

The Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

*

Interim Poverty Reduction Strategy Paper

*

A Government Paper
Prepared for the Executive Boards of the
International Monetary Fund and the World Bank

March 20, 2001

Table of Contents

PREFACE.....	3
INTRODUCTION.....	5
1. National Development Objectives, Overall Strategy, and Poverty Reduction.....	5
2. The I-PRSP.....	7
PART ONE: POVERTY SITUATION IN THE LAO P.D.R.	7
Chapter 1: Poverty Situation in the Lao P.D.R.	7
Chapter 2: Perceived Determinants and Causes of Poverty, and Suggested Solutions.....	13
Chapter 3: Poverty Criteria for Monitoring at Household, Village, and District Level.....	14
Chapter 4: Social Indicators.....	15
Chapter 5: Macro-Economic Overview.....	17
Chapter 6: General Assessment.....	17
PART TWO : THE LAO P.D.R.'s POVERTY REDUCTION PLANNING, POLICY AND STRATEGY FRAMEWORK.....	20
Chapter 1: The National Planning Context	20
Chapter 2: Strategic Coherence Regarding Poverty Reduction	23
Chapter 3: Sectoral Priorities With Respect to Poverty Reduction	25
Chapter 4: Inter-Sectoral Priorities	27
<i>Rural Development</i>	27
<i>Macro-economic Priorities</i>	28
<i>Governance and Public Administration</i>	29
Chapter 5: Support Strategies	30
Chapter 6: Decentralisation	32
Summary Statement	33
PART THREE : PLANNED PRIORITIES REGARDING THE GOVERNMENT'S POVERTY REDUCTION STRATEGY	34
Chapter 1: The Five- Year Socio-Economic Development Plan 2001-2005	34
Chapter 2: The Medium-Term Expenditure Framework (2000-2003)	35
Chapter 3: The Public Investment Plan (PIP) 2001-2003	36
Chapter 4: Macro-Economic Framework	37
Chapter 5: Investment Priorities from a Poverty Alleviation Perspective.....	39
Chapter 6: Finalisation of the Poverty Alleviation Strategy.....	47
PART FOUR : CONSULTATION PROCESS FOR F-PRSP	48

PREFACE

This document sets out the Government's approach to poverty reduction and is a first step to developing a full Poverty Reduction Strategy Paper (F-PRSP).

The Government of the Lao People's Democratic Republic (Lao P.D.R.) has made the improvement of the living standards of its multi-ethnic population the essence of its development goal of exiting the group of Least Developed Countries (LDC) by the year 2020. To this end, the 6th Party Congress in 1996 identified *sustained growth with equity* as the main instrument for achieving the 2020 goal, and defined 8 *National Priority Programmes* as its main support.

The following 8 priority programmes serve as the major reference for the national planning system, and consequently for defining the national investment priorities: 1) food production, 2) commodity production, 3) stabilisation of shifting cultivation, 4) rural development 5) infrastructure development, 6) expansion of external economic relations and co-operation, 7) human resource development, and 8) services development. They also respond to three omnipresent, transcendent concerns; namely, achieving permanent food security, preserving the country's natural resource base, and developing the national human resource potential.

The Government has always stated that "the main focus of these 8 national priority programmes is directed towards eradication of mass poverty"¹. ***The objective of alleviating poverty has, indeed, been at the basis of every development effort undertaken by the Lao P.D.R. over the last 25 years. This commitment has not changed.*** It has been translated through many policy and strategy documents, and uppermost in the National Socio-Economic Development Plans (NSEDP).

The 1996-2000 NSEDP focus on poverty reduction, especially in the rural areas where most of the multi-ethnic population lives, and on the essential physical and social infrastructure and human resource development, has yielded relatively high economic growth rates, which despite the Asian financial crisis were maintained and resulted in a reduction in the national poverty level from 45 per cent of the population in 1992/93 to 38.6 per cent in 1997-98.²

The Government is currently preparing the NSEDP for the period 2001-2005, which will continue to focus on poverty alleviation, including through the following decisions and measures:

- ❖ the policy of decentralization, patiently prepared since 1996, in order to enhance participation and local ownership;
- ❖ the Rapid Poverty Assessments (RPAs) made in 1998 to know more about the population's perception of poverty;
- ❖ the preparation of longer-term vision documents, particularly for those sectors which are at the center of the Government's approach to poverty alleviation;
- ❖ the re-assessment of the macro-economic situation in the wake of the Asian financial crisis, and the elaboration of a strengthened Macro-economic Policy and Reform Framework;

¹ Government Report to the 6th RTM, 1997, e.g., p.3 and p. 28.

² According to the Lao Expenditure and Consumption Surveys (LECS) of 1992-93 and 1997/98.

- ❖ the undertaking, between March and October 2000, of an in-depth country-wide Participatory Poverty Assessments (PPA)³ in order to gain further insights into people's perception of poverty and the remedies proposed;
- ❖ the undertaking of sectoral action plans, based on the respective strategic vision documents, which will integrate the insights learned from the PPA;
- ❖ the identification of poverty criteria at the household, village, district and provincial levels, in view of the need for an appropriate poverty monitoring mechanism and, last but not least,
- ❖ the 7th Round Table Meeting (RTM), aiming at optimally integrating, on the basis of an institutionalised dialogue and exchange forum, national poverty alleviation development priorities and resource mobilisation needs.

The many preparations undertaken by the Government in view of a more focused approach to poverty alleviation for its NSEDP 2001-2005 have been integrated into the Government's Strategic Approach to Poverty Alleviation, presented in its Report to the 7th RTM placed under the theme of "Fighting Poverty Through Human Resource Development and People's Participation".

This document – the Interim Poverty Reduction Strategy Paper (I-PRSP)– represents a summary of the Government's strategic approach to poverty alleviation as presented in the Government's Report to the 7th RTM.

The required F-PRSP will be finalised by August 2002 as soon as: the NSEDP 2001-2005, focusing on a deepened approach to poverty alleviation, is approved by the National Assembly; the results from the PPA are analysed and translated into operational priorities through action plans, and the Government's monitoring system in place.

Between the I-PRSP and the F- PRSP, the Government intends to use its planning system as well as decentralisation to make the best use of available resources to further strengthen its participatory approach to poverty alleviation with the main stakeholders involved, especially at the provincial and district levels regarding the planning and monitoring of poverty alleviation activities, and the necessary concomitant capacity building.

In this document, the tentative process of workshops at central, provincial and district levels in view of finalising the required F-PRSP in due time will also be outlined in a broad way.

³ With important support from ADB.

INTRODUCTION

1. National Development Objectives, Overall Strategy, and Poverty Reduction

The aim of the Lao P.D.R. is “to quit once and for all the status of a least developed country by the year 2020”. Achieving this goal is synonymous with “eradication of mass poverty” by “ensuring economic growth with equity”, while “safeguarding the social, cultural, economic and political identity”.

Eight *National Socio-Economic Priority Programmes* have been devised to channel the Government’s development efforts in a focused way towards these objectives. These priority programmes serve as the major reference for the national planning system, and for defining the national investment priorities. These programmes are 1) food production, 2) commodity production, 3) stabilisation of shifting cultivation, 4) rural development 5) infrastructure development, 6) expansion of external economic relations and co-operation, 7) human resource development, and 8) services development.

These programmes also respond to three omnipresent, transcendent concerns of the Government; namely, achieving permanent food security, preserving the country’s natural resource base, and developing the national human resource potential.

The Government’s development efforts are captured through the National Socio-Economic Development Plans (NSEDP). All the NSEDPs are geared to improving in a sustainable way the living conditions of the Lao P.D.R.’s multi-ethnic population, i.e. poverty alleviation, and to help the country achieve its 2020 goal.

The objectives of the 1996-2000 NSEDPs aimed at (1) poverty reduction, especially in rural and multi-ethnic areas; (2) infrastructure development; and (3) human resource development. The general guidelines emphasised the need “to continue to build sectoral and regional economic structures along with socio-economic development and in conjunction with the preservation of the natural environment”, stating that “regional socio-economic development must be linked to the development of ethnic mountainous areas and the gradual reduction of the gap between urban, rural and mountainous areas.”

The above mentioned 8 priority programmes as well as the Government’s macro-economic priorities have been, and will continue to be, the main components for achieving the national development goals, and this in the context of the “stages” and “transitions” through which the Lao P.D.R. will gradually pass.

The stages must be understood as a logical sequence, but they are intertwined; their simultaneous development is to ensure the progressive transition from a subsistence-based, natural, rural economy to a production and services economy as the condition for advancing coherently towards the 2020 goal. The stages are essentially i) the implementation of the New Economic Mechanism (NEM)⁴ officially adopted in 1986, ii) the structural transformation and capacity building and iii) the creation and building up of the prerequisites for a people-centred participatory development.

The gradual but consequent pursuit of these objectives helped the Lao P.D.R. achieve a reasonably well functioning market-based economy, experiencing relatively high growth

⁴ Derived from two concepts *chin thanakaan mai* (‘new thinking’) and *kanpatihup setthakit* (‘reform economy’).

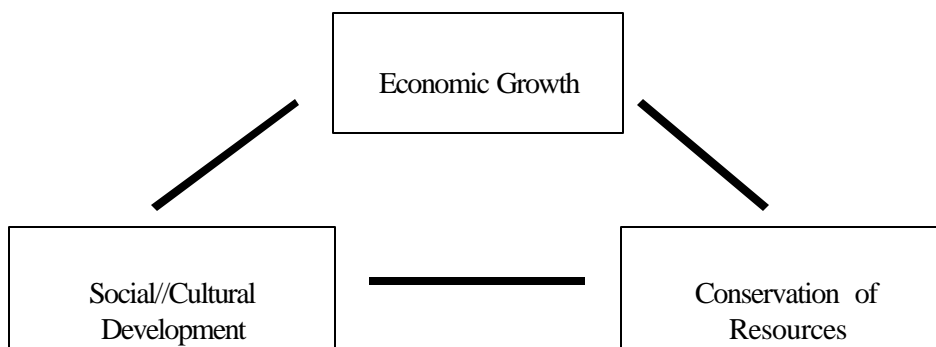
rates as well as an important level of physical and social infrastructure that contributes decisively to national integration and increased accessibility to those many areas which up to very recently had for most of the year been excluded from the national economy due to their inaccessibility.

At the same time, and despite the Asian financial crisis, the Government’s efforts have enabled to register some important achievements in the social field such, as the high vaccination rates covering 95 per cent of all villages, a marked increase in the literacy rates (from 60.2 per cent in 1995 to 70 per cent in 2000), the eradication of polio, and the reduction in child and maternity mortality⁵. As a result, the overall poverty level has declined from 45 per cent in 1992/1993 to 38.6 per cent in 1997/1998.

The Government of the Lao P.D.R. banks on economic growth with equity as the main pillar for poverty alleviation. This assumption is at the basis of the Government’s strategic approach to poverty alleviation as presented in its Report to the 7th RTM.

Based on experiences elsewhere and the lessons learned from dominant ideas in the past, where growth objectives superseded social/cultural development and were achieved at the expense of the conservation of natural resources, the Government of the Lao P.D.R. prefers to follow a harmonious “triangular”, mutually reinforcing approach to growth and development, as embodied in the notion of ‘growth with equity’:

Triangular relationship between Growth, Social/Cultural Development and Poverty Alleviation:



This “triangular” vision can be likened to a traditional Lao kettle, which has to stand on 3 pillars in order not to fall on one side or the other. If economic growth has to be successful, it is the view of the Government that it has to be anchored on an ecologically sound approach to resource management and enhanced social and cultural development. Likewise, social and cultural development has to be backed up by solid economic growth, while appropriate resource management is, in itself, a potent way to improve living standards.

All three pillars – economic growth, social/cultural development and ecologically sound resource management – have to mutually reinforce themselves to achieve sustainability in poverty alleviation. The Government of the Lao P.D.R. thus favors a balanced approach to poverty reduction.

⁵ Please refer to the Government Report 2000, p. 22-23.

2. The I-PRSP

The I-PRSP serves the objective of summarising the Government's approach to poverty alleviation.

The Government Report to the 7th RTM and the 2001-2005 NSEDP, presently in preparation, constitute the Lao P.D.R.'s political references regarding the definition of its development priorities, including poverty alleviation. This interim document (I-PRSP) reflects more specifically the Government's views regarding poverty alleviation.

The F-PRSP will incorporate a more operational view of the Government's priorities, as expressed in the various sectoral action plans under preparation, which will also include the insights gained from the PPA undertaken from March to October 2000.

