR, HIV/AIDS Policy, 2001; Ministry of Health, Behavioral Surveillance Survey, 2001; Ministry of Health, Country Proposal Prevention and Control of HIV/AIDS/STI, TB and Malaria in Lao PDR; NCCA, Country Report on HIV/AIDS, 2001; NCCA/UNAIDS, HIV/AIDS Country profile; UNICEF, HIV/AIDS in Lao PDR–Background and UNICEF Response, 2000.

multi-sectoral programme are newly assigned and have limited experience in HIV/AIDS prevention work. The government approved a HIV/AIDS policy in 2001.

The Lao PDR is a low prevalence HIV/AIDS country, and the government seems committed to maintaining this status. To achieve this, a number of challenges need to be tackled because the reality is that Laos currently faces more urgent and immediate health crises. One challenge is to convince people that a currently invisible virus that has the potential to kill people sometime in the future requires the same attention as other health issues such as malaria or diarrhoea. Very few people have met someone who is aware of having HIV, or even knows of anyone who has developed AIDS. Many view HIV/AIDS as an outside problem. Such attitudes are perpetuated by official denials of certain risk behaviour. Although there is an agreement on the multi-sectoral approach, the government has no tradition of multi-sectoral co-operation. Health services throughout the country need to be strengthened in terms of the facilities available and the quality and quantity of the services provided, particularly concerning treatment of sexually transmitted infections. The Lao PDR also needs to develop an effective HIV/AIDS policy to handle the ever-changing nature of the epidemic in the country. Strengthened capacity in planning, implementing, and managing HIV/AIDS interventions in organisations already stretched by competing demands is another challenge. Yet another challenge is to effectively reach the bulk of the population living in rural areas and in particular the ethnic minority groups in an environment where TV, radio, and printed media are inaccessible. There is also a need to incorporate care and support messages and to address discrimination against people with HIV/AIDS. To find the most appropriate ways to affect the behaviour of the most vulnerable people, in-depth qualitative research on attitudes related to sexual behaviour, gender relations, and so on is needed.

# Rural Development – The Key to Poverty Reduction

## Agriculture

Laos is one of the least urbanised and least industrialised countries in Asia, and the majority of the Laotian population is engaged in rural and natural resource-based occupations, mostly on a self-employed basis. Around 80 per cent of the population—some 4 million people—live outside cities and derive their livelihood from agriculture and ancillary occupations (fishery and forestry).[145] The contribution of agriculture (including forestry and fishery) to the GDP is around 52 per cent (compared to 58% in 1992). Crop production dominates the rural production systems, but both fishery and livestock are important, contributing about 37 per cent of the value of total agricultural production. For people with very small land holdings or landless people, the relative share of aquatic products is more important. Forestry's share is 11 per cent.[146]

Most agricultural production takes place under two different farming systems.[147] The upland dry rice-based rotational (shifting) production system and the lowland paddy-based permanent production system. Rice is by far the dominant crop in both systems and is cultivated on 80 per cent of the cropped area.[148] When rice production reached 2.2 million tonnes in 2000, the government declared the country self-sufficient in rice production. Rice production, which represents around 85 per cent of the country's crop production, is normally combined with ancillary occupations such as fishing. Subsistence farming dominates agricultural production, even in the lowlands. Rural households tend to apply a multi-livelihood or multiproduction strategy, which typically involves a mixture of direct subsistence and income earning activities. To cope with multiple environmental and economic uncertainties, most rural households engage in a wide variety of on-farm and off-farm activities, combining hunting and gathering with agriculture, horticulture, animal husbandry, fishing, and forestry to piece together an adequate living. This is particularly common in the uplands and among ethnic minorities. More "modern" forms of contract-based cash crop production systems (cotton, etc.) have made their entry into Laos as well, yet on a limited

[145] NSC, Agricultural Census, 1999.

[146] UNEP, State of the Environment, Lao PDR 2001.

[147] In the Strategic Vision for the Agricultural Sector, the government identifies six farming systems, each including different combinations of shifting and permanent production systems.

[148] UNDP, Human Development Report 2001.

scale. Most rice is produced for home consumption. The role of fish and other aquatic resources tends to be forgotten in the analysis of rural livelihood strategies and opportunities. Recent figures put the production of fish and other living aquatic resources at 133,000 tonnes/year, compared to earlier common estimates of around 30,000 tonnes/year).[149]

The growth in lowland agricultural production over the past decade has been impressive, even though cultivation is rather extensive in nature. Only 5 per cent of the permanent agricultural land yields more than one crop per year. Land and labour are the main inputs in agricultural production. Only 30 per cent use improved varieties of rice and even fewer farmers used chemical fertilisers.[150] The farmers have responded positively to the opportunities created by deregulation of the market. Agricultural growth and the accompanying growth in farm income have taken three forms: an increase in area devoted to lowland paddy cultivation, an increase in irrigation on the plains, and an increase in cultivation of higher yield crops such as vegetables and beans. Growth has been both extensive and intensive in nature. However, the relatively modest increases in yield reflect the fact that the increases in production have to a lesser extent been due to increased use of cash inputs.[151] Production under upland shifting cultivation systems, on the other hand, suffers from declining productivity, which in turn reduces self-sufficiency in rice. The introduction of new crops and alternative occupations cannot compensate for the loss in rice production (and income from illegal poppy cultivation). There are several reasons for falling production. One is increasing soil degradation due to shorter rotation cycles, which in turn is a result of the implementation of the land allocation policy that does not give sufficient land for sustainable shifting cultivation. The growing population in the uplands may also be a factor, but statistics in this area are lacking.

Although Laos is one of the least densely populated countries in the region, agricultural land is by no means abundant. Only 10 per cent of the land is considered to be suitable for (permanent) agriculture activities.[152] The average holding in 1999 was not more than 1.6 hectares, of which only 1.2 were cultivated. The farm population per cultivated area was 4.8 persons per hectare and the labour/land ratio was 2.2 workers per hectare. Although there is little landlessness in Laos as yet, the agricultural census came to the conclusion that 36 per cent of all farm holdings held less than one hectare of land in 1988.[153] The percentage is likely to have increased since then. Given the large average household size and rather extensive production system prevalent in Laos, this is a matter of concern. Indeed, production for personal consumption accounts for a smaller share of consumption by the poorest quintile of the population than among the somewhat less poor. It is also an indication of the importance of "open access" resources such as fish, frogs, and so on.

While land in Laos technically belongs to the 'national community' represented by the state[154], the rights of individuals to use, transfer, and

[149] Mekong River Commission Fisheries Program, estimate (1999–2000).

[150] NSC, Agricultural census.

[151] Ronnås, Paper on selective development issues in Lao PDR.

[152] UNEP, State of the Environment in Lao PDR, 2001.

[153] NSC, Agricultural census.

[154] Constitution, Article 14.

inherit such property are ensured.[155] Most agricultural land on the plains is now operated under owner-like tenure systems.[156] This policy provides a basis for a land market, both in terms of renting and trading in land. In the uplands, the tenure system is more diverse but is generally based on customary rights. A process to regularise tenure conditions through allocation of land to upland villages is underway.

The political intentions with regard to agricultural and rural development are found in different policy documents. In 1991, the 4th Party Congress stressed the importance of agriculture and forestry in the economy, calling it "the number one battle field". In 1994, the 5th Congress stated that

> Rural development is the identification and utilisation of natural and social potential of the rural areas, mobilising the sense of ownership of the people of all ethnic groups in order to shift from traditional ways of living to the new ways which are in accordance with the guidelines for the improvement of people's living conditions.