The national planning system, built on consensus and wide participation, will be put to good use, especially in the new context of the Government's decentralisation policy, thanks to a series of capacity building workshops at the central, provincial and district levels. They will provide the necessary planning and monitoring context for the Government's poverty reduction strategy.

This document has 4 Parts: 1) Poverty situation in the Lao P.D.R., 2) Government's strategic approach towards poverty alleviation, 3) Planned policy priorities regarding poverty alleviation and 4) Intended consultation process. The I-PRSP Policy Matrix 2001-2003 is attached.

PART ONE:

POVERTY SITUATION IN THE LAO P.D.R.

Chapter 1: Poverty Situation in the Lao P.D.R.

In the Lao P.D.R., the analysis of poverty is still at an early stage (see Box 1)

The analysis shows that households have benefited from economic growth in the 1990s in that the per capita real total consumption has been increasing at the annual rate of 5.8 percent; a faster growth rate than the per capita GDP during the same period (4.5 percent).

Regions	1992-93	1997-98	Growth Rate
Vientiane municipality	34,676	59,577	10.8
North	20,184	25,770	4.9
Central	25,720	32,586	4.7
South	23,623	29,504	4.4
Lao P.D.R.	24,595	32,848	5.8

Vientiane Municipality is the richest area in terms of its monthly total real consumption per capita, the Northern Region the poorest. The annual growth rate in total real

consumption per capita per month in Vientiane Municipality has been 10.8 per cent over time, far exceeding that of the 3 other regions. Although the North remained the poorest region in the country, it has been growing faster than the Centre and the South: the real total consumption per capita per month in the North has increased at the annual rate of 4.9 percent. The Southern Region is better off than the Northern Region but worse off than the Central Region and Vientiane Municipality.

Per capita real consumption in rural areas has been growing at annual rate of 5.4 percent, whereas the urban area growth rate in urban areas has been 9.0 percent. Thus the rural-urban disparity has increased between 1992/93 and 1997/98 (Table 3)

Table 2: Per Capita Real Consumption by Regions and Rural and Urban Areas						
(In Kip; March 97 to Feb 98=100 (Lao urban areas))						
	Urban areas			Rural areas		
Regions	1992-93	1997-98	Growth rate	1992-93	1997-98	Growth rate
Vientiane municipality	36,438	62,098	10.7	29,378	55,304	12.7
Northern region	23,498	32,914	6.7	19,495	24,995	5.0
Central region	30,111	42,477	6.9	24,872	31,197	4.5
Southern region	30,842	39,938	5.2	22,138	28,378	5.0
Laos	31,035	48,721	9.0	22,609	29,668	5.4

The empirical result (Headcount index⁶) shows that 45 per cent of the Lao P.D.R. population lived in poverty in 1992-93, whereas in 1997-98, the percentage of poor fell to 38.6. Therefore, there was a marked reduction in poverty in the Lao P.D.R. between the two periods. Although, the rich benefited much more than the poor, the reduction in poverty, at an annual rate of 3.1 per cent, indicates that the benefits of economic growth have been widespread between 1992-93 and 1997-98.

The incidence of poverty, however, varies quite substantially across regions and provinces. Among the four areas, the Northern Region has the highest percentage of poor, which, fortunately, decreased from 58.4 percent in 1992-3 to 52.5 percent in 1997-8. In contrast, the incidence of poverty in Vientiane Municipality has been the lowest: the poverty incidence was 24.4 percent in 1992-3 and only 12.2 percent in 1997-98. The Southern region has the second highest proportion of population living in poverty.

In addition to large differences in the poverty incidence across regions, there are also differences between provinces⁷. Houa Phan in the Northern region is identified as the poorest province, where 78.4 percent of the population lived in poverty in 1992-93. Although the percentage of poor fell to 74.6 in 1997-98, this province still remains the poorest in the country. Several provinces, including the Special Zone Saysomboon, Phongsaly, Louang Namtha, Oudomxay and Houa Phan, had a poverty incidence exceeding 50 percent.

⁶ The headcount ratio or incidence of poverty indicate the percentage of individuals in the population whose income or consumption-expenditure falls below the poverty line. There are two poverty lines that have been constructed: the first is the food poverty line and the second is the non-food poverty line. The average food poverty line in Lao P.D.R. is 15,218 kip per person per month in 1997/98, of which urban and rural poverty lines are 19,270 and 14,407 kip per person per month, respectively.

⁷ Such finding was based on a first attempt to evaluate the provincial provide with a relatively small sample size (around 470 households per provinces). Therefore, the data should not be interpreted as exact or giving absolute measurements of the percentage of the poor in the specific provinces.

Regions/provinces	1992-93	1997-98	Annual rate in decrease of poverty
Vientiane municipality	24.4	12.2	-13.9
Northern region	58.4	52.5	-2.1
Phongsaly	68.7	64.2	-1.3
Louang Namtha	60.3	57.5	-1.0
Oudomxay	51.1	73.2	7.2
Bokeo	63.5	37.4	-10.6
Louang Prabang	62.7	49.4	-4.8
Houa Phanh	78.4	74.6	-1.0
Xaygnaboury	30.1	21.2	-7.0
Central region	39.5	34.9	-2.5
Xieng Khoang	57.3	34.9	-9.9
Vientiane province	28.1	24.3	-2.9
Borikhamxay	10.6	25.8	17.8
Khammuane	43.7	41.6	-1.0
Savannakhet	45.7	37.1	-4.2
Xaysomboom-SZ		55.0	
Southern region	45.9	38.4	-3.6
Saravanh	36.7	39.6	1.5
Xékong	65.9	45.7	-7.3
Champasak	43.6	35.6	-4.1
Attapeu	72.2	45.3	-9.3
Laos	45.0	38.6	-3.1

The reduction in poverty is not uniform across regions and provinces as shown by Table 3. In Vientiane Municipality, the percentage of poor decreased at an annual rate of 13.9 per cent, whereas in the Northern Region, the percentage of poor decreased at an annual rate of only 2.1 per cent. In the Central and Southern Regions, the percentage of poor diminished at annual rates of 2.5 and 3.6 per cent, respectively. Thus, not only is the North the poorest region in the country, but the rate of poverty reduction is also the lowest.

The urban-rural disparity in the incidence of poverty is large (Table 4): in 1992-93 for urban areas the incidence was 33.1 per cent, and for rural areas it was 48.7 per cent. Large differences in the percentage of poor between urban and rural areas are prevalent across regions. The disparities have, however, lessened slightly in 1997-98 where the incidence of poverty was 26.8 per cent for urban areas and 40.9 per cent for rural areas. On average, economic growth benefited the urban areas more than the rural areas.

Regions	Urban Areas			Rural Areas		
	1992-93	1997-98	Growth rate	1992-93	1997-98	Growth rate
Vientiane Municipality	22.46	16.7	-5.9	30.14	4.47	-38.2
Northern Region	48.93	43.27	-2.5	60.4	53.53	-2.4
Central Region	37.42	27.65	-6.1	39.89	35.89	-2.1
Southern Region	27.64	35.84	5.2	49.62	38.66	-5.0
Lao P.D.R.	33.14	26.86	-4.2	48.66	40.97	-3.4

The socio-economic characteristics of the poor “how they differ from non poor” will need to be further investigated and reflected in the context of the F- PRSP.

The empirical results (Table 5) show that the bottom 20 percent of the population had a share in total per capita real consumption of 9.3 percent in 1992/93 while the richest 20 percent had a share of 38.4 percent. Unfortunately, the consumption share of the bottom 20 percent of the population declined to around 8.0 percent in 1997/98, while that of the richest increased to 44 percent. The Gini coefficient increased from 28.6 percent in 1992/93 to 35.7 percent in 1997/98. This implies that the inequality in Lao P.D.R. has increased over time but still at a lower level if compared to the region. Thus an increase in inequality implies that the benefit of economic growth have not been flowing uniformly across the population. The proportional benefit received by the poor is less than that received by the rich. Despite an annual increase of 5.6 percent in per capita real consumption in the Lao P.D.R. between 1992/93 and 1997/98, the annual growth rate of the bottom 20 per cent of the population was only 2.3 per cent while that of the top 20 percent of the population was 8.7 per cent (Table 6).

Regions/provinces	1992-93	1997-98	Growth rate
Gini coefficient	28.6	35.7	4.4
Quintile shares			
First	9.3	7.8	-3.5
Second	13.5	11.8	-2.7
Third	16.9	15.4	-1.8
Fourth	21.9	20.6	-1.2
Fifth	38.4	44.4	2.9

Regions/provinces.	1992-93	1997-98	Growth rate
All quintiles	24595	12872	5.8
First	11490	19432	2.3
Second	16617	25319	3.1
Third	20726	33768	4.0
Fourth	26886	72851	4.6
Fifth	47258	32848	8.7

The Lao Expenditure Consumption Survey (LECS) poverty estimates are primarily based on consumption as indicator of household welfare. But non-consumption or non – income dimensions of welfare are also taken into account. This is explored by the construction of the district vulnerability indices that combine income and non-income indicators. These indices are similar in nature to Human Development Indices (of the UNDP). The weights assigned to different dimensions are on ad hoc basis and imply value judgements on the relative importance of different dimensions of welfare. But such indices can be quite useful in highlighting non-income aspects of deprivation.

In respect, the World Food Program (WFP) conducted a vulnerability analysis and mapping exercise based on some relevant analytical inputs and a statistical database provided by the National Statistical Centre (NSC). The vulnerability analysis identified poor districts using the district vulnerability index.

The district vulnerability index also constitutes an informative way to assess poverty at district levels.⁸ It is calculated through access indicators (rice production per capita, large animals per capita, forest area index per household, access to roads within 6 km) and social indicators (percentage of people with no education; crude death rate),

The result of the analysis shows that out of the 134 assessed districts, 52 reach the minimal requirements for the 6 indicators, while 25 respond positively to 3-4 of the 6 criteria. Poor districts are those which satisfy only 2-3 of the six indicators (22 districts), while the very poor districts are those satisfying less than 2 indicators (35 districts). In other words, approximately two fifths of all districts in the Lao P.D.R. are poor or very poor. Very poor districts constitute one quarter of all the districts.

The comparison of how the LECS-based district level poverty estimates compare with the district vulnerability indices shows that these two measures are complementary.⁹ The detailed information on the comparison will be reflected in the F-PRSP. In addition, in the context of the F-PRSP, further work will investigate for districts, poverty monitoring/targeting aspects. (See Chapter 3, paragraph 3.1 and 3.2).

Box 1: The Precision of Poverty Estimates and the Methodology for Setting up the Poverty Lines

A. The precision of the poverty estimates

- Although the two expenditure and consumption surveys (LECS of 92/93 and 1997/98) provided a complete set of databases. However the analysis of the poverty situation in Lao P.D.R. is still facing problems such as: the level of calories for setting
- The poverty line, habit of food consumption and the prices data.... There are 3 researches on poverty analysis that had been undertaken for the LECS97/98 as following:
 - The Analysis of Poverty in Lao P.D.R., SCB Alm StenFlo.G, 1999;
 - Poverty in Lao P.D.R.: 1992/93-1997/98, Gaurav Datt, World Bank, 2000;
 - Poverty in Lao P.D.R.: N. Kakwani, ADB, 2000.
- In this I-PRSP the poverty situation is based preliminary on the first result of an attempt to combined the data from the LECS97/98 and the Participatory Poverty Assessment (PPA) Survey which is undertaken with the support of ADB during the first semester of 2000. A plan for a further join approach to combine the three quantitative is underway.
- The social indicators are mainly derived from the National Health Survey and Reproductive Health Survey which have been undertaken during 1999-2000

B. The methodology in setting up the poverty lines

- **The construction of poverty lines**

The food poverty line is constructed on the basis of energy needs or calorie requirements of individuals or families. The calorie norm used for Lao people was the same as the calorie norm for people of the Northern East of Thailand. The average calories requirement of the population is obtained by aggregating the person calories requirement for each individual. This aggregation was performed by means of a weighted average method, weighted by the population share of each sample household. The average calories requirement per person per day is 1,983 kcal (urban: 2,009 and rural: 1,976 kcal per person per day).

Box 1: Continued

⁸ In co-operation between the NSC and the WFP; the district vulnerability analysis is based on data from the LECS 1997/98, the Agricultural Census 1989/1999, and the Population Census 1995.

⁹ See World Food Program, Draft "Vulnerability Analysis", August 2000.

Having defined a reference average calories requirement of the population across regions, and urban versus rural areas, the following steps were followed in constructing the food poverty line:

- (1) After obtaining the person calories requirement for a household, the cost of calories was converted in kip based on the selection of food items in basket. 31 food items were selected for the reference food bundle. Based on the monthly expenditures on these 31 food items and the average prices of 5 cities (Vientiane Municipality, Louang Prabang, Khammouane, Savannakhet and Champasack), the cost of calories for each household was computed in terms of number of calories obtained by spending one kip on food. Since rural prices are not collected in Lao P.D.R., it was considered reasonable to assume that the rural prices are 20 percent lower than the urban food prices.

Ideally, the unit cost of calories should reflect the unit cost for the poor. Therefore, the food poverty line was constructed on the basis of the consumption pattern of poor households. To determine the consumption pattern of poor households, all the sample household in LECS 1997/98 were ranked according to real per capita total household consumption and grouped them in five quintiles. Then, the average calories cost in each quintile, which gave the lowest calories cost for the first quintile, was calculated.

- (2) To derive the calories prices (cost) for each household, the spatial food consumer price index was used, since the cost of food varies in different regions and every month.
- (3) The food poverty line was then calculated by dividing the calories requirement by the calories cost measure in terms of spending one kip on food.

The Non-food Poverty Line - Using the idea given by Ravallion¹⁰ that if a person's total income is just enough to reach the food threshold, anything that a person spends on non food items will be considered as basic non-food need. Thus, a non-food to total consumption ratio was computed or those households whose per capita total consumption was equal to their poverty line. Since the food poverty line varied by household, the Ravallion approach was modified in the following manner:

- (1) First, the food welfare of a household was calculated, defined as the per capita household consumption multiplied by 100, divided by the household specific per capita food poverty line;
- (2) Second, households were arranged in ascending order of food welfare using the LECS 1997/98 data;
- (3) Third, the households were selected whose food welfare lied between 90 and 110¹¹; and
- (4) Fourth, the ratio of food to total expenditure for individuals belonging to these households was calculated.

To calculate the non food poverty line for households in different locations and interviewed in different months, the spatial non food consumer price index was used so that the value of the non food poverty line was the same for every household.

The total poverty line for each region is the sum of food and non-food poverty lines for that region.

Updating the poverty lines

Since the objective of the study is to compare poverty estimated in 1997/98 with that estimated in 1992/93, the regional specific poverty lines for 1992/93 are derived from the corresponding poverty lines for 1997/98. This is done by deflating the food poverty lines for 1997/98 in each month and each region, by the change in consumer prices between 1992/93 and 1997/98. Similarly, the non-food poverty line is deflated by the change in non-food consumer prices over the same period.

¹⁰This applies a well-known and widely used approach to estimating basic non food needs first suggested by Ravallion and Bidani (1998).

¹¹According to Ravallion, households should be selected whose income is equal to the food poverty line, which means selecting the households at a point where the household food welfare is equal to 100. Since it is impossible to calculate the ratio of food expenditure to total expenditure at a point, a range of food welfare lying between 90 to 110 was selected.

Chapter 2: Perceived Determinants and Causes of Poverty, and Suggested Solutions

From the preliminary results of the PPA, it appears that the primary determinant of poverty is still the degree of rice sufficiency but other elements seem to be increasingly important, such as livestock diseases, lack of arable land, poor health, lack of access to cash. Regular natural disasters (e.g. flooding as well as draught) and widespread unexploded ordnance (UXO) contamination must also be added to the difficulty of alleviating poverty.

The PPA showed that the problem most cited by villagers as preventing economic growth is the lack of all-weather roads. Accessibility to markets in the wet season is essential since that is when most agricultural goods are mature and ready for sale.

The findings regarding determinants and causes of poverty, and possible solutions can be summarised as follows:

- 1) The primary determinant of poverty is the degree of rice self-sufficiency. The primary indicator of wealth is livestock.
- 2) The secondary conditions of poverty include lack of arable land; livestock disease; poor health; hiring out of labour; lack of technical knowledge, skills and accessibility; insufficient clothing and poor housing; prevalence of shifting cultivation.
- 3) The most commonly cited causes of poverty include (in order of priority): i) land problems, ii) no cash investment to pay for rice while improvements are being made, iii) livestock disease, iv) natural disasters and pests, v) environmental degradation, and vi) lack of water for potential agricultural production, vii) difficult access to rural credit.
- 4) Other causes include: lack of village leadership, relocation, insufficient health services, too many children, lack of commercial skills, lack of government assistance, low prices for agricultural products, opium addiction, UXO contamination, and theft.
- 5) The main solutions to poverty, in order of priority, include: resolve rice cultivation-related issues, in particular increase the amount of production land; increase livestock holdings; solve livestock disease problems; provide funding mechanisms for increasing livestock holdings as well as micro-finance in general; more reliable cash cropping with appropriate extension services, including roads and access to markets, better schools (building and teachers), improved health, clean water supply, and electricity.
- 6) The solutions to poverty affecting women specifically include skills development for income generating activities and marketing of products, family planning and birth spacing, and rice mills to reduce women's labour in pounding rice.

The Government will study the findings of the PPA carefully; they will be an important reference and an essential input for identifying all possible policy and strategy implications, especially through the sectoral action plans and the subsequent investment allocations that will be reflected in the F-PRSP.

Chapter 3: Poverty Criteria for Monitoring at Household, Village, and District Level

Poverty criteria

The complexity of the poverty picture in the Lao P.D.R. requires a breakdown of the data according to district and village realities. Especially within the context of decentralisation, districts are the planning and budgeting units, and villages, the implementing units. It is necessary for the Government to determine a simple poverty criterion for the use of local authorities. This will allow assessment and monitoring of poverty based on existing data collection through a standard reporting system.

The proposal of poverty criteria can be summarised as follows:

With regard to households, it is suggested to include among other poverty criteria “no access to 16 kg of rice per head and per month¹²”.

At the village level, a poor village could be considered as poor if (i) there are more than 50 percent of poor households in the village (ii) there is no school in the village or nearby and no dispensary or traditional health care, and people have to walk for more than 6 hours to reach a health centre or the district hospital; have no access to clean water; and no road (path) access to the village.

At the district level, a poor district could be considered as poor if (i) there are more than 50 per cent of poor villages in the district, (ii) no access to education (school), healthcare (health centre), or clean water for more than 40 per cent of villages; (iii) more than 70 per cent of villages have no access to electricity; and (iv) more than 60 percent of the villages have no access to a road (for trucks).

To assess the national or provincial poverty profiles, two types of information will be collected: 1) information from the districts, villages and households, and 2) additional quantitative as well as qualitative information regarding nutritional and social qualifying indicators such as calorie consumption, life expectancy, housing and clothing, number of primary schools and of qualified teachers in comparison with the total number of teachers, net school enrolment rates for children, and accessibility (to roads, markets, clean water, and electricity), adult literacy, and infant mortality.¹³

These criteria are still under consideration. Right now the bulk on the technical data gathering and analysis in conjunction with team discussion and technical assistance of various aid agencies as well as consultation with the government is completed. The proposal of poverty criteria has been submitted to Chairman of the State Planning Committee who, in turn, will submit it to the Prime Minister's Office for approval. The State Planning Committee in co-operation with the Rural Development Committee will organise workshops to disseminate information and train people in assessing and monitoring poverty. This process may not catch up with the timeframe of the F-PRSP. In addition, the assessment of these

¹²The amount of 16 kg is derived from the research on poverty lines during the 1997/98 household consumption and expenditures surveys, as well as on the basis of other countries' experiences.

¹³ Indicators similar to those of the HDI (of the UNDP).

criteria will not use as single measurement of poverty but serve as a complementary piece of information to analyse poverty levels.

Poverty monitoring

An important element relates to the monitoring as follows:

- At village levels, district officials in collaboration with villages officials have to visit the households in order to assess the situation regularly.
- At district levels, provincial authorities in collaboration with district officials have to visit the villages in order to monitor the poverty situation.
- At the national and provincial levels, in addition to the results of the assessments at the villages and districts levels, assessments will also be based on quantitative as well as qualitative indicators in order to make them comparable to international standards.

In order to improve its database and have up-to-date information on these indicators, the Government envisages organising the households' survey on a regular basis.

Chapter 4: Social Indicators

Most of the major social indicators for the Lao P.D.R. improved from the early to the late 1990s, with some areas of strong improvement. According to the Human Development Report data, in just six years, life expectancy increased by 2.2 years, illiteracy dropped 4.2 percent and poverty fell by 7.1 per cent.

More importantly, the momentum created by the achievements obtained so far in the social field should reinforce the continuous progress expected from the Government's efforts in these fields.

From a poverty reduction perspective it is important to detail some of the achievements on the social front.

Marked improvements on the social front have taken place in the last few years, especially with regard to the situation of children and women.

Thanks to the successful implementation of the immunisation programme, a top priority of the Government, today, 95 % of all the villages of the Lao P.D.R. are covered by basic vaccinations. In October 2000, the Lao P.D.R. was declared polio-free.

Combined with other factors such as improved quality of care and family planning activities, this immunization program led to an important decrease in immune preventable diseases. Decreases in the infant mortality rate, namely from 104 per 1,000 live births in 1995 to 82 in 2000 have been registered.

Similar progress has also been made with regard to the under-5 mortality rate, which declined from 170 per thousand live births in 1995 to 106 per thousand live births in 2000. An equally impressive decline was registered in the maternal mortality rate, which decreased from 656 per 100,000 live births in 1994 to 530 in 2000.

Progress can also be reported on, the reduction of micro-nutrient deficiencies. Today, the distribution of iodine-fortified salt covers 90 per cent of the total population, and household consumption of iodine-enriched salt has increased from 71 per cent in 1995 to 95.3 per cent in 2000, greatly reducing iodine-deficiency-induced illnesses. Likewise, Vitamin A supplementation is today provided to 80 per cent of all children under-5, which in turn will reduce vitamin-A-induced illnesses.

Other noticeable improvements on the health front include increased food security. In several hundred villages, rice banks have been established. Access to latrines in the whole country improved from 29.2 per cent to 36.2 per cent between 1995 and 2000 and in the rural areas from 19.7 per cent in 1995 to 25.5 per cent in 2000. However, the overall access to safe drinking water improved only slightly between 1995 and 2000, namely from 51 per cent to 59.3 per cent for the whole country.

Many other improvements at the micro-level have taken place throughout the country thanks to many “smaller” projects, some under the umbrella of larger programs. Several income-generating projects have been developed in 391 villages. These directly improved the living conditions for approximately 40,000 people in 9 provinces. Furthermore, 150 villages have developed their own village development plans – an encouraging fact for the Government’s decentralization policy.

An area where social progress has been particularly evident is in education, as the adult literacy rate rose from 60.2 per cent in 1995 to approximately 70 per cent in 2000.

UXO community education awareness using mass media like TV and radio as well as traditional media was also very successful in improving child protection, through educational programmes which draw the attention of children to the UXO danger. Indeed, 50 per cent of the Lao P.D.R. is UXO contaminated, which means that half of the country cannot be cultivated or is not accessible, because of the danger this would present for the population.

HIV-AIDS awareness was also raised by similar means (through modern mass media as well as through traditional means of communication). Improved school curricula with information on UXO and HIV-aid issues reached more than 70,000 school children, raising awareness of UXO and HIV-aid contamination for 100,000 persons in 9 provinces.

Despite these notable achievements, there is still a need to further improve the situation and to bring all indicators up to regional standards as shown by the following health and education indicators:

Some HEALTH Indicators		
➤ Infant mortality rate (per 1,000 live births):	82 (1995-1999)	RHS 2000
➤ Under-five mortality rate (per 1,000 live births):	106 (1995-1999)	RHS 2000
➤ Maternal mortality rate per (100,000 live births):	530 (1995-1999)	RHS 2000
➤ Proportion of households with access to a dispensary, medical practitioner, trained nurse or community healthcare worker in 1998:	75%	LECS 2 1997-1998
➤ Household access to a traditional healer in 1998:	53%	LECS 2 1997-1998
➤ Proportion of villages covered by basic immunization programs:	95% in 2000	UNICEF
➤ Access to latrines in rural areas:	21.6% in 2000 (16% in 1995)	UNICEF
➤ Access to safe drinking water:	59.3% in 2000	Nam Saat

Some EDUCATION Indicators		
➤ Adult literacy rate (15 years plus):	70% (60.2% in 1995)	NSC
➤ Proportion of the population 6 years plus who never went to school: Census 1995	37.6%	National
➤ Proportion of the population 6-10 years not enrolled in primary education (1997-1998):	23.8%	EFA 2000
➤ Proportion of complete primary schools (1996-97):	34.8 %	EFA 2000
➤ Pupil/teacher ratio in primary education:	31/1	EFA 2000
➤ Proportion of primary school teachers certified 1998:	37.4%	EFA 2000

Chapter 5: Macro-Economic Overview

The macro-economic situation is an important component for assessing correctly the poverty situation. From a macro-economic point of view, the perspectives for poverty alleviation seem again encouraging. Because of the Asian financial crisis, the planned targets of annual growth (8 per cent) could not be achieved nor could the per capita income of US\$ 500 in the year 2000 be reached. Nevertheless, the economy behaved reasonably well and the outlook allows for optimism.