In 1991, the 7th Congress stated that "the central task in economic development in the years ahead is to shift from nature-based to goods production economy by focusing on integrated rural development". Reference is also made to implementation of the policy to cease slash and burn cultivation, to reorganising sedentary livelihood for people, and to resettlement.[157]

Political intentions are further articulated in a series of government policy and planning documents that have emerged over the last 5 years. A Strategic Vision for Agricultural Sector Development appeared in 1999, and a Strategic Vision for Integrated Watershed Management in 2002. A National Forest Strategy 2020 is under elaboration. The legal and regulatory framework has been addressed through promulgation of the Forest Law in 1996, the Land Law in 1997, and the Agricultural Law in 1998. These legal instruments have been supplemented by different decrees.

Policy intentions have been operationalised in strategies and programmes. A National Rural Development Programme was approved in 1998 and a Master Plan on Agricultural Development in 2001. A Balanced Approach to Opium Elimination Strategy was issued in 1999. To oversee and to ensure inter-sector co-ordination, the government established a Leading Committee for Rural Development at the Prime Minister's Office. It was abolished in 2002 when the responsibility for co-ordinating rural development was transferred to the Ministry of Agriculture and Forestry.

There are a number of common themes running through the documents. One is the emphasis on commercialisation and market-driven development. The role of the government is thus to create an enabling environment for the private sector through deregulation and liberalisation of the market.[158] Another theme is the emphasis on food security.

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[155] ibid., Article15.

[156] Land Law, Articles 18 and 22.

[157] Political Report presented at the 7th Party Congress.

[158] I-PRSP, Chapter 5.

Food security is seen as the *sine qua non* to poverty reduction and the purpose of the agricultural policy is to support farmers' livelihood approaches with the view to ensure food security.[159]

The upland–lowland development divide is addressed mostly in general terms, if at all. In the I-PRSP, it is mentioned that the agricultural strategy shall ensure "equitable development for ethnic minorities".[160] The Strategic Vision is most concrete and envisages, perhaps for the first time, a dual approach to development. In the plains along the Mekong corridor, development shall be market driven with a focus on increased productivity and diversification. The introduction of higher value crops would be encouraged, and remaining market restrictions removed. In the uplands, the government would have to take a more active role due to limited market penetration, the remoteness of settlements, poor credit and capital accessibility, and the high level of poverty. The focus would be on transforming farming systems based on shifting cultivation away from "low-input", "low-output" systems into higher productivity production systems and encouraging expansion of the market.

A common but more controversial theme is the creation of focal sites ostentatiously as instruments for enhanced service delivery and for alleviation of poverty in remote areas. Focal sites are defined as "rural areas in which the government concentrates its development efforts to alleviate poverty among its inhabitants".[161] In the I-PRSP, it is seen as a "corner stone for poverty alleviation in rural areas". The concept is linked to the policy to "consolidate" upland villages. The documents are less explicit as to what village consolidation really entails, other than that it is considered as "the most cost-effective way of making development services available to scattered and remote communities that would otherwise not be reached with the limited resources available".[162] Among government officials, consolidation is regularly interpreted as relocation or resettlement.[163]

The village consolidation element is again interlocked with the policy related to shifting cultivation. The swidden farming system practised in the uplands has long been looked on with suspicion by the political leadership and government officials, even though it has proved to be a very sustainable production system.[164] Phasing out shifting cultivation has been on the development agenda of the government for some time. In the report from the 7th Party Congress, abolition of shifting cultivation was included as one of its National Development Priorities. The 7th Congress also suggested concrete targets for elimination of shifting cultivation.[165] In the Strategic Vision, it is suggested that the aim is to "stabilise shifting cultivation at a basic level by 2003 in favour of more stable and productive agricultural methods and to sedentarise agriculture in the uplands".

[159] ibid., Chapter 3.

[160] I-PRSP, Chapter 5.

[161] Focal Site Strategy for 1998– 2000.

[162] Jerve, February 2001.

[163] MAF, Village Land Use and Forest Management for Poverty alleviation, discussion papers prepared for Donor Consultations on the 2020 Forest Strategy.

[164] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002.

[165] 7th Party Congress, Political Report, March 2001.

The shifting cultivation policy is again linked to yet another development theme, that of land allocation. Land allocation in the uplands is clearly used as an instrument for reducing access to land for shifting cultivation, thereby forcing people out of the system.

The potential for further increases in agricultural production is considerable since agriculture including livestock husbandry in Laos is still rather extensive. It is believed that the return from even modest investments in more intensive cultivation and in improved veterinary services would be considerable. The broader vision should also consider fish and fisheries products, in terms of sustaining production both for national consumption and for the larger markets available in neighbouring countries. Both development in aquaculture and management of wild resources provide important alternatives. The more secured land tenure regime that the implementation of the land allocation programme would promise gives the farmers powerful incentives to invest in land improvements, at least on the plains. There is, however, a need not only to intensify but also to diversify agricultural production. Glutinous rice, which is the staple product at present, probably has only a limited export market. Further expansion of the agricultural sector most likely needs to be export oriented. This will require introduction of new and hopefully higher value crops. Laos' agriculture is still using few agrochemicals. This could well give Laotian agricultural products an international advantage in the market niche for ecological products, while at the same time help maintain the quality and quantity of the abundant living aquatic resources.

The approach to further agricultural development in the Mekong corridor seems sensible enough. The role of the public sector would be to provide an enabling environment and rule of law, but refrain from interfering in day-to-day activities. Part of the policy for the government to step back is to hand over the responsibility of management of the irrigation schemes to farmers groups.[166] However, the process is very slow and less than 500 out of nearly 20,000 schemes have been transferred.

Although the government has introduced a number of policies that have provided incentives to increase agricultural production, more will need to be done. The rural financing system is poorly developed, if functioning at all. A functional agricultural finance system including suitable micro-finance arrangements is a precondition for the further commercialisation of agriculture.

However, poverty reduction cannot be achieved unless the challenges represented by the upland production systems are addressed. Whereas the percentage of households below the poverty line had hardly changed at all between 1986 and 1993 and between1994 and 1998, in the uplands it fell by almost 30 per cent in the Mekong corridor.[167] According to people's own assessments, the primary causes of poverty are land problems, lack of money for investments, livestock disease, pests, and natural disasters. Remoteness and inaccessibility are obviously part of the problem. It is both difficult and costly to provide public services such as education, health, agricultural extension, and veterinarian support. The

[166] Prime Minister's order 26/98.

[167] MAF, Discussion papers on village Land Use and Forest Management for Poverty Alleviation, op cit.

situation is exacerbated by cultural differences between the lowland population, which dominates public services, and the upland population.

One major reason for increased hardship in the uplands is misconceived or badly implemented policies. Two interlinked policies appear to have been—more than any other policy—detrimental to the livelihood of the people in the uplands. One is the land allocation policy and the second is the policy to stabilise shifting cultivation. The upland population across the country considers the land allocation policy to be the major factor behind the growing hardship.[168] It is, however, perhaps not so much the land allocation *per se* that is the problem but the way land is allocated. Far too little has been allocated for shifting cultivation, which means shortened rotation periods. This in turn results in falling soil fertility and lower productivity. The shorter rotation periods are also an important factor behind the growing problems with pests and particularly rats, which is cited as one example of increasing hardship in the uplands. To compensate for reduced self-sufficiency in rice and other crops, the upland households are forced to overexploit wild forest resources, both for their own consumption and as a source of cash income. The farmers become locked in a vicious circle of over-exploitation of the natural resource base upon which their well-being depends. Allocation of insufficient land for rotational shifting cultivation in the uplands is considered by some to be deliberate and part of the strategy to gradually abolish shifting cultivation. The government regards shifting cultivation to be an unsustainable land use practice and has declared its intention to stop the spread of the practice and encourage more stable and productive agricultural methods, including more sustainable rotational land use systems.[169] This view has been fiercely challenged by many scholars who contend that shifting cultivation is both a highly efficient and at the same time sustainable farming system given the natural conditions in the uplands and that sufficient land for rotation is made available.[170] It is probably true that what was originally intended was to abolish *pioneering* and not rotational shifting cultivation. This is, however, not the way the policy is implemented. What the provinces and districts reportedly are doing is to set actual targets for reduction in the area used for shifting cultivation.

This ties into a third policy—the focal site approach—which is regarded as the centre of the government's rural development programme.[171] No deliberate mention of village consolidation or resettlement in this context is made, since this policy was thoroughly discredited in the past. Yet, it appears that relocation of villages continues to be the motive behind the focal site approach, in the guise of village consolidation. Arbitrary figures of 50–60 households are being promoted by many provinces independently as the minimum number necessary for constituting a village.[172]

[168] PPA.

[169] Lao PDR, The Government's Strategic Vision for the Agricultural Sector, December 1999.

[170] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002.

[171] I-PRSP.

[172] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002.

It has been suggested that the problem of rural poverty is ultimately rooted in the failure or weakness of rural livelihood systems. Any serious effort to alleviate poverty must eventually focus on finding ways to improve and sustain rural livelihoods.[173] The major policy elements aimed at poverty alleviation—abolition of shifting cultivation, focal point approach, and land allocation—appear to do the opposite, that is to further alienate rural livelihood systems. As an example, what the policy to gradually eliminate shifting cultivation means in reality is that the very basis of upland people's livelihood—upland rice cultivation—is removed. It will be impossible to find enough flat land in the uplands to replace upland rice with wet rice cultivation. Similarly, the design of the focal site policy may not include forced relocation of villages or involuntary resettlement. But several studies have shown that the process of village consolidation has contained elements of coercion. The entire process also suffers from a lack of transparency and all that good government means. It is strongly felt that villagers' rights have been seriously compromised.

In response to criticism of the focal site policy, the government has elaborated an Area-Based Conservation and Development of Livelihood Systems Approach.[174] The approach certainly embodies many aspects of the focal site strategy. But there are significant differences. Key elements are that the approach deals with the full complexity of the upland livelihood systems; it allows for spatial variation to deal with diversity in different local situations, and it allows increased participation with more flexibility to establish partnership.[175] The question is how this approach accords with the focal site, village consolidation, and elimination of shifting cultivation policies.

Summarising the above, it is clear that the upland population in the past has neither contributed much to the agricultural growth experienced by the country in the last decade nor benefited from it. The higher revenues generated from larger production have not found their way to the uplands.

The agriculture budget amounts to about 8–10 per cent of the national budget. To this may be added the portions of budget lines from other ministries—education, health, and so on—that are allocated to rural areas. In recent years, public investment in the irrigation sector has been 40–50 per cent of the total public investment within the agricultural and forestry sectors. Although data are lacking, there are compelling reasons to believe that the upland rural population has received far less than their allotted share of the government's budgeted expenditure for agricultural development. Expenditures were even more skewed by the end of the 1990s when the government decided to allocate money from the budget to the massive irrigation systems in the Mekong corridor.

## Forestry Resources and Development

Despite considerable deforestation, Laos is still one of the countries in the region with the highest percentage of natural forests in relation to

[173] Raintree, John and Soydara, V., Human Ecology and Rural Livelihoods.

[174] MAF, Strategic Vision for the Agricultural Sector.

[175] ibid.

total land area. Deforestation in Laos continues, despite efforts to stall the trend. The government maintains that the forests cover 47 per cent of the land area. A recent analysis of forest cover in Laos based on new satellite images concluded that forest cover fell from 49 per cent in 1982 to 47 per cent in 1990 to 41.4 per cent in 2002. Deforestation has accelerated in the last 10 years. In addition, remaining forests are more degraded and fragmented than before.[176] In macro-economic terms, the forest sector contributes some 7–10 per cent to the Lao GDP and comprises around 34 per cent of total export value. Forest royalties as a share of the government's total revenues was 20 per cent in the mid-1990s but fell to 5 per cent in 2000.

The Forest Law classifies forest land into five types: production forests, conservation forests, protection forests, regeneration forests, and degraded forests. Each category has specific characteristics and management requirements and serves different purposes. Peoples' access to the forest varies according to type. Production forests are estimated to cover 2.3 million hectares or about 10 per cent of the total land area.[177] The role of a production forest is to provide the wood processing industry with raw material. Commercial logging is in principle only permitted in designated production forest areas (and in areas designated for infrastructure development, primarily hydropower projects and roads). A condition for commercial logging is that the area is under an approved forest management plan. Such plans rarely exist,[178] and it is assumed that logging approval obtained from local or central government authorities is granted in violation of the law. In addition, unauthorised logging—carried out with or without the knowledge of the authorities—is obviously illegal. Weaknesses in the enforcement of laws and regulations mean that illegal logging is not punished in court.

Logging is based on a complex system of quotas and permissions. It is by now well documented that the public allocation of logging rights has managed to guarantee neither long-term sustainability nor optimal economic return for the country or the local community. The system suffers from a lack of clear procedures, poor accountability, poor predictability, lack of transparency, and short-sightedness. It also suffers from undue interventions by politicians and vested interests. Decisions on logging quotas are not based on sustainable forest management principles but rather on the need to supply wood industries with raw material (and the government with budget revenues).[179] The system has contributed to the deforestation and degradation of the forests, the latter not the least due to the system of targeting high grade, high value, and large piece size species.[180] Recently, the government introduced a competitive log sale to replace the present quota system.[181] It is not known how the new system works. Logging in areas designated for infrastructure devel-

[176] Jozsef Fidloczky, Preliminary Result of Comparative Study on Forest/Vegetation Cover and Land Use in Lao PDR, Second Edition, December 2002.

[177] MAF, Sustainable Forestry and Rural Development, from Concept to Practice, Paper presented at International Workshop on Forestry and Poverty Alleviation, December 2002.

[178] Management plans only exist in areas that have been covered by externally funded projects.

[179] This section is primarily based on WB, Sida, Ministry of Foreign Affairs, Government of Finland, Lao PDR Production Forestry Policy, Status and Issues for Dialogue, June 2001.

[180] Ibid.

[181] Prime Minister's Decree No. 59 on Sustainable Management of Production Forests, 2002.

opment may account for 60 per cent of the yearly quotas. However, permissions are often allocated well before a formal decision to use the land has been secured, and there are examples of projects being abandoned after logging has been completed. In the proposed Nam Theun 2 project area, selective logging has gone on for years, although no go-ahead for construction is yet near. After years of experimentation, model building, and policy dialogue, the government has agreed on a system for community management of production forests. It is built on the participation of local villagers in all aspects of forest management including decisions on the sale and sharing of revenues between villages and district administration.[182] Implementation of the policy began in 2003. The unique feature of this community forest model is that it is applied to natural forests.

The domestic wood processing industry in Laos is oversized. Installed operating capacity is twice forest growth. The operating capacity varies between 30 and 60 per cent due to a shortage of timber, electricity cuts, and poor management. Obsolete equipment means that the conversion factor in the sawmills is below 50 per cent. It is a concern that the government continues to encourage investments in wood industry plants without considering the supply of raw material. Logging has in the past been more or less monopolised by three SOEs under the Ministry of Defence. It is conventional wisdom that they have been operating independently with little regard for the regulatory system and in collusion with local administrations.