For a detailed analysis of the macro-economic situation and the impact of the Asian financial crisis as well as of the Government's countermeasures and priorities, please refer to the Document on the Government's Macro-Economic Policies and Reform Framework¹⁴. Table 1 illustrates the main economic indicators and shows that the growth rates have been relatively high throughout the decade, with the exception of 1998 where the economy grew by only 4 per cent, a rate clearly higher than the regional average.

The economic outlook is positive. The overall economic growth perspectives appear positive, with the outlook concerning money growth and inflation also being encouraging at the moment. With the money supply under control, the regained macro-economic stability, although still somewhat fragile, should continue. With regard to the foreseeable evolution of the balance of payments and its main components, the perspective is encouraging for the near future, thanks to the expected increase in foreign investment and exports as the region recovers from the crisis. Much effort, however, must be devoted to achieving a gradually more balanced budget and to strengthening macro-economic stability through enhanced revenue collection, better expenditure management and increased resource mobilization.

Chapter 6: General Assessment

From a poverty analysis point of view, the following general assessment can be made. With an annual growth rate in per capita GDP between 1992/93 (LECS 1) and 1997/98 (LECS 2) of 4.6 per cent and real per capita consumption growth of 5.8 per cent per annum, the prospect for poverty alleviation over time looked very encouraging.

¹⁴ Document finalised in September 2000.

Recent trends, however, have dampened the optimism prevailing until the outbreak of the Asian financial crisis. This event has played havoc with the Government's plans, created macro-economic instability by seriously affecting public finances, and though relatively high growth rates have been maintained, the impact of the social crisis, through inflation, the depreciation of the kip, and the reduction in current expenditures has had a deleterious effect, especially on the poor and those living on fixed salaries such as the public servants.

On the other hand, farmer families in remote up-land areas were probably the least affected by the crisis, precisely because of their remoteness from the market economy. Nonetheless, isolated areas need investments the most.

It is the structural impact of the crisis, which must be taken into account in order to assess the impact of the Asian financial crisis in its true dimensions. One must also take into consideration, beyond the direct effects on individuals, the structural degradation induced by the crisis. Indeed, the cancellation or the postponement of so many investment projects has harmed the poor, especially in the rural areas, where these projects were intended. This has increased further the disparities between different segments of the population and different regions of our country.

The decisive fiscal and monetary actions taken by the Government in mid-1999 have, since then, restored macro-economic stability (especially with respect to inflation and exchange rate), a fundamental precondition for successful poverty alleviation.

In 2001, the Government will finalise all relevant information on the poverty situation in the Lao P.D.R., in particular the poverty criteria, establish an official poverty line and define its approach to poverty monitoring by formulating key poverty indicators and a capacity building approach to monitor poverty reduction accordingly.

PART TWO :

THE LAO P.D.R.'s POVERTY REDUCTION PLANNING, POLICY AND STRATEGY FRAMEWORK

Chapter 1: The National Planning Context

Policy making through national consensus implies a wide participation of all stakeholders. With the decentralisation process, patiently built up since 1996, people's participation has reached a new dimension. The Government considers socio-economic plans and their accompanying budget as the most adequate tools to plan and manage the development of the country.

Participation, decentralisation and the Lao P.D.R.'s mass organisations play an essential role in the Government's system of planning for poverty alleviation.

Participation

The Lao P.D.R.'s five-year development plans are the result of sometimes lengthy, but highly interactive processes of dialogue and assessments, since policy-making in the Lao P.D.R. is fundamentally based on consensus building.

The five-year plan is translated into a Public Investment Programme (PIP), based on an annual expenditure framework as defined by the Ministry of Finance. Both the five-year planning process as well as the PIP process imply a wide participation of the stakeholders at every level. For instance, village and district authorities prepare and submit their development requirements to the concerned institutions at the provincial level. Provincial planning departments build a consensus about the provincial priorities and proper resource allocations needed by the province, which are submitted to the central level.

The procedure for preparing the PIP is thus very much both a 'top-down' and 'bottom-up' process as it combines guidelines from the Prime Minister's Office and the SPC, according to the national priorities ('top-down'), and the planning and project identification at provincial, district and village levels (bottom-up), based on the villages', districts' and provinces' most urgent needs.

In order to improve the participatory planning process by building enhanced institutional capacity at the provincial and district levels, the Government has carried out in the first place an in-depth participatory planning exercise in a pilot province (Bolikhamxay), and is extending it now to Houa Phan Province and later to other provinces. A potent instrument for rural development, the approach chosen by the Government through participatory planning is a conscious effort to empower provinces and districts to achieve and defend a vision, to identify the dynamics of the development process that they favour, and to coherently plan adequate responses to the people's aspirations as expressed by their close involvement in the planning process.

Decentralisation

The Government's decentralisation policy is another major dimension of the planning and programming context in which the Government conceives its approach to poverty alleviation.

The decentralisation policy increasingly guides the national planning context as capacity builds up. The Government gives, indeed, the utmost importance to its decentralisation policy whereby provinces are now becoming strategic units; districts are the new planning and budgeting units, and villages, as implementing units are required to set up evaluation systems to monitor the development plans that they have formulated.

At the village level, before formulating a plan, villages will collect data and observe the living conditions of each family in order to categorise them into wealthy, self-sufficient and poor families. The resulting plans will then provide a framework within which to assist the poorest families. To carry this out efficiently, in order to identify "poverty-reducing" measures and to rank investment priorities accordingly, the causes of poverty, as villages see them, must be understood.

The Government is thus consciously promoting an institutionalised process to ensure that "bottom-up" planning is based on the very views and needs felt by the main stakeholders, i.e. the people. It is in this context that the Government will further strengthen its participatory approach to poverty alleviation with a special emphasis on planning, implementation, monitoring and capacity building.

Mass Organisations

The national planning for poverty alleviation, both in its participatory planning and implementation dimensions, is supported all over the country by an extensive network of "mass organisations", carrying out most of the participatory activities at grassroots level, i.e. at the village level, working closely with the population, and structuring and mobilising development efforts at the local level.

The Lao P.D.R.'s mass organisations, as the country's main participation framework, have a strategic responsibility in the achievement of the identified social goals. Institutional strengthening, the improvement of the individual capabilities (skills acquisition) within the organisations, and the achievement of a wider social outreach with the view to alleviate poverty through participatory community development are the main requirements needed to strengthen the mass organisations, especially in the rural areas and to empowering the grassroots level to master their own socio-economic development in view of permanent poverty reduction.

Lao Women's Union (LWU)

Present in each village, the LWU focuses on health and education activities at the grassroots level, to promote income generating activities and all economic activities in which women are involved, especially in the productive sectors such as livestock, fish ponds and cottage industries.

The LWU Action Plan (1998-2003) has 4 main themes: policy guidelines for women and gender equity; capacity building and human resource development; children and women rights; and poverty alleviation. A human resource development (HRD) programme devised for the LWU should yield the following poverty alleviation impact: 50% of women in rural areas having completed basic literacy classes; more than 50% of women in rural areas having

basic primary healthcare training; and 2000 women having income generating activities through vocational skills training courses.

The Lao Youth Organisation (LYO)

The LYO aims to develop youth leadership at all levels. The immediate target is to have 50 per cent of the youth committees at provincial, district and village levels in place and operational by 2001. The purpose is to enhance, through skills development, information and participatory involvement at all levels, the role of the Lao youth in the shaping of the country's development process and future.

From a poverty alleviation perspective, the expected output of the proposed HRD sub-programme for the youth sector, in terms of institutional capacity and improved capabilities, include 2,500 youth leaders trained at all levels, more than 4,000 youth possessing skills to make a living (mushroom growing, cross fish breeding, fruit tree planting and pruning, brick making, tailoring, etc.). In the Government's poverty alleviation strategy, this will contribute to decreasing youth unemployment and creating wealth for the people.

In particular, thanks to a focus on youth afflicted by drugs and other social problems, training in social data collection on youth problems (drug addiction, youth prostitution, and petty crimes), awareness workshops for parents and the general public, visual-aids and communication materials, and formal and non-formal educational activities, the LYO will contribute substantially towards poverty alleviation in rural as well as exposed urban areas.

This focus on socially exposed youth, due to rapid social and economic changes, is one of the priorities of the Lao Government in its fight against poverty.

The Lao Front for National Reconstruction (LFNR)

The Lao Front enjoys in all parts of the country the highest respect for its genuine impact on local development, for the prestigious role it plays in increasing solidarity within Lao P.D.R.'s multi-ethnic and pluralistic religious society and for its active involvement in defining and implementing codes of ethical conduct in major professional sectors.

Through the strengthening of its ethnic groups department, the Lao Front aims to improve its management and technical capacities to respond to the aspirations of the ethnic minorities. At the same time, through its training and capacity building activities, the Lao Front contributes decisively, especially through rural development programmes, to increasing the knowledge and the ability to deal with ethnic minorities, for foreign partners and national actors alike.

Thanks to its mandate to improve the livelihood of all people, the Lao Front carries out important tasks linked to poverty alleviation, especially for those most in need, i.e. ethnic minorities who represent more than two thirds of the total population and who have the lowest standards of living in every respect. In the Government's poverty alleviation priorities, the Lao Front is a key organisation because of its involvement with ethnic minorities and underprivileged social classes.

The Lao Federation of Trade Unions (LFTU)

The LFTU regroups trade unions from the public as well of from the private sector. About one quarter of its members (76,000) are from the private sector.

In the Lao P.D.R.'s planning context for poverty reduction, the LFTU is involved in promoting a national labour force capable of negotiating wage and social benefits issues, and of responding to the growing needs in matters of management and knowledge of all the rules regulating labour relations.

In particular, the LFTU aims to upgrade educational levels of labourers and employees in all provinces in order to increase employment opportunities; an important dimension for poverty reduction.

Chapter 2: Strategic Coherence Regarding Poverty Reduction

The Government's Report to the 7th RTM (November 2000) focused on the Government's strategic approach to poverty alleviation. The Government has established its strategic coherence regarding the approach to poverty alleviation by identifying the main sectors, which at this point in time will contribute most decisively to poverty reduction. They have been chosen in consideration of the country's constellation of development obstacles and needs, resource base and development factors, but in particular in response to the priorities identified through the RPAs and the continuous expression, through the planning process, of the provinces' and districts' development requirements.

Four sectors have been identified for the time being as the main pillars for poverty alleviation in response to the people's expressed needs; namely, Agriculture/Forestry, including Livestock, Education, Health and Road infrastructure.

Food security defined in its largest sense, but also improved healthcare and access to education for the children as well as integration into a market-driven economy are the expected results.

While development and improvement in all sectors of the economy are needed to achieve sustainable long-term development, these four sectors represent the backbone of the Government's approach to immediate poverty alleviation; in this they respond to the population expectations.

For this reason, a major effort was undertaken by the Government in view of establishing a national long-term strategic vision for these sectors, and which has been, as planned, the subject of a policy dialogue with the donor community. Seven policy dialogues were held during the year 2000 as part of the Roundtable process 2000-2002. Action plans will concretise the strategic visions into operational programmes and projects, which in turn will be integrated into the PIP.

For the Government, the quintessence of the investments in these sectors is to enhance rural development in such a way as to "crystallise" in an optimal way the linkages between the sectoral priorities and poverty alleviation. The focal site approach, in the centre of the Government's rural development programme, targeting both the remote areas where poverty is endemic and areas with growth and development potential, allows to tackle development in an integrated manner by opening up access to remote areas, stabilising shifting cultivation, facilitating economic activities in a market-oriented context, improving livelihoods and ultimately by integrating all the regions of our country into a dynamic national economy.