The system governing the management of production forests has been subject to intensive policy development in recent years. The government has signalled that it wants to reform the operational framework and abolish the most inadequate practices. Codes of conduct and guidelines for harvesting have been introduced. The virtual logging monopoly by the forest-based SOEs has been abolished, but unfortunately they have been replaced by hard to identify organisational entities.[183] The role of the provincial administration in distributing contracts and monitoring logging operations is unclear, and there is a severe lack of transparency in the system.

The policy of the government is to promote the export of processed or finished products rather than raw timber. They have already imposed a formal ban on the export of logs and sawn timber. Yet, up to 90 per cent of the sawn wood is exported without further value added, thus limiting the supply of raw material for further domestic processing. One problem is that the local secondary wood industry—comprising mostly cottage-based companies—is poorly developed and, with some notable exceptions, does not have the production capacity and technology to produce for the export market.[184]

There is good potential for tree plantations in Laos. Degraded forests that have the potential to become tree plantations cover approximately 10 million hectares nation wide. However, it is important to keep in mind

[182] PM Decree No. 59, 2002 and Noriyoshi Kitamura, Forest Policy Development in Lao PDR, extract of a forthcoming publication.

[183] Mikael Brenning, Contribution to the UNIDO Consolidation Report on Wood Processing Industry in Lao PDR, October 2002.

[184] UNIDO, A Comprehensive Framework to Foster Economic Initiative in Lao PDR, Strategies for Development of the Wood Processing Industry– Policy Improvement and Technology Transfer, October 2002.

that much of these forests are presently used by poor people, for example, for the collection of non-timber forest products (NTFP). The government is encouraging tree plantations to relieve pressures on natural forests. Villagers are allocated degraded forestland under the land allocation process and are offered tax incentives to plant and manage plantations. The government introduced comprehensive regulations for commercial tree plantations in 2001. Investors may lease state land for 50 years. New wood processing industries must use plantation timber, and they must also have their own plantations. Despite the incentives provided by the government, forest plantations have—with a few exceptions—been unsuccessful. In the entire country, plantations account for not more than 95,000 hectares or 0.4 per cent of the land area.[185]

There are 20 National Biodiversity Conservation Areas (NBCAs) and two corridors covering 3.3 million hectares. In addition, there are 201 provincial and district conservation areas covering 1.4 million hectares. Together, this area represents one-fifth of the total land area. Management of and definition of the rights of people living in the NBCAs are defined in laws and other regulatory instruments. There are 75 protection forests at the provincial and district level covering more than 500,000 hectares. The forests were set up to protect watersheds, catchment areas, water sources, and so on. The biogeographic design of the Lao Protected Area System is considered one of the best in the world. This, coupled with the government's policy of progressive participatory management, is a foundation of great hope for the conservation of biodiversity in the country. The challenge lies in how to move from promise to realisation.[186]

For the people living in or around forested areas, access to NTFPs is important. NTFPs include most typically food products such as game, fish, fruits, tubers, fibre and bark products, condiments, medical products, and inputs for chemical and perfume industries. NTFPs play a central role in the rural economy as they provide protein, material for housing construction and handicraft construction, traditional medicines, and so on. Much of what is collected is used domestically, but some is marketed for cash income. Prices and production of NTFPs undergo substantial annual fluctuations, but in 2001 commercial exploitation was worth some USD 15 million. The government encourages the export of processed goods, and the export of raw material is in principle banned. Yet, realising that the processing industry is in its infancy, the government does allow the export of raw products using a quota system that has the same problems as the logging quota system.[187] An unknown quantity of NTFPs collected is illegal, and some is most likely exported. The government's ability to enforce the ban on collection and export is very weak.[188] Almost all NTFPs are collected from the wild. Fallow land in the rotational shifting cultivation system is particularly rich in NTFPs. Efforts to domesticize some NTFPs are under way.

[185] Midas, SCC Natura, CIRTAD, Campa Lao, Tree Plantation for Livelihood Improvement Project, First draft, December 2002.

[186] William Robichaud, Clive W. Marsh, Sangthong Southammakoth, Sirivah Khhounthikoummane, Review of the National Protected Area System in Lao PDR, 2001.

[187] Joze Olivares, Consultants contribution to Discussion Paper on Sustainable Management of NTFPs, November 2002.

[188] IUCN, Wildlife Trade in Laos: the End of the Game, January 2001.

NTFPs are particularly important for poor people and ethnic minorities living in and around the forest. Food is the most important product, and wild food contributes to some 60–80 per cent of the non-rice consumption. The importance of NTFPs increases in times of emergencies. Similarly, NTFP sales may make up more than 50 per cent of villagers' income. A recent study indicated that of the NTFPs surveyed, fish and frogs together are the most important to villagers.[189]

No specific policy lays out guidelines for access to or utilisation of NTFPs. The Forest Law provides little guidance. Yet it does explicitly prohibit the use and trade of endangered wildlife and wildlife products. The Forest Law acknowledges that people in forest settlements have an almost unimpeded access to NTFPs for domestic needs. The law also recognises that some products are commercially traded and this trading is subject to the same rules and regulations as those of timber products. The top-down quota process is not linked to the village planning process, which means that the system undermines the self-determination of the villages. The Forestry Law recognises the distinction between customary and commercial use. Customary rights include sale of non-restricted NTFPs for commercial purposes under certain conditions. Such sale is tax exempted but causes problems with tax collection officials.[190]

The legal and regulatory framework has improved in the last half of the decade. However, the many different elements of the system may sometimes fail to correspond with each other, and there are inconsistencies. The present forestry strategy process is currently reviewing the legal and regulatory framework to identify gaps and inconsistencies. It will also review how enforcement is organised. Without this review, it may be too early to draw definite conclusions, but one observation can already be made, and that is that the enforcement and follow-up of cases when the laws have been broken is weak. There is also a persistent problem with corruption, and it is obvious that certain interests are above the law.

The regulatory system empowers various administrative entities at different levels to make decisions concerning forest-related matters such as quotas and land allocation. Lack of accountability and transparency makes it difficult for the general public to monitor government decisions and act when infringements are observed. The government's control over the media and public debate means that there is no room for a public discourse, which in turn hampers development.

There is no evidence that wood production has had a positive impact on rural poverty; rather it has had a negative effect by destroying the environment on which the poor depend.[191] The distributional implications of the forestry policy have clearly had an edge over the upland population, which is most dependent on the forest for its livelihood.

## Status of the Environment

Laos is predominantly an agrarian country. Industrial development is only in its infancy. Most economic activities are natural resource based. Compared to other countries in the sub-region, Laos is still relatively well endowed with natural resources. It has higher forest cover with higher

[189] Joost Foppes and Sounthone Ketphanh, DoF/IUCN, The Use of NTFPs in Lao PDR, 1997.

[190] Joze Olivares, op.cit.

[191] WB, Ministry of Foreign Affairs, Finland and Sida, Lao PDR Production Forestry Policy– Status and Issues for Dialogue, 2001.

forest area per person and more abundant water resources including ground water than most other countries in the region. In addition, Laos ranks as one of the biologically richest countries in the region. The country is highly mountainous, which creates wide variations in climate, soils, and ecological niches, leading to locally adapted and diverse biota. High endemism is partly a consequence of its geography and location. Many species can only be found in the wild in Laos. The country is home to 25 species of endangered mammals and birds.[192] After India, Laos has the largest diversity in indigenous rice.[193]

Because of the wealth of water resources and the topology in Laos, potential for developing hydro-electric power is great. Only 5 per cent of that potential is at present utilised. Laos has significant and mostly unexploited mineral resources, including deposits of tin, coal, iron, gold, gypsum, and zinc. In recent years, a number of investments in mineral extraction have materialised. Industrial development is still limited and mostly restricted to wood processing, textiles, and food processing. In the uplands the large number of unexploded ordnance and remnants of Agent Orange are considerable environmental hazards.

Environmental concerns in Laos are even more related to the unsustainable use of natural resources, which results in the continued degradation of resources rather than rapid industrialisation and urban migration. The pace of urbanisation is increasing, although from a low level. Deforestation and forest degradation are the most obvious manifestations of environmental imbalance. It is generally attributed to a number of factors such as expansion of commercial logging, forest clearing due to expansion of lowland agriculture, infrastructure development, and pioneering shifting cultivation.[194] Degradation of the upland environment occurs as a result of deforestation and degradation of forests. Due to shortened fallow periods in the areas of shifting cultivation there are signs of declining soil fertility and increasing problems with pests.

Other manifestations of forest degradation include depletion of the non-forest timber resource base and reduction in biodiversity. Both flora and fauna are under increasing threats. Many factors contribute to this sad state of affairs. That widespread and non-scientific logging and clearing of land for infrastructure development is destroying natural habitats is obvious. However, it is believed that increased commercialisation of and trade in wildlife and NTFPs is an even more serious threat to biodiversity. As demand and thereby prices increase, and as accessibility increases, unsustainable exploitation of the county's biodiversity continues and even increases. Neighbouring China with its huge market for medical wildlife and exotic food is the main destination but Vietnam and Thailand are also important markets. The highest volume of wildlife trade probably comes from turtles and pangolins, whose prized skins continue to be traded in large quantities despite a ban. The exploitation of wildlife has brought many species to the brink of extermination.[195] Falling productivity in the swidden farming systems probably also threatens the biodiversity as the farmers compensate the shortage of rice by

[192] UNEP, State of the Environment in Lao PDR, 2001.

[193] PPA.

[194] UNEP, State of the Environment in Lao PDR, 2001.

[195] IUCN, Wildlife Trade in Laos, the End of the Game, January 2001.

increasing their collection of wild food. In the lowlands, soil degradation is less obvious. The use of chemicals in agriculture is limited. Irrigation is increasing but is still not causing environmental hazards. Water is abundant, but poor management may eventually result in environmental stress. Poor sanitation, particularly in the uplands, is a potential environmental hazard.

Until recently, Laos physical and political isolation in combination with its low population density sheltered it from many of the forces that contribute to deterioration of the environment elsewhere. The country's environment has in a way benefited from restricted industrialisation and a low rate of urbanisation. Its environment, therefore, is still relatively healthy by current standards.[196] The world, though, seems to be catching up with Laos.

Industrial development continues. Rural urban migration, tourism, and industrial growth will contribute to increased waste production, both liquid and solid. More attention needs to be paid to solid waste disposal and wastewater treatment in the urban development sector. There is at present one wastewater treatment plant in the country. Solid waste collection services reach only an estimated 10 per cent of the urban population. Problems with waste and untreated water are the first problems to affect the poor people.[197] Industrial pollution, both air and water based, is still believed to be rather restricted. With higher industrial development, increasing risks of environmental problems are expected. The mining industry, which is expanding, can have particularly serious environmental implications unless mitigation efforts are begun early.

The government is not oblivious to the deteriorating base of natural resources and is also taking measures to ensure that industrial development occurs with consideration for the environment. Various actions have been taken to strengthen the environmental management system in the last 5 years. An Environment Protection Law was promulgated in 1999. In this connection, the mandate of Laos' environmental protection agency, Science Technology and Environment Agency (STEA), was broadened. A high level National Environment Committee was formed in 2002 to ensure better intra- ministerial co-ordination in environmental matters. It has yet to have its fist meeting (January 2004).[198] Regulations on compulsory Environment (Impact) Assessment were made in 2000. A system of Environmental Assessments at STEA, line agencies, and provinces is under development.

In response to international commitments to the environment, the government has acceded to the following instruments: UNFCC (in 1995), CCD (1996), CBD (1996), WHC (1987) and the Montreal Protocol (1998). A Mekong River Commission Agreement was signed in 1995.[199]

In 2000, a proposal for a National Environment Action Plan was elaborated. The government has still not approved it. STEA is working on a National Environment Strategy and Action Plan. A final proposal

[196] IDRC (International Development Research Center), Protecting Natural Resources: Bio access legislation in Laos, 1996.

[197] UNEP, State of the Environment Report, op. cit.

[198] Prime Minister's Decree No. 09/020, 2002.

[199] United Nations Framework Conventions on Climate Change (UNFCC, 1992), United Nations Convention to Combat Desertification (CCD, 1994), Convention on Biological Diversity (CBD, 1996), Convention Concerning the Protection of the World Cultural and Natural Heritage (WHC, 1972), and the Montreal Protocol on Substances that Deplete the Ozone Layer (1987).

will be submitted to the National Environment Committee in June 2003. Provincial environment action plans will thereafter be developed for seven provinces. The government is considering setting up an Environment Protection Fund. A decision has yet to be taken. A Biodiversity Country Report and a Biodiversity Strategy and Action Plan are under elaboration and will be ready during 2003.

Improving environmental education and awareness on a broad basis has been identified as an important task. A National Environment Strategy and Action Plan for Environmental Education and Awareness is planned to be issued by June 2003.

The country has established 20 NBCAs that cover 12–14 per cent of the land area. The goal was to "provide protection to 5–20 per cent of the original area of each habitat type within each bio-geographic sub-unit". While the area under protection is large, all NBCAs are in reality multiple-use areas. None are strictly national parks or wilderness reserves, as are found in some other countries. For more information, see the section on agricultural development.

Whereas the policy and the legal and regulatory framework for sustainable environment management has greatly improved in recent years, there still remain weaknesses in the system. As in other areas, there are big gaps between the formulation and implementation of policies and between the establishment and enforcement of rules and regulations. Management of the environmental protection system is decentralised to the provinces and districts. Experience has proved that it is difficult for STEA to ensure that policies and rules and regulations are followed at the local level. And whereas the technical and administrative competence at STEA has improved greatly with the help of externally funded projects, little has been done to enhance competence and capabilities at lower levels. It is a major challenge for the government to upgrade the qualifications of the staff and enhance operational capacities at all levels, in particular at the local level.

Environmental protection in Laos, as in other countries, has both economic and political dimensions. There are always vested interests that are prepared to go far to by-pass environmental scrutiny and the enforcement of rules and regulations. What has happened in the logging sector is a good example. Obvious breaches of the law have gone unnoticed for a long time. The country is actively seeking external investments for industrial development. But without strong political commitment, there will always be the risk that environmental concerns will be compromised so that the best possible conditions can be offered the investors, particularly if powerful national interests are at stake. In Laos it appears that the SOEs operate largely outside the environmental protection system.

Lack of transparency and poor accountability in the governance regime seriously compromise the ability to monitor the environment. Without more involvement of the general public and better public awareness, the environment will not be protected. According to experience from other countries, the government alone cannot ensure a sustainable environment. Civil society together with an autonomous research community play important roles in other countries by monitoring the actions of both the government and the private sector. Environmental NGOs have also proved to be highly efficient in creating public

awareness on environmental matters. It is believed that the environment would be benefited if the government allowed national environmental organisations to operate in the country.

An obvious weakness with the environment protection system is its dependence on external funding. The government allocates few resources to environment management. Without external funding, little would be achieved.

# Transport Sector Development

The population density in Laos is low, resulting in a road density that is low per square kilometre of land but high per capita of population compared with neighbouring countries. The mountainous terrain makes it both difficult and expensive to expand the road network.