In its strategic approach to poverty alleviation, the Government is keenly aware of the need to maximise all possible linkages between these four main sectors in order to achieve the aimed-for objectives. For example, the development of road infrastructure is expected to be a driving force for poverty alleviation by facilitating the simultaneous achievement of various goals. Indeed, improving existing rural roads or creating new ones will not only promote regional integration; it will also improve the access to public services such as health and education with a positive impact on these two sectors and increase access to local, regional and international market places, thus promoting the development of an integrated national

market-oriented economy – a major source of economic growth and employment opportunities.

Likewise, the development of a competitive industrial sector (and through it, of trade and services), enhanced by energy and mining development, will heavily depend on the success of the agricultural strategy through value-added transformation and processing, as well as on the consequent road and communication infrastructure.

For the Government, macro-economic management and governance (decentralisation policy, etc.) are a trans-sectoral set of conditions supporting the sectoral policies, enabling them to be implemented in optimal circumstances. Improved governance and sound macro-economic policies are underlying and enabling conditions and as such, they have an essential position in the Government's approach to poverty alleviation.

The rationale of the Government approach is as follows. From key investments in the four main sectors (agriculture/forestry, education, health and road infrastructure) coupled with a sound macro-economic framework and policies such as decentralisation, the Government expects a number of direct and/or combined outputs. These are:

1. **Food security**, the achievement of which is one of the Government's immediate priorities since food security is perceived as a *sine qua non* to poverty reduction.¹⁵
2. An improved national **Human Resource** base able to carry out the tasks of development and bring the country forward. The development of human resources is also considered necessary to ensure effective people's participation.
3. **National integration**, which is instrumental in reducing the regional and rural/urban income gaps by facilitating a more equal distribution of resources and a wider access to public goods and services. As such national integration is key in building a stable national economy to provide development opportunities for each citizen.
4. Sustainable **Social progress** guaranteeing quality healthcare; development, protection and participation rights of children and women; quality education and other social services to every member of the society.

Indeed, food production and sound natural resources management are at the centre of sustainable development; the necessity of having a strong human resource base is embodied in the health and education priorities as well as other capacity building programmes, while the vital access issues (enabling isolated areas to increasingly participate in the national economy) is the essence of the road infrastructure programme.

Thus, the agriculture/forestry, health, education and road infrastructure programmes are the main components of the coherent Government approach to achieve continued economic growth with equity by creating and enhancing the conditions of its expansion and promoting a basis for sustainable social progress. They are also the basic factors for national cohesion and for the social/economic integration of the Lao P.D.R. within the region, and gradually within the rest of the world, which is crucial for wealth creation and equitable growth distribution.

With the Lao P.D.R.'s major engines of growth related to the natural environment, it is impossible to divorce the management of this resource from an overall poverty strategy. The main sources of growth *are* manufacturing, agro-industry, hydropower, cultural and eco-tourism, and agricultural production. In addition Lao P.D.R. will benefit from an economic

¹⁵ All RPA showed that 'enough food' was considered as the first condition to exit poverty.

corridor. The Government has undertaken many efforts in order to achieve sustainable environmental practices, which are essential to preserving the Lao P.D.R.'s advantage over many of its neighbours in abundance of natural resource environment as well as to improving livelihoods.

Currently, 10.3 percent of the forest coverage is protected, much of which is in the National Bio-diversity Conservation Areas (NBCA). An environmental legal framework is in place to protect this resource, but implementation is still difficult. The Government is aware of the costs of deforestation, arguably the main environmental problem of the country, including erosion, loss of wetlands (the primary breeding grounds for both aquatic and non-aquatic life), and loss of natural habitat and bio-diversity and climatic and other risks stemming from deforestation. Tourism, one of the major growth sectors, is also threatened because the natural environment is a major attraction. For these reasons, the Government undertook the preparation of a forestry strategy whose outline has already been the subject of a policy dialogue with the donor community.

The Government's strategic framework for poverty alleviation includes also "support strategies" which address major national priorities such as the UXO decontamination, the Drug Control, HIV/AIDS, and Mother and Child programmes.

Its strategic framework is currently marked out by four main sectoral priorities, two inter-sectoral priorities as well as by several "support" programmes.

Chapter 3: Sectoral Priorities With Respect to Poverty Reduction

The Government has identified the main sectoral priorities from a poverty perspective as follows.

Agriculture and Forestry

The most important policy-related objective regarding agricultural development is rural poverty alleviation, and the improvement of household food security.

The agricultural/forestry development in Lao P.D.R. is most conspicuously embodied in the Government's rural development priorities. The agricultural and forestry sectors are the true "mainspring" for rural development. For the rural development programme to be successful and sustainable, the necessary guidance (i.e. an in-depth strategic view on the future of agriculture) and technical support must be provided. For example, technical strategies for the sloping lands where most of the country's focal sites are located must come from well-understood and sustainable agricultural and forestry plans. In this way, the rural development objectives of poverty alleviation can be achieved.

The agricultural policy thus intends to support in the best possible way, and according to the best priority sequence, farmers' livelihood approaches which aim at achieving household and community food security, as well as channelling the available land and capital resources into livestock, fisheries and a diversified cash crop farming system, according to market demands.

At the same time, a profound and sound agricultural strategy is of critical importance for us in order to promote agricultural transformation and market integration, thus industrial activities, by giving the highest priority to an efficient farm-to-market road network, which is part of the National Rural Development Programme, but also of the Commodity Production Programme.

Education

A strong educational system is a *necessity* for poverty reduction in the Lao P.D.R. and thus to achieving the Lao P.D.R.'s 2020 goal.

The goal of the Government's education policy is thus to strengthen the education system as the cornerstone of an HRD strategy, central to poverty alleviation. Indeed, as one of the 8 national priority programmes, the HRD priority programme holds a particular importance as it is the response to the lack of technical and managerial skills, which is probably the most limiting factor for the country's development prospects. The immediate focus of the Government's education strategy with respect to poverty reduction consists in:

Universalising compulsory education at primary level and keep increasing participation at lower secondary level, thus ensuring that all the people have the opportunity to apply their education to serve the socio-economic programmes.

Striving to completely abolish illiteracy among the population, thus providing people living in absolute poverty with the means to improve their quality of life.

Expanding vocational, technical and higher education to meet the needs of new labour markets and to improve economic rates of return.

Training skilled workers, technicians, professionals and intellectuals to have the capacity to apply modern sciences and technology to serve the needs of socio-economic development.

Through the achievement of these goals, in widening access to quality education, the disparities between localities, provinces, regions and ethnic groups will be reduced and labour productivity increased, thus enabling the people to improve their quality of life.

Road infrastructure

A well managed road network is one of the essential prerequisites for economic growth and, given the growing focus on developing rural areas, it is a *sine qua non* for balanced and equitable growth for all sectors of the community.

The Government's overall goal of poverty reduction views the road system as critical to national and regional integration. Providing essential transportation and communications infrastructure to the proportion of the population that does not have ready access to roads is thus among the highest priority. It is expected that economic growth through infrastructure investments will have a profound impact on the domestic economy and assist the rural sector by strengthening its physical infrastructure in order to provide rural producers with the transport, communications, and power networks which will encourage socio-economic activities.

After the rehabilitation of the main arterial roads of the country, the development of the national, provincial and district/rural network into rural areas is the next priority to ensure that social and economic benefits from the arterial road improvements are maximised and that benefits are channelled to the rural population. The road network will then provide basic infrastructure for rural development and thus enhancing the social and economic impacts of the rehabilitated arterial roads.

The provision of all-weather access to areas and within the provinces will be a major contributor to reducing poverty by providing the rural and the more disadvantaged groups with access to transport, healthcare, education, markets, as well as, to non agricultural activities.

Many of the rural poor and ethnic minorities, as well as remote and mountainous areas are without all-weather road connections. It is the Government's policy priority to provide improved road access to these areas ensuring thus access to agricultural support, health and education services and connect all provincial and district centres to the all-weather road network

In the medium term, the priority is to develop further sections of the network to all weather standards, which will permit traffic throughout the year, and also to realise the Government's policy objective of linking the provincial capitals together so as to create an enabling environment to support our regional and international trade and commerce – a powerful means in the longer-term to ensure sustainability of poverty reduction.

The establishment of a Road Maintenance Fund reflects the Government's determination to secure over time the required funds for the national and local road network, which will be a major achievement in the Government's approach to poverty alleviation by guaranteeing the maintenance of the rural road systems.

Health

The general goal of the health sector by the year 2020 is “to free the healthcare services in the Lao P.D.R. from the state of underdevelopment, ensure full healthcare services coverage, justice and equity in order to increase the quality of life of all Lao ethnic groups”. Indeed, all Lao people regardless of sex, age, economic status and ethnic group in all areas of the country should have equitable access to all health care services by the year 2020.

In order to achieve this goal, every citizen must have access to complete and comprehensive healthcare services, which include the development of referral systems and an effective balance between preventive and curative approaches, and will be stated in detail in the Part Three, Chapter 5 of this document.

Chapter 4: Inter-Sectoral Priorities

The Government considers as “inter-sectoral” priorities a particular set of policies/strategies necessary to i) crystallise various sectoral linkages into a development purpose (rural development), and/or ii) to support the sectoral policies and enable them to be implemented in optimal circumstances (macro-economic management), and/or iii) improve the underlying conditions and the enabling development context (governance and public administration).

In the Government's overall framework guiding its approach to poverty alleviation, the inter-sectoral priorities are key to a sustainable success in poverty reduction and as such command high priority.

Rural Development

The Government's rural development priorities stem from the perception that a comprehensive and focused approach to rural development best responds to the national needs. Focal sites, i.e. “integrated rural development clusters, located in the most deprived areas”, or “an area approach targeting rural poverty”, adopted by the Government in 1994 as the basis of its Rural Development Programme, have been selected by the provincial authorities throughout the country in order to identify areas in their respective provinces

where the need for poverty reduction was the highest and where Government resources could be concentrated to improve the living standards of the population.

The criteria proposed for the selection of focal sites include i) urgency for poverty alleviation (areas with isolated communities, difficult access, remote areas, presence of malnutrition and illnesses, soil conservation problems, need to counter land degradation due to high incidence of slash-and-burn agriculture, etc.) and ii) an economic potential justifying investments in view of the creation of development poles (availability of land resources, possibility for irrigation, accessibility, etc.). Additional criteria included 'risk areas' (opium plantation, UXO, flood hazards, etc.).

The Focal site approach aims at creating growth zones (development poles) in any given province whereby the populations living there, or moving there (because of the attractive conditions such as access to land and social services), will find a stable environment with a high potential to improve their livelihood. As strong national economic growth has not yet reached the rural areas, which explains growing disparities, focal sites are seen as creating/promoting the necessary potential for economic growth, and hence, will lessen development disparities.

From a poverty alleviation perspective which is the primary objective of focal sites, their first goal is to prepare the conditions for enhancing food production and commercial production (crops other than for immediate consumption) which can be marketed. Promotion of commercialisation of agricultural production ranks high in most focal sites as access to markets and income generation activities are considered to be a major instrument for poverty reduction. Livestock activities as well as the development of vocational skills are also high priorities. Simultaneously, access to education and basic health services goes in parallel with the opening up of land and the extension of productive activities.

Focal sites are "centres of change and learning" whereby the transition from a subsistence agriculture to a market-oriented one is enhanced and where, thanks to the accumulated experience in participatory planning, it is expected that a process of self-sustained growth will lead to sustainable poverty eradication. Presently some 59 locations are designated as focal sites in Lao P.D.R., in which the government has paid particular attention to development.

Macro-economic Priorities

The Government's macro-economic priorities have been defined in the "Macro-economic Policy and Reform Framework" document, which was the subject of a policy dialogue with the donor community on August 31, 2000.

The Government's approach to macro-economic management supports the objectives and targets of the socio-economic plan in relation to stabilisation (controlling of inflation, maintaining the value of the kip), growth (achieving a growth rate of 7 per cent by 2003), the implementation of the budget and investment plans, and the enhancement of the decentralisation process.

The Government considers the macro-economic priorities as basic priorities in its approach to poverty alleviation. Low inflation, i.e. price stability, is a basic requirement to improve the situation of the poor, as are fiscal stability to ensure a continuous support to pro-poor investments, and a well-functioning financial sector to enhance access to credit and thus to income generating activities, increased production for the market, improved social services, and so forth.

In the Macro-economic Policy and Reform Framework document, the Government outlined its priorities and identified a series of priority reform areas. These are: the monetary and exchange rate policies; the financial sector reforms (including state-owned commercial banks, the regulatory framework, rural finance); the fiscal policies (including tax policies, expenditure management, public savings); the trade policies (including customs administration, export promotion, regulatory framework); the restructuring of state-owned enterprises; the legal and regulatory framework with regard to the promotion of all economic sectors (including domestic and foreign private investment, the strengthening of implementation and dissemination of laws, regulations and legal information).