In the past decade, the government has given the development of the road network high priority. From 1996 to 2000, 56 per cent of the Public Investment Programme was allocated to the transport sector, equivalent to about 7 per cent of GDP.[200] About USD 600 million has been invested in the rehabilitation of national and provincial road networks over the past decade. Extensive efforts have also been made to strengthen public and private agencies involved in the transport sector, and regulatory reforms have facilitated internal and cross-border movements. Despite investments and reforms, the road network remains under-developed, and existing roads are in poor condition. Only about 38 per cent of the national roads are considered to be in good or fair condition. Most of the provincial and district road networks consist of tracks that are impassable during the rainy season. Many villages have no access to social services and markets, even during the dry season. Moreover, roads are deteriorating at a faster rate than expected. For instance, roads rehabilitated 4–6 years ago require a level of repair that would normally be expected after 10 years. This is caused by several factors including frequent landslides, vehicle overloading, poor quality in design and construction, and neglected maintenance.[201] Rapid deterioration of road surfaces has affected travel time and transportation costs. Without any intervention, the degradation of the existing road network will accelerate in the next few years. In response, the government established a Road Maintenance Fund (RMF) in 2001. While planned to be self-sustaining through a special fuel levy and other user and access charges, the fund will be largely donor-financed for the foreseeable future. Cross-border impediments continue to hamper trade and transit traffic.

Despite rapid growth in overall traffic during the 1990s, average daily traffic (ADT) on the road system is light. On the national roads, ADT varies between 250 and 500 vehicles, while on most of the secondary roads, ADT is less than 50. The vehicle per person index is very low, even

[200] Lao PDR Public Expenditure Review, 2002.

[201] WB, Project Appraisal Document, Road Maintenance Project, 2001.

by developing country standards, at about 40 vehicles per 1,000 persons.[202] Road accident fatalities in the country increased by 245 per cent between 1991 and 1999.[203]

Local river transport is important in some areas, but transportation of freight by water now only accounts for 25 per cent compared to 50 per cent in the early 1990s. Improved road transportation has offered an alternative. The Lao PDR has no railway, but a shorter railway linkage between Vientiane and Nong Khai in Thailand is planned.

In the Lao PDR, 90 per cent of poverty is rural-based, hence the link between transport and poverty is predominantly a rural issue. There is a strong correlation between access to basic infrastructure services and the incidence of poverty.[204] The Northern Region has the poorest ranking in terms of road access. There are also indications that there is a much stronger correlation between poverty and access to all-weather roads than there is for access to either health or education services. The incidence of poverty in rural areas is higher for communities without road access. Of the rural population without access to roads, 50 per cent are poor. The very poor live in areas where infrastructure is especially scarce. The average distance to a main road for them is 15 kilometres, and 70 per cent have no access by road during the rainy session. The moderately poor also suffer acutely from limited access. In both cases, basic social services such as health and education are seriously substandard, and access to markets is very limited.

Travel times to health and education facilities vary widely among districts and provinces. In some cases it may take 1–3 days for villagers in remote areas to reach health facilities, and between 2–3 hours for children to reach the nearest primary school. Lack of all-year road access and the consistently poor provision of community facilities are considered to be among the main reasons districts and villages in remote areas lack fully-trained staff in health facilities.

The poor themselves name the lack of all-weather roads by which they can market their produce as the most important factor preventing economic growth. Interviews with the poor reveal that only issues regarding food security and livelihood in terms of rice production and livestock had a higher priority than roads and access to market as main solutions to poverty.[205] It should, however, also be noted that improved road access in an area increases inequality within and between villages in the area. Those people who have some assets will make more of the new opportunities that those who have none or very few. Poor rural families find it difficult to take advantage of the new opportunities.[206] Also of great concern is the probability that inequality between ethnic groups will increase.[207]

The government's overall goal of poverty reduction views the road system as critical to national and regional integration. The government is striving to link the provincial capitals together to create an enabling environment for regional and international trade and commerce. After

[202] MCTPC/ADB, Road Infrastructure for Rural Development, 1999.

[203] ADB, Rural Access Roads Project, 2000.

[204] CPC/NSC, Poverty in Lao PDR during the 1990's, 2002.

[205] PPA.

[206] Bokeberg, Paper on Road Sector Development and Poverty Alleviation, 2002.

[207] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002.

rehabilitation of the main arterial roads, much of which has been completed, the next priority will be to strengthen provincial connections with the district and rural network. Providing essential transportation and communications infrastructure to the proportion of the population that does not have ready access to roads is among the highest priorities[208]. This will ensure that the benefits of arterial road improvements reach the rural population.

The government's 15-year strategy for the road sector includes the following key elements:

- Institutional capacity building to strengthen the ability to plan and manage the road sector.
- Road maintenance (the first priority will be maintenance of the all-weather road network; a road maintenance fund has been established and domestic funding will gradually replace donor funding).
- Road-use regulation to protect roads from deterioration though overweight vehicles.
- Protection of the environment and social equity, including implementation of resettlement and construction mitigation plans.
- Road safety.
- Establishment of a high level National Road Safety Council and introduction of road safety measures.
- Private sector participation.
- Strengthening of the domestic contracting industry to enable it to compete effectively for construction and maintenance projects.
- Community participation (involve local communities in the processes of road planning and construction, and in the maintenance of district and rural roads).[209]

Sub-regional transportation linkages, such as the East-West Corridor connecting Thailand, Laos, and Vietnam via Routes 8 and 9, are seen as potential economic corridors. It is anticipated that Laos landlocked status will gradually evolve to that of a land link.

The 5-year public investment programme 2000–2005[210] envisages a continuation of high levels of investment in the transportation sector. The imbalance between capital and recurrent expenditure will persist; despite the government's priority of road maintenance and rehabilitation, only approximately 13 per cent of the transportation budget over the next 5 years will be allocated to these areas. The expenditure emphasis will shift from an exclusive focus on national and provincial roads to include district and village roads. Current road investment is almost totally dependent on donor assistance. About 85 per cent of road investment is donor financed; government support for the sub-sector is largely in the form of counterpart funds. Continued high levels of investment in the transportation sector are only possible if heavily funded by the donor community and only sustainable if the donor community bears the lion's share of the cost of maintaining the roads.

[208] I-PRSP, 2001; Government of Lao PDR, Fighting Poverty through Human Resource Development, Report to 7th RTM, 2000.

[209] Government of Lao PDR, Strategic Directions for the Development of the Road Sector, 2000.

[210] CPC, Public Investment Plan for 2001–2005.

The NPEP for the transport sector has an overarching strategy in reducing poverty through the provision of an enabling, safe, and efficient transport sector. The NPEP has a link to the Road Sector Strategic Directive, which aims to enhance a maintainable road network nation wide, including rural access roads. A multi-sectoral approach has been mentioned an1d tries to hook into the programme, but it is not well reflected in transport planning. The NPEP is unclear regarding direct benefit to the rural poor; the programme is weakly prioritised and lacks a strategy for dealing with lower level roads, which comprise almost 70 per cent of the entire local road network that serves most of the rural poor. Employment creation that could contribute to poverty alleviation through labour-based techniques is mentioned but is not well reflected in the strategy. The balance between capital investment and recurrent expenditure is not adequately considered for the purpose of sustainability.[211]

In conclusion, improved road access in remote areas will unquestionably benefit the rural poor and is necessary to ensure the basic human rights to adequate health and education. Although the government's focus is slowly shifting to the rural road network, the government, as well as key donors, is likely to continue supporting economic growth through regional transport corridors, the national road network, and to some extent the provincial road network. Sustainable economic growth that at the same time reduces poverty will require a better balance of investments between different parts of the road network, including the rural road network. It will also require that both the government's resources and donor assistance to the transport sector are better balanced between maintenance and construction. Development of institutional capacity to manage the road system at the provincial level and below, including the development of sustainable road maintenance systems should be given priority.

[211] Ministry of Communication, Transport, Post and Construction, Lao PDR, World Bank, The Transport Sector, National Poverty Eradication Programme (NPEP), May 2003.