High sustainable growth rates in view of lasting poverty reduction needs continuous decisive efforts to sustain the regained macro-economic stability and to address underlying structural weaknesses, something the Government is firmly committed to.

Governance and Public Administration

The Government has adopted a more holistic or comprehensive notion of governance and public administration reform. The Government defines good governance as an incremental process aiming for the best possible state of institutional and structural arrangements, decision-making processes, policy formulation, implementation and co-ordination capacity, information flows, leadership and relationships between the Government and the people.

Therefore, public sector management improvement is seen to be one of the cornerstones of the governance programme and one of the key prerequisites for further economic and social development. Currently, the most serious constraints which 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 under-qualified staff.

Sound financial management will be achieved through a mixture of training programs, improved policy-making, planning and budgeting, accountability and transparency, administrative and regulatory frameworks for fiscal management, internal and external monitoring and auditing systems, improved mobilisation of resources, public investment management, procurement management and improved records management and financial reporting systems. In doing so, the Government will implement the agreed recommendations of the ongoing Public Expenditure Review.

A National Audit Office (NAO) was created in 1999 in the Prime Minister's Office to ensure that public funds are used in an appropriate and efficient manner and to enforce the Decree on anti-corruption. The strengthening of fiscal and customs reforms, the Land Titling Project as well as the dissemination of timely and comprehensive information are other essential factors to improve governance, financial management and reforms and thus to contribute to poverty alleviation.

Effective public service personnel management, is currently constrained by the lack of appropriate organisational structures, inadequate staffing levels, low salaries, lack of job descriptions and job classification systems, weak establishment control and manpower planning systems, inadequate personnel management information systems and overall public service costs.. To allow for substantial improvements with regard to pay and compensation in

the public service, the Government has decided to tackle the critical issue of performance management, to gradually reduce the number of public servants and to replace non-productive government staff with more results-oriented employees.

Judicial/Legal reform is also an important part of the process of redefining the state and its relationships with the society and the private sector. The Government is committed to increase its efforts to strengthen the rule of law by developing and constantly improving the legal frameworks, improving the quality of judicial decision-making and legal enforcement, improving public awareness on existing laws and regulations and cutting “red tape” which should help especially small and labour-intensive businesses which will contribute to reduce urban poverty.

The implementation of the Government’s recent decentralisation policy, focusing on the delegation of specified authorities and responsibilities from the central to the local levels (and the urban centres in particular), is probably the greatest reform and administrative development challenge for the foreseeable future.

Under the pressure of rapid urban development, local governance reform initiatives have also been launched in four secondary towns (Pakse, Savannakhet, Luang Prabang and Thakhek) and in the capital of Vientiane, exploring new ways of improving central-local dialogue. Additional legislation will be required to institutionalise these municipal administrations and to enable them to become fully responsible for the delivery of services in these urban areas.

Currently, few local constituencies have adequate human, economic and financial resources available. The decentralisation policies therefore imply reallocation of (human and other) resources from the central ministries towards the local administrations and accelerating the implementation of the much needed training and capacity building programmes to enable these local administrations to shoulder their new responsibilities in the Government’s anti-poverty strategy.

Human resource development remains a prerequisite for good management, improving technical capabilities, enhancing participatory development, and building national ownership. Empowerment of local communities and active participation of all citizens in the development dialogue and decision-making processes require improved levels of education and, in general, a higher degree of human and social development, deriving from improved standards of living and progress in poverty alleviation.

Chapter 5: Support Strategies

Support strategies are the strategic programmes that the Government considers essential from a poverty alleviation perspective and which are integral parts of its strategic approach to poverty alleviation.

The UXO Decontamination Programme

More than 25 years after the war, severe UXO contamination still affects 15 of our 18 provinces and particularly the provinces of Oudomxay, Luang Prabang, Houa Phan, Xieng Khouang, Vientiane, Bolikhamxay, Khammouane, Savannakhet, Saravane, Sekong, Champassak and Attapeu. The areas affected represent over 50% of the Lao territory.

UXO contamination impacts negatively on the development of the country at many levels as UXO continue to maim and kill at a steady rate, causing great human suffering for the victims of accidents and their families.

By limiting the expansion of agricultural production and preventing many villagers' ability to achieve sustainable livelihoods, the UXO contamination is thus one of the root causes of poverty and food shortages in the affected provinces. Infrastructure developments, such as roads, irrigation systems and public utilities, are also inhibited by the presence of UXO and the extra cost and time involved in extending these essential services to contaminated communities is substantial. Given the country's rapid population growth, UXO acts as a major constraint to development and contributes to endemic poverty.

The UXO Lao Trust Fund established in 1995 contributes to UXO clearance and education. The majority of resources available are used for community-oriented and people-centred projects to clear inhabited and cultivable land.

The Drug Control Programme

Opium production is both a symptom and a cause of poverty. It lies at the heart of the widespread poverty in the Northern Region, which is the least well-off in the country in terms of life expectancy, education and gross domestic product. In the Northern Region, it is not possible to alleviate poverty without effectively addressing opium issues.

The Government is strongly determined to end the production of opium once and for all as a basic requirement to breaking the poverty circle in the Northern Region, and has set a time limit to do so (2006). The Government is aware of the social and economic benefits to be obtained from the elimination of opium cultivation and from the reduction in drug abuse within the country.

In 1996, the Government revised its drug control law (Article 135 of the Criminal Code on Drug Trafficking or Possession) and for the first time officially prohibited the production of opium. The scale of penalties for illicit trafficking was increased and dispositions were introduced for precursor control.

The approach focuses on three main elements: i) alternative development, ii) community-based drug demand reduction and iii) law enforcement.

Other support programmes are equally important and represent an integral part of the Government's strategic approach to poverty alleviation.

The ***National Population and Development Policy*** gives high priority to solving issues linked to reproductive health and family planning. The HIV/AIDS/STD Control Programme emphasises in particular the responses to be put in place to prevent further transmission of HIV and to minimise the negative social and economic consequences of the HIV epidemic for families, communities, provinces and ultimately for the whole country, through the provision of basic information, education programmes, and a safe blood supply.

A ***Gender Equity Strategy*** (addressing major gender issues such as gender equality, gender and education) as well as an ***Environment Strategy*** (emphasising the link between sustainable development, i.e. preserving the environment through ecologically sound management of natural resources, and poverty) are under preparation.

Chapter 6: Decentralisation

Decentralisation, as already mentioned, is key in the Government's scheme of poverty reduction. The decentralisation policy represents a conscious effort to empower provincial and district authorities to achieve and defend a vision, to identify dynamic elements and to ensure coherence in their undertakings.

In March 2000, H.E. Mr. Sisavath Keobounpanh, the Prime Minister, signed the Instruction¹⁶ "building up provinces as strategic units, districts as planning and budgeting units and villages as implementing units". This Instruction was complemented by a Recommendation from the State Planning Committee¹⁷ specifying the sharing, between the various stakeholders, of competence, functions and responsibilities regarding planning, and by a Recommendation from the Ministry of Finance¹⁸ on the division of role, tasks and responsibilities in the establishing and implementing of the Provincial Budget, which builds on the State Budget Law and the Prime Minister's Decree No.192/PM on the implementation of the State Budget, and details the extent of the decentralisation of the State budget as well as the responsibilities of the provinces, districts and villages in this field.

Building the Provinces, Prefecture and Special Zone into strategic units means that these stakeholders have to formulate their own socio-economic 5-year and annual plans as well as devise and implement their corresponding budgets. They are given the responsibility of macro-management at local level in the fields of national defence, security, economic development and socio-cultural promotion. Provinces' responsibilities regarding macro-management include *inter alia*: international co-operation, management of the State's affairs, approval and management of most small-scale business investments, with a capital of no more than one billion Kip, from both internal and foreign investors, responsibility for revenue collection, control of the budget expenditure, and the issuing of locality-specific regulations to facilitate the control of the budget.

The decentralisation policy establishes that the provinces, the Prefecture and Special Zone are in charge of collecting revenues which have to go towards covering the expenditures associated with the provinces' 5-year and annual plans and with their macro-management. The expenditures are divided up between administrative expenditures, capital expenditures and subsidies for the central and districts' budgets.

Building districts to become the planning and budgeting units is to build sufficient capacity to enable them to be responsible for formulating, implementing and evaluating their planning and budgeting processes. Based on their own characteristics and potential, districts are asked to formulate their own five-year and annual socio-economic development plans, within the scope of their responsibilities as defined by the State.

Building villages to be the implementing units is to enable them to formulate development and revenue collection plans based on commodity production and services provision plans of each family unit or production groups involved in the local market economy. Before formulating a plan, villages have to collect data and observe the living conditions of each family and categorise them into wealthy, self-sufficient and poor families. The resulting plans provide the framework for all the families to work together to improve the economic situation, for assistance to the poorest families and thus should ensure the socio-economic development and well-being of the villages. To ensure the efficiency of this new

¹⁶ Instruction No. 01/PM (11/03/2000).

¹⁷ Recommendation No. 128/SPC (11/03/2000).

¹⁸ Recommendation No. 475/MF (22/03/2000).

endeavour, villages are required to put in place an evaluation system to monitor the implementation of these plans on a regular basis.

Districts share with the villages the responsibility for collecting in the villages the following revenues: land taxes (to the amount set by the district), resource taxes, fees from fluvial transport, animal registration, TV and from the leasing of public assets. These revenues are used for the socio-economic development of the villages and will contribute, for example, to building access roads and anti-flood dams, to developing irrigation and water supply and to support socio-cultural expenditures incurred by the village committee, medical staff, teachers, security forces, school, and dispensary. ***This is a decisive step towards involving the grassroots level, which the Government considers as the real strength of the nation, in the formulation of development plans and plans for revenue collection in order to better manage and improve their socio-economic situation and well-being, i.e. eliminating poverty.***

The decentralisation policy has to be perceived as a way to improve the management of the plan and budget and consequently of the State by reducing the shortcomings in their implementation, clarifying the division of responsibilities and management between the various stakeholders, by combining the working and financial programmes more efficiently and harmoniously and by exploiting fully the potential of grassroots level.

Summary Statement

The above presented “Poverty Reduction Planning, Policy and Strategy Framework” has patiently been prepared over the past 2-3 years thanks to a collective governmental effort. Despite the Asian financial crisis and its unforeseeable disastrous impact, the Government of the Lao P.D.R. has steadily pursued what it considered as the necessary decisions and measures in view of the preparation of the NSEDP 2001-2005, which will continue to focus on poverty alleviation.

In this respect, the Government of the Lao P.D.R. wishes to restate that its commitment to poverty alleviation is a longstanding one; in fact, the improvement of the living standards of the Lao P.D.R.’s multi-ethnic population has always been at the centre of each one of its development plans.

The measures and decisions taken to increase the impact of the next NSEDP in terms of its objectives – enhanced poverty reduction – include the policy of decentralisation, the RPAs and the PPA, the longer-term strategic visions prepared for key sectors in relation with poverty alleviation and an indispensable first steps towards operational action plans. The importance of these measures and some of the insights gained have been described in Part 1 and 2 of this document.

In the wake of the Asian financial crisis, the Government also reassessed the macro-economic situation, drew from the lessons learned and elaborated a strengthened macro-economic policy and reform framework.

The launching of a RTM process with its subsequent 7 policy dialogues on the strategic visions of the main sectors involved in poverty alleviation has also proven very instructive and enabled the Government to finalise its strategic approach to poverty alleviation, which was presented at the 7th RTM in November 2000.

The Government of the Lao P.D.R. is confident that all the constituent elements patiently put in place, and the progress so far already achieved, are the key to a substantial

improvement on the poverty alleviation front. The Government's poverty alleviation strategy is currently being elaborated, on the basis of its strategic approach to poverty alleviation, and co-ordinated by the I-PRSP Committee, under the chairmanship of SPC.

PART THREE :

PLANNED PRIORITIES REGARDING THE GOVERNMENT'S POVERTY REDUCTION STRATEGY

The Lao P.D.R.'s Poverty Reduction Planning, Policy and Strategy Framework, as outlined in Part Two, is the reference for the priorities planned in terms of policies and strategies for the period 2001-2005.

This period coincides with the National Socio-Economic Development Plan 2001-2005 (NSED), presently under preparation. It will be submitted, for consideration and approval, to the National Assembly (Seventh Legislature) in the first half of 2001.

Part Three deals briefly with policy priorities in the context of poverty reduction such as the next Five-Year Plan, the Medium-term Expenditure Framework, the Public Investment Plan, the Macro-economic Policy and Reform Framework, as well as the steps leading to the finalisation of the Lao P.D.R.'s poverty strategy as such.

By presenting the following priorities, it is understood that in the course of implementation, revisions in certain areas may be made as needed according to changing circumstances and/or to new insights gained.

Chapter 1: The Five-Year Socio-Economic Development Plan 2001-2005

The next Five-Year Development Plan, the 1st of four leading to the 2020 goal, will concentrate on the targets enabling to achieve this goal of graduating definitively from the status of an LDC, while safeguarding, through increased national integration, the Lao P.D.R.'s social, cultural and political identity. Achieving this goal is synonymous with mass poverty eradication.

To strive to free the country from the least developed status by the year 2020 the tentative benchmarks set that will be achieved progressively are : 1) by 2005, the proportion of the Lao households living under the poverty line should be sharply reduced, 2) by 2005, the Lao P.D.R. should become an opium free country, and by 2010 most of the population will enjoy a better life which will also have a direct poverty reduction impact.

A condition for achieving this is to continuously increase the pace of economic growth to reach a high sustainable level. At the same time, the necessary foundations for progressing towards industrialisation and modernisation will have to be laid.

In terms of policy priorities, the implementation of a market-oriented mechanism will continue, and economic rules and regulations will have to be respected. The development potential of our country will progressively and efficiently be exploited in an efficient way and for this all economic sectors will be mobilised.

The adoption of management policies in line with decentralisation of authority and self-determination to localities and grassroots level must be fostered. Ministries and central

organisations will have a macro management role to play, while provinces will be established as strategic units, districts as planning and budgetary units and villages as implementing units.

Furthermore, public administration will have to be streamlined, while a “one-stop-shop” approach will be favoured where it is possible, and law obedience reinforced. At the same time, friendly relations and co-operation with all countries and international organisations will be enhanced, and foreign investments and international assistance welcomed.

The eight national priority programmes¹⁹ will be continuously implemented according to the targeted poverty reduction objectives and the need to promote economic opportunities.

The following Table summarises the basic hypothesis underlying the next 5-Year Plan, in particular with respect to GDP growth and PIP.

Indicators	Unit	Est. 2000	Proj. 2001	Proj. 2002	Proj. 2003
Nominal GDP	Billion kip	13,483	15,534	17,784	20,114
GDP deflator	%	23.7	9	7.5	5.7
Real GDP	Billion kip	1,127	1,191	1,268	1,357
Real Growth rate	%	5.7	5.7	6.5	7.0
PIP / GDP	%	13.5	14.1	13.7	12.5
PI / GDP	%	6.9	7.5	14.9	17.0
o/w Hydropower		0	0	6.4	7.7
other		6.9	7.5	8.5	9.3
Total I / GDP	%	20.4	21.6	28.6	29.5

Sources : SPC and IMF Staff estimations and projections, January 31st, 2001

Chapter 2: The Medium-Term Expenditure Framework (2000-2003)

The main features of the medium-term expenditure scenario are as follows :

Total revenues will be raised to amount 15 per cent of GDP, with an important increase in direct and indirect taxes , including custom duties .

Current expenditures will increase from 9.3 in 1998 percent to 10.3 percent of GDP in 2003, while capital expenditures will see their relative share decline (from 17.6 per cent of GDP in 1998 to 12.5 per cent in 2003). The overall fiscal deficit will also decline markedly from 15.7 per cent in 1998 to 7.8 per cent in 2003.

The main features of the budget for FY 2000-2001 include a higher increase in revenues than in expenditures, an increase of 41 per cent of current expenditures, and an increase in the wage bill of 20 per cent to partially compensate for past inflation. The size of the civil service will be reduced by 5 percent by the end of 2001/02. Subsidies to SOEs will continue to be avoided.

The budget for FY 2000-2001 is part of the medium-term expenditure framework scenario for the Government sector for the period 2000 – 2003 (see Table below).

The Government is confident that its medium-term expenditure framework will be a cornerstone in maintaining macro-economic stability and in optimising growth prospects,

¹⁹ See Preface, p. 3.

while at the same time contributing in a substantial way to the achievement of its poverty alleviation objectives.

Medium-Term (3-year) Expenditure Framework Scenario (As percent of GDP, unless specified otherwise)						
Macro-economic Variables	Actual			Projections		
	1998	1999	Est.2000	2001	2002	2003
1. Real GDP Growth (%)	4.0	7.3	5.7	5.7	6.5	7.0
2. Total Revenues, incl. grants	17.3	16.6	15.9	15.7	17.6	18.0
3. Total Revenues (excl. grants)	11.2	10.6	12.7	13.9	14.5	15.0
4. Official grants	6.1	6.0	3.2	2.8	3.1	3
5. Expenditures:	26.9	20.6	21.0	21.7	22.5	22.8
Current	9.3	6.1	8.2	8.4	9.5	10.3
Capital and on-lending	17.6	14.4	12.8	13.3	13.0	12.5
6. Fiscal Deficit excl. Grants	15.7	10.0	8.3	7.8	8.0	7.8
7. National Savings	14.8	16.4	14.6	14.8	15.5	15.6
Government	1.9	4.4	4.5	5.5	5	4.7
8. Investment	24.9	22.7	20.4	21.6	28.6	29.5
of which Private	7.3	8.3	6.9	7.5	14.9	17
Government	17.6	14.4	13.5	14.1	13.7	12.5
9. Merchandise Exports	6.4	7.7	8.3	7.4	8.6	9.0
10. Merchandise Imports	-14.7	0.3	6.6	10.6	23.8	10.6
11. Foreign Savings	10.1	6.3	5.8	6.8	13.1	13.9
Excl. hydropower	8.7	4.4	5.8	6.8	6.0	5.5
12. Inflation	90.1	128.4	23.2	9	7.5	5.7
13. Foreign Reserves (months of imports)	2.2	2	2.4	2.5	2.7	3

Sources: SPC and IMF Staff estimations and projections, January 31, 2001.

Chapter 3: The Public Investment Plan (PIP) 2001-2003

The 2001-2003 PIP will continue to reinforce the fundamentals of the Lao P.D.R.'s economy and improve the living standards of its multi-ethnic population. The 2001-2003 PIP presents the framework in which an on-going "rolling" PIP will be developed, regularly adjusted according to the evolving needs and continuous assessments, and in particular, to the on-going sectoral action plans aiming at poverty alleviation.

The proposed 3-year PIP is closely linked to the medium-term expenditure framework whose main components have been presented in the Table above.

In accordance with the Government's priorities, social sectors and rural development will see their shares increasing, while the relative shares of the economic sectors, especially transport and communication, will decrease over time.

The Table below shows the planned sectoral allocation for the PIP 2000-2003 in kip, and as a share of the total.

Actual and Planned Expenditures for PIP by Sectors (In percent of total)					
Sectors	1998/1999 (actual)	1999/2000 (Estimated)	2000/2001 (planned)	2001/2002 (planned)	2002/2003 (planned)
	%	%	%	%	%
Economic Sectors	79	71.3	66	58	58
1. Agriculture	13.2	12.5	23	19	18
2. Industry	3.6	1.0	5	6	7
3. Transport	62.1	56.4	38	33	32
4. Other economic sectors	-	1.3	-	-	-
Social Sectors	11	24.1	17	25	27
5. Education	5.4	5.2	7	10	10
6. Public Health	3.3	6.4	3	6	7
7. Culture/information	1.2	3.1	3	4	4
8. Social Welfare	1.4	3.6	4	6	6
9. Other social sectors	-	5.8	-	-	-
Rural Development	4.5	2.6	5	10	10
Other (offices, provision)	5.5	1.9	13	6	5
TOTAL	100	100	100	100	100

Source : Public Investment Plan for 2001-2005 , State Planning Committee.

The relative share of the social sectors in the PIP was already raised from 11 per cent in 1998/99 to 24.1 in 1999/00. The planned sectoral allocation of the PIP 2000/01-2002/03 shows that in the current FY's PIP budget, the share allocated to these sectors amounts to 25 per cent of the total PIP. The relative share of the social sectors will continue to increase to reach 25 per cent in 2001/2002; the share of rural development also will increase from 2.6 per cent to 10 per cent of Total PIP in 2001/2002. The sectoral allocation reflects the Government's conviction that the development threshold reached, especially with respect to the infrastructure investments which are starting to bear fruit, allows for more and more resources to be devoted to the social sectors and thus to direct poverty alleviation.

Although the relative shares of the economic sectors have diminished, from 79 per cent in the 1998-1999 budget to the planned level of 58 per cent for 2002-2003, there is still a need for heavy infrastructure to reach our goals of national integration, regional development and sub-regional co-operation. Industry's share also will increase markedly once the masterplan for production is completed and priority investments in the industrial sector identified.

Furthermore, the Government introduced 3 years ago a 'programme-oriented budgeting' system, giving line ministries, mass organisations and selected government agencies, new resources to enable them to increase their social outreach.

The PIP 2000-2003 as planned will continue to strengthen further the foundations for the expected success of the Government's anti-poverty strategy.

Chapter 4: Macro-Economic Framework

Macro-economic stability is a precondition for efficient poverty reduction. Raising the level of sustainable broad-based real economic growth and per capita income, enhancing production/employment and income generating opportunities for the poor by improving access to markets, credits and productive assets are the Government's top priorities in view of reducing widespread poverty. To attain these objectives, the Government continues to

undertake all efforts needed to preserve macro-economic stability, accelerate structural and institutional reforms, which in turn will further promote the development of all economic sectors, including the private sector, and encourage economic diversification.

In the wake of the Asian crisis, the Government of the Lao P.D.R. has reassessed the macro-economic situation and elaborated a strengthened macro-economic policy and reform framework. This has been the subject of a policy dialogue meeting with the donor community and won wide consensus. Based on this, a consequent matrix for fiscal policy and financial sector reforms has been presented by the Government in its Report to the 7th RTM. Furthermore, the Government has clarified its policy regarding the restructuring of the state-owned enterprises (SOE) (Policy Decision No 368/PMO/October 16, 2000) which has also been summarised in the same Report.

In the context of the above, the Government is currently exploring a possible arrangement with the IMF for a Poverty Reduction and Growth Facility (PRGF) supported programme, covering the period 2001-2003, in order to enhance its policies aimed at sustainable macro-economic stability and the implementation of the identified structural reforms.

On the basis of the reinforced Macro-economic Policy and Reform Framework presented by the Government at the Policy Dialogue on August 31, 2000, of the Medium-term Expenditure Framework presented in the Government Report to the 7th RTM, as well as on the basis of the assumptions underlying the 5-Year Plan 2001-2005 with regard to GDP growth and PIP as outlined in Part Three, Chapter 1, the Government's medium-term (2001-2003) minimum macro-economic targets include:

- economic growth of 7 per cent by 2003;
- inflation reduced to under 8 percent per annum;
- exchange rate managed flexibly;
- import coverage of gross official reserves to rise to 3 months;
- gross national investment of 25 percent of GDP;
- external current account (including official transfers) not to exceed 15 percent of GDP;
- total revenues (excluding grants) to increase to 14 percent of GDP;
- total expenditures to rise by a smaller amount to less than 21 percent of GDP, with as result;
- overall budget deficit to decline to 7 percent of GDP;
- current expenditures to rise to 11 percent of GDP;
- capital expenditures to stabilize around 12 percent of GDP.

The budget for FY 2000-2001 responds to the above outlined medium-term macro-economic scenario. Budget provisions for the FY 2000-2001, based on a moderately optimistic appreciation of the general economic context, provide for an increase in overall revenues of 36 per cent and of 31 per cent in overall expenditures. The main features of the budget for FY 2000-2001 have already been presented above (Part Three, Chapter 2).

The following paragraphs detail further some of these priorities aiming at protecting medium-term sustainability and generating more resources for poverty reduction.

Some of the Government's targets are ambitious, but nevertheless realistic. Revenue targets will be achieved through broadening the tax base, some increases in excise duties, and major improvements in tax and customs administration. However, the Government is prepared to revised targets in light of experience with budget implementation.

Overall expenditures will be restrained, while ensuring increased funding for critical areas. Operations and maintenance and local counterpart spending will be increased for key social services in support of poverty reduction, especially for primary education and basic health services and for vital social and economic infrastructure for rural development.

Fiscal transparency and expenditure management will be enhanced through improved fiscal reporting and budget monitoring. Support for the implementation of the Government's decentralisation policy in order to increase accountability at the provincial, district and village levels is essential.