# The Energy Sector

Laos hydropower resources have the potential to contribute substantially to poverty reduction, provided that the revenues are used to benefit the poor. Electricity exports currently account for almost 30 per cent of total exports and constitute about 15 per cent of government revenues. Hydropower earnings are projected to increase considerably since only 3 per cent of the Lao PDR's hydropower potential has been exploited so far. If the proposed 1088 MW Nam Theun 2 project is launched as planned, it alone will boost government revenues by more than 5 per cent.

Less than 20 per cent of the rural population has electricity service, which is one of the factors limiting commercialisation and diversification of the economy. The incidence of poverty strongly correlates with the lack of electricity.[212] The government's goal is that 90 per cent of the population will have access to electricity by 2020. Given the high cost of rural electrification, this target seems overambitious.

Effective exploitation of hydropower resources will require fundamental changes in the institutional and regulatory framework. The government needs to re-evaluate its role in the power sector, focusing on the legal and regulatory framework and the hydropower development strategy. The commercialisation of Elecricite de Lao that began in the mid-1990s needs to be completed. In 2001, the government issued a Power Sector Policy Statement setting out the conditions for the beginning of a power sector reform, that would allow greater private sector participation.[213]

[212] Lao PDR Public Expenditure Review, 2002.

[213] Power Sector Policy Statement, Ministry of Industry and Handicraft, 2001.

# Use of and Trade in Illicit Drugs

Laos remains one of the world's major sources of opium. It is produced in the uplands—predominantly by ethnic minorities—and poppy cultivation is part of the traditional (swidden) farming systems. Part of the poppy is consumed locally, but most is probably traded for cash. The government is committed to eliminating poppy cultivation by the year 2005 and has established a Lao National Commission for Drug Control and Supervision. The production of poppy and the area of poppy cultivation are monitored annually by the government with the assistance of UNDCP.[214] According to UNDCP-sponsored estimates, the area under cultivation is in a declining trend. During the 2002 season, the survey estimated that around 14,000 hectares of opium poppy were under cultivation, a reduction by almost 50 per cent since 1998. The U.S. estimate is higher: 23,200 hectares. Luang Prabang and Huapanh provinces share about 45 per cent of the area under cultivation. The Lao government estimates the production potential at 112 tonnes (compared with a 180 tonne estimate by the U.S.). There are about 58,000 opium addicts in the country. This means that about 2 per cent of the population in the poppy growing provinces are addicts.[215] It is not believed that heroin is processed in the country.

Over the last few years, consumption of amphetamine-type stimulants (ATS) has increased dramatically. But whereas opium addiction is primarily a rural phenomenon and the average addict is a male between 40 and 50 years of age, ATS is primarily consumed in urban areas, by both male and female young adults. There is no estimate of total consumption of ATS, but it is believed that its use is rapidly increasing. Recent school surveys have indicated a prevalence of 14 per cent in the 17-year age group. Among the unemployed, out-of-school young adults, the rate is 46 per cent. It is believed that ATS abuse is becoming a potential vector in the spread of HIV/AIDS.[216]

The problem with ATS consumption was basically ignored by the authorities for a long time but has now become a major concern. The government has recently prepared a national programme to reduce

[214] The United States also monitors production using another method (satellite monitoring). The estimates vary between the two; the American estimates are normally higher.

[215] Lao PDR and UNDCP, Opium Survey 2002, August 2002 and US Southeast Asia Crop Estimates 2002.

[216] Lao PDR, Draft National Drug Demand Reduction Strategy in Lao PDR, November 2002.

demand. It focuses on information, prevention, and the treatment and rehabilitation of addicts. There is one treatment and rehabilitation centre in Vientiane, but the plan is to establish centres gradually in the provinces. Opium addicts are also offered treatment and rehabilitation, but the main focus is on offering other ways of generating income.

There is a link between opium addiction and poverty among the ethnic minorities.[217] On the other hand, poppy is one of the few cash crops available to the upland population. In addition, there is also strong international pressure on Laos to reduce the production of poppy and thus its supply to the international market. The government has responded positively to this request, and the eradication of opium cultivation by 2005 is one of the government's poverty reduction strategies.[218] The government is setting targets for reducing the area of land under poppy cultivation on a yearly basis. The main instrument is to encourage replacement of the poppy with other crops and to provide alternative income generation opportunities. These efforts do not always work well and may not result in reduced poverty since the cash income from replacement crops is not high considering the investment required. It appears also that in the name of opium eradication, human rights violations occur when villages are forced to relocate to areas that are easier to supervise.

The average ATS user does not necessarily belong to the poorest segment of the population. However, since the use of ATS is illegal, there is a risk that the addicts become stigmatised and engage in other risk behaviour such as commercial sex work.

It is obviously difficult to predict what is going to happen in a 5-year perspective with regard to illicit drugs. One thing, however, is clear: the target to eradicate opium production will not be met. It is also a risk that ATS consumption will continue to increase, in particular if the present high levels of unemployment among school leavers prevail. Unemployment is a breeding ground for drug use and trafficking. The government's new policy is reasonable, but the question is whether sufficient resources are going to be made available. In other countries, various private initiatives including some by NGOs supplement the efforts of the government. By permitting private initiatives in the area of information, treatment, and rehabilitation, the government could be aided in their efforts.

[217] See for example the report issued by CPC/NSC/ADB report by Jacques Lemoine, Wealth and Poverty: A Study of the Kim di Mun (Lantene) of the Nam Ma Valley, January 2003.

[218] I-PRSP, 2001.

# Human and Cultural Heritage

Laos can be proud of its cultural heritage, which includes a remarkable human diversity. There are more than 200 distinctive ethno-linguistic groups in Laos, which are conveniently grouped into four broad ethno-linguistic families. The Lao-Thai family represents about 60 per cent of the population. Each ethno-linguistic group has specific cultural beliefs and shares distinctive cultural values. The livelihood systems developed by the various ethnic-linguistic groups are examples of living cultures.[219] Religious beliefs are an important part of the culture because they provide a spiritual foundation for daily life. Although most Lao-Thais are (Therravada) Buddhists, large segments of the population are animists. There are also small groups of Christians.

With regard to immovable cultural heritage, Laos has some significant archaeological sites of world-wide acclaim, most prominently the Plain of Jars in Xiang Khouang province and the magnificent Wat Phou in Champasack province. In Lao Pako in Vientiane municipality, a team of Swedish archaeologists have found traces of a culture that dates back some 2,000 years. The many Buddhist temples constitute, otherwise, the most significant built landmarks in Laos. Together with the few museums, they are the major repositories of the images and historical artefacts that constitute the nation's movable heritage.[220] The old town of Luang Prabang (1985) and, more recently, Wat Phou (1991) have been included on the World Heritage List.

The cultural infrastructure is generally poorly developed and suffers from inadequate funding. There are two national and six small provincial museums. Mostly, they display permanent exhibitions. Much of the museums' material is in storage. The National Library in Vientiane is the national deposit library. There are also a number of branch libraries across the country. The country has no public cinema.

Laos has a rich tradition of classical music and dance. The National Library maintains a good selection of recordings of traditional music. The many traditional festivals form an integral part of the intangible heritage, as does the national cuisine. Traditional literature comprises a rich holding of religious and secular Lao palm leaf and sa paper manu-

[219] James R. Chamberlain and Panh Phomsombath, Poverty Alleviation for All, September 2002.

[220] AusHeritage & ASEAN-COCI, Cultural Heritage Management Profile for Lao PDR, Development of an ASEAN Regional Policy and Strategy for Cultural Heritage Management, an ASEAN-Australia Project, (undated).

scripts. A development project has allowed the government to ensure protection of a substantial number of these scripts. Modern fiction and non-fiction in the Lao language is nowadays limited. Much of the rich literature published during the previous regime was lost in the war.

The government officially promotes traditional Laotian culture and strives more and more to preserve the country's cultural heritage as an important instrument in nation building and social integration. Preservation of the culture of ethnic minorities is given particular emphasis in public statements.[221] The policy framework for promoting a national culture policy, however, is under-developed. A law to protect the National Culture and Natural Heritage was prepared in 1996 but has not been submitted to the National Assembly for promulgation. It was issued as a decree in 1997. The government is drafting a copyright law. Laos is—with the exception of the Convention Concerning the Protection of the World Cultural and Natural Heritage (World Heritage Convention)—not signatory to any of the international conventions on cultural heritage.

Limited financial resources are indeed constraining the government's effort in this domain. The authorities are almost totally dependent on external resources. It is with the help of externally funded projects that the government is able to protect and preserve the nation's cultural heritage, including the palm leaf manuscripts and world heritage sites. The development of the cultural "sector" is also suffering from inadequate education and research facilities.

Culture in the Laotian context is primarily seen as an instrument for social integration and nation building. It also has a political dimension. Hence the rhetoric around ethnic minority cultures. The focus is on highlighting and preserving (and to some extent further developing) what may be called Lao traditional culture. It is in this context the changing attitude to religion (Buddhism) may be seen. People are actively encouraged to participate in (Buddhist) religious ceremonies and festivals. The recent decision to raise a statue of the ancient Chao Fa Ngum may also be seen in this context.

Contrary to Western custom, culture is seldom considered an instrument for promoting intellectual capacity building or fostering public thought. Modern or contemporary literature—fiction as well as non-fiction—is sparse. According to reports, books were burned in 1975 when the new regime took over. Publishing of new literature is constrained for political and bureaucratic reasons. The government's heavy-handed control (censorship) of all published material prevents the development of modern literature, thereby hindering a vibrant intellectual debate. There are no independent publishing houses. Few new titles are therefore published each year, and the circulation of published material is extremely limited. The shortage of children's books is particularly serious. Modern film, dance, and art are simply not promoted or encouraged. Only two films have been produced in Laos since 1975. The only area where traditional culture is being renewed and taken as a point of departure for further development is in the art of weaving. This lead was taken by the private sector.

[221] A resolution was passed by the 5th Party Congress in 1991.

In many countries, it is the cultures of the minorities that are most at risk as society develops. This is probably also so in Laos. It is therefore heartening to note that the Laotian government has emphasised the preservation of minority cultures in various policy statements. However, this commitment is somewhat hollow, and there is a big difference between official policy statements and action. Whereas members of ethnic minorities are often invited to entertain foreign dignitaries and participate in national celebrations wearing their traditional colourful costumes, other government policies clearly work against the preservation of minority cultures. Examples are the policies on land allocation and shifting cultivation, which if implemented will seriously challenge the ability of the minorities to maintain their distinctive cultures. More serious is the policy of not allowing children to be taught in their mother tongues.

# Development Assistance and Donor Co-ordination

The dependency of Laos on foreign aid is strong, both in the balance of payments and in the budget. The Official Development Assistance (ODA) level in Laos is about 15 per cent of GDP. During the period 1997 to 2000, the ODA agreements fell from USD 363 million to USD 217 million, but recovered to reach 1997 levels in 2001.[222] In 2001, bilateral and multilateral aid accounted for similar shares of the total ODA. Japan is by far the largest bilateral donor followed by Germany, Sweden, France, and Australia. Remaining bilateral donors have limited support and representation in the Lao PDR; hence Laos is not "over-crowded" by donors. Among the multilateral donors, the Asian Development Bank (ADB) is by far the largest. The WB, the IMF, and the EU are expanding their co-operation with the Lao PDR. The transport sector is the largest recipient of support and receives approximately one-quarter of ODA, followed by the social sectors.

About three-quarters of capital expenditure come from ODA. One problem is that ODA-funded investments generate recurrent funding needs in the form of wages and salaries, materials, and maintenance costs. While investments have increased as a proportion of total expenditure, the recurrent to capital expenditure has declined in recent years. In the future, both donors and the government need to consider the implications of recurrent expenditure in ODA projects more seriously.

The main forum for aid co-ordination and management is the RTM Process. Meetings are lead by the Committee for Planning and Co-operation with support from UNDP. In early 2000, the government changed the timing of the RTM process from one meeting every 2 or 3 years to an on-going process of dialogue with development partners through regular sectoral or subject matter meetings. Initially, this proved successful, but the process has stalled in many areas in the last year and a half. The current RTM process has not lived up to the expectations of the development partners, and the important RTM meetings on the NPEP have in some cases been poorly prepared. The RTM meeting on Governance took place in April 2003, after more than 2 years of delay.

There is no SWAp in Laos. However, there are a number of sector co-ordination initiatives, most notably in the education sector.

[222] Foreign Aid Report 2000–2001, Committee for Planning and Co-operation, 2002.

# List of abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| ADT | Average Daily Traffic |
| AFTA | ASEAB Free Trade Area |
| ASEAN | Association of Southeast Asian Nations |
| ATS | Amphetamine Type Stimulants |
| CBD | Convention on Biological Diversity |
| CCC | Central Committee for Control |
| CCD | Convention to Combat Desertification |
| CEPT | Common Effective Preferential Tariff |
| CERD | Convention on the Elimination of All Forms of Racial Discrimination |
| CEDAW | Convention on the Elimination of All Forms of Discrimination Against Women |
| CPC | Committee for Planning and Cooperation |
| CRC | Convention on the Rights of the Child |
| DoF | Department of Forestry |
| DoP | Department of Planning |
| EBS | Ethnic Boarding Schools |
| EC | European Commission |
| EQUIP | Education Quality Improvement Project |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDG | Gender and Development Group |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| HIPC | Heavily Indebted Poor Countries |
| ICCPR | International Covenant on Civil and Political Rights |
| ICESCR | International Covenant on Economic, Social and Cultural Rights |
| IDRC | International Development Research Centre |
| IHCAR | The Division of International Health, Department of Public Health Science, Karolinska Institutet |
| ILO | The International Labour Organisation |
| IMF | The International Monetary Fund |
| IUCN | The World Conservation Union |

| | |
|---|---|
| JICA | Japan International Cooperation Agency |
| LECS | Lao Household Expenditure and Consumption Surveys |
| LDC | Least Developed Countries |
| MAF | Ministry of Agriculture and Forestry |
| MCTPC | Ministry of Communication, Transport, Post and Construction |
| MDG | Millennium Development Goals |
| MFN | Most-favoured-nation |
| MoE | Ministry of Education |
| MoH | Ministry of Health |
| NBCA | National Bio-Diversity Conservation Areas |
| NEM | New Economic Mechanism |
| NGO | Non Governmental Organisation |
| NPEP | National Poverty Reduction Programme |
| NSC | National Statistic Centre |
| NTFP | Non-Timber Forest Products |
| ODA | Overseas Development Assistance |
| PRSP | Poverty Reduction Strategy Paper |
| I-PRSP | Interim Poverty Reduction Strategy Paper |
| PPA | Participatory Poverty Assessment |
| RMF | Road Maintenance Fund |
| RTM | Round Table Meeting |
| SME | Small and medium scale enterprises |
| SOCB | State-Owned Commercial Banks |
| SOE | State-Owned Enterprises |
| STEA | Science Technology and Environment Agency |
| SWA | Sector Wide Approach |
| TA | Technical Assistance |
| TTC/TTS | Teacher Training Colleges / Schools |
| UNDCP | United Nations Drug Control Programme |

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