Firm monetary policy will be continued, based on strict control of central bank credit and prudent lending by commercial banks. Flexible exchange rate management will allow for banks to adjust to the exchange rates and to keep a margin of no more than 2 per cent with the parallel market rate.

Structural reforms will be geared towards strengthening macro-economic stability, reducing the drain on public resources from the banking and SOE sectors, attracting private investment, domestic and foreign as well as to increasing financial transparency.

The reform strategy for the banking sectors aims at fundamentally restructuring the insolvent state banks to avoid the recurrence of large non-performing loans and to foster efficient financial intermediation, while the Government's medium-term programme for SOE reforms aims primarily at improving the efficiency and competitiveness of the enterprise sector and to facilitate Lao P.D.R.'s progress in regional and global integration.

Other structural reform areas include i) the trade sector through the simplification of documentary requirements for exports and the gradual liberalisation of imports in view of the implementation of commitments under AFTA and the preparation to access to WTO, ii) the forestry resources sector management, essential for sustainable development, iii) the promotion of the private sector by removing barriers to entry and levelling competition with the state sector.

Statistical issues, policy transparency and external debt management are other areas where improvements will be made.

Chapter 5: Investment Priorities from a Poverty Alleviation Perspective

The sectoral investment priorities from a poverty perspective are a direct outcome of the strategic long-term visions prepared for the main sectors intervening in the Government's medium-term approach to poverty alleviation as present in its Report to the 7th RTM. Both this document as well as the strategic vision documents contain investment priorities, presented in a tentative matrix form.

There is no need to reproduce particular investment programmes here, nor the targets set for various sectors, nor the projects' matrices. Most of this information is contained in the various sectoral strategic vision papers, most of which have been synthesised or summarised in the Government Report 2000. As the Government is presently preparing the undertaking of operational action plans for the major sectors which will become the essence for the future "rolling PIPs", it makes much more sense to integrate these matrices into the F-PRSP once the action plans have resulted in integrated, interlinked priority programmes and once the policy implications of the PPA (see above, Part One, Chapter 2) have been studied, and the Government's poverty alleviation strategy is finalised (See also Chapter 6 of Part One).

Consequently, prepared action plans will thus form the basis of the Government's investment programme towards poverty reduction and serve as the reference for official development assistance (ODA) mobilisation within the RT process 2000-2002 and beyond. The operational action plans will have to be as synergetic as possible, enhancing strategic linkages between sectors in order to identify "clusters of activities" enhancing each other with maximum impact on poverty reduction.

For the purpose of the I-PRSP, the main sectoral vectors for priority investments in view of poverty reduction are briefly outlined below:

Agriculture/Forestry

Several strategies cut across most aspects of agricultural development in the Lao P.D.R.:

- Creation of a enabling environment in which political, administrative and regulatory policies and practices encourage private sector initiatives in the agriculture sector;
- Recognition and delineation of the respective Government and private sector roles in agricultural development;
- Recognition of the important role of women and young people in agricultural development;
- Importance of sustainable environmental management; and
- Equitable development for ethnic minorities.

Besides the above mentioned "cross-cutting policy-related" dimensions, the agriculture strategy priorities are based on the following approaches:

In terms of Institutional and Planning Approaches, priority will be given, among others, to:

- Development of a "client relationship", whereby extension services will build on what the farmers already know;
- Equal and simultaneous emphasis on flatland and sloping land development;
- Area-based development plans, and "bottom-up" planning;
- Area-based natural resource management;
- Farmer-driven applied research and extension;
- Strengthened links between the Ministry of Agriculture and Forestry (MAF) and other Government institutions involved in planning; and
- better definition of the respective roles and mandates of provincial and district authorities, especially in the context of decentralization.

An absolutely essential component of a successful agricultural strategy is Capacity-Building and Human Resource Development with:

- Strong emphasis on human resource development in MAF, the Provinces, the Districts, the villages, and the National University of the Lao P.D.R., to strengthen the capabilities of staff at all levels;
- Development of an effective agricultural, forestry and livestock extension service, with a core framework of "training of trainers", "bottom-up" planning at the village and district levels, and appropriate functions for provincial and district staff; and

- Strengthening of Provincial Agriculture/Forestry Services and District Agriculture and Forestry Offices, and promoting Subject Matter Specialists at the provincial level and Farming Systems, Forestry and Livestock Extension Workers at district levels.

Supportive systems, trade and regulatory reforms are an integral part of the implementation of the agricultural strategy. They include:

- Rural savings mobilization and credit extension at positive real interest rates implemented through transparent policies and practices;
- Liberalization of external trade policies, and revision of regulations relating to business licensing, product quality, quarantine and customs;
- Development of practical post-harvest standards and technologies for storage and processing;
- Development of market information systems and linkages;
- Reviews and inventories of the existing business regulations, followed by the implementation of streamlined time-phased revisions in these regulations; and
- Reviews and inventories of existing trade regulations, followed by the implementation of streamlined time-phased revision of regulations according to the Association of South East Asian Nations (ASEAN), the ASEAN Free Trade Area (AFTA), and the World Trade Organization (WTO) specifications.

The linkages with the Government's Macro-economic Policy and Reform Framework and the 'Master Plan for production' will be optimised.

Adaptive research and monitoring and evaluation constitute the remaining two main dimensions of the agricultural strategy's priorities with respect to poverty alleviation.

With regard to the technical strategies for development of sloping lands and the flatlands, which are at the centre of the Government's effort to develop the rural areas of the country, a dual, but complementary, approach is required. For these reasons, differentiated technical but complementary strategies have been devised.²⁰

The top investment priorities for agricultural/forestry/livestock sector are :

- Human resources development in matters of extension services regarding farming systems, forestry and livestock to respond to farmers' demand;
- 'Trial and error' experimentation in the upland areas, where poverty is most acute, to identify the most appropriate sloping farming systems; and
- Support for small-scale farmers in market-driven lowland areas.

Education

The Government's immediate priority is to improve the equitable access to, and quality of, education in order to develop national human resources able to meet the need of the country's socio-economic development plan. Attention will be paid to improve the quality of primary education and increase the enrolment school rate.

For this reason, priority will be given to expand vocational and higher education to meet the needs of new labour markets and to improve productivity and economic rates of return. In this regard, trained workers, skilled technicians and professionals, etc. will have the

²⁰ For more details, especially with regard to the 5 "umbrella programmes", please refer to the Government Report 2000, and the Agriculture Vision Document, Dec. 1999.

capability to apply modern science and technology to serve the needs of socio-economic development at all levels of the society.

The Government also intends to expand public and private education, while co-ordinating formal and non-formal education in accordance with the country's expressed needs.

Under these programmes, major projects and sub-projects will be developed according to the needs and the funds available, notably from external assistance. Each of these programmes requires close vertical and horizontal relationships and co-ordination between the various levels involved, as well as numerous links between the sub-sectors. This approach will ensure flexibility in the implementation, facilitate aid co-ordination and enable the government to properly appraise and assess the projects.

The Government has defined 4 priority investment programs:

- 1- Equitable Access Improvement;
- 2- Quality Improvement;
- 3- Relevance Improvement; and
- 4- Planning and Management Strengthening as the top priorities among priorities in the education sector.

Among the priority investment programs the top priority projects are:

- 1- The Education Quality Improvement Project II (EQIP-II);
- 2- The Education Development Project II (EDP-II);
- 3- The Improvement of Quality and Relevance of Vocational-Technical and High Education Project; and
- 4- The Basic Education Project.

Road sector

Investments have so far been concentrated on the rehabilitation and improvement of the arterial road network, severely damaged due to the war. They also focused on upgrading National Road 13 (NR13), which is the north-south backbone of the road system. The rehabilitation and improvement of NR13 and of the critical east-west links connecting Thailand and western Lao P.D.R. to the eastern border with Viet Nam (NR6, NR7, NR8, NR9) are expected to be completed by 2003 with the assistance from the funding agencies.

In accordance with the Government's decentralisation policy over the last five years, the Ministry of Communication, Transport, Post and Construction's (MCTPC) responsibilities have increasingly been delegated to the respective provinces. This has given the provinces ownership and involvement in the road sector at all levels including districts and the rural community.²¹

The Government's main objectives for the road sector from a poverty reduction perspective can be summarised as follows:

²¹ For more details, please refer to the "Strategic Directions for the Development of the Road Sector", a document which was presented at the corresponding Policy dialogue meeting, June 2000.

- Provide “Focal Sites” with access to agricultural support, health and education services and connect all provincial and district centers to the all-weather road network. However, given the significant constraints on sector funding for rural development/focal sites, investment projects are expected to be limited to the rehabilitation of un-maintainable roads. These investments would target high priority roads which extend access to the rural areas, and support objectives such as health and educational development, provide economic opportunities and alleviate poverty, support drug control programs, and the development of ethnic minorities.
- Continuously develop road sector institutions and integrated management systems by progressively implementing more accountable management.
- Balance the funding allocation across the road sector and give priority to the preservation of the capital value of road sector assets by identifying and prioritizing periodic maintenance needs throughout the country’s road system and continuing developing its maintenance planning capability and consolidate previous assistance into a nation wide road management system.
- Enforce measures to protect road sector assets from overweight vehicles by improving enforcement of the legal maximum axle and vehicle weights and reviewing the application of the penalty system.
- Establish a sustainable domestic funding base by constituting an institutional structure and dedicated Government account to which road revenues would be credited (Road Maintenance Fund).
- Provide an environment suitable for a sustainable domestic industry by assisting, among other things, with industry training programs in conjunction with the industry’s representative organization.
- Minimize negative environmental and social impacts, by fully implementing and further developing the MCTPC Environmental Guidelines (1999), and by identifying suitable baseline Key Performance Indicators (KPI) for incorporation into environmental monitoring procedures.
- Continuously improve road safety, by establishing a high level National Road Safety Council (NRSC) with representation from the Government ministries involved directly and indirectly in road safety.
- Encourage community participation in the planning and execution of road sector activities, by developing guidelines for consultation and community participation in district and rural road development projects, involving village communities in district and rural road maintenance.

Health sector

The first priority is to improve the human resources in the health sector. The immediate focus of the health strategy with regard to poverty reduction consists in:

- Strengthening the ability of health care providers;

- Improving community-based health promotion and disease prevention;
- Improving and expanding hospitals at all levels and in remote areas;
- Paying attention to non-communicable diseases related to food consumption, smoking, alcohol and drug abuse;
- Promoting and strengthening the use of traditional medicine with the integration of modern and traditional care, ensuring the quality, safety and rational use of food and drugs and promoting national pharmaceutical products;
- Promoting operational health research to improve and develop the health sector; and
- Ensuring effective health administration and management, a self-sufficient financial system and establishing a health insurance fund.

The main priority for the health sector as seen from a poverty alleviation perspective is to address the main weakness in the healthcare system, namely the human resources, in order to improve the country's *primary health care* system. The improvement of human resources in the health sector in order to provide higher quality basic healthcare services by raising the level of technical skills and motivation of the health personnel is the first and foremost challenge to be met.

For this reason, the Human Resources Development Programme in the health sector is multi-faceted in order to address this problem in a global and coherent manner. It contains both quantitative and qualitative aspects in order to develop and diversify the health network to make it more adapted to the needs of the population. This implies increasing the number of nursing school students and ensuring a more balanced distribution among the various categories of nurses. It is hoped that this will remedy the problems stemming from a disproportionate distribution of staff, which creates shortages of staff in some areas and over-abundance in others.

The staffing of peripheral health facilities, at the centre of poverty reduction, is addressed through the selection and training of local staff based on health workers' performances and on adequate choices in the location of peripheral health facilities. The issue of staff motivation is dealt with through a set of incentive systems. Furthermore, due to the topography of the country, priority will be given to the development of outreach teams operating in each province in order to ensure vaccination and to educate people on basic health issues. Thus, people living in remote areas and isolated ethnic groups, for whom services are the most needed, will be better looked after.

The Human Resource Development Programme of the Ministry of Health also aims to remedy the weaknesses in health management and health co-ordination, thus promoting a better integration of the different projects at the various levels of planning, monitoring and evaluation in order to avoid overlapping and to economise national budget.

From a perspective of sustainable improvement of the health of the whole population, the Government of the Lao P.D.R. has selected as a major national task for the health sector, namely clean water provision for everybody before the end of this decade. While most of the

social indicators have known a marked improvement in the last 5 years, access to safe water has stagnated. The time has thus come for a major initiative regarding poverty alleviation: clean water access for all by the end of this decade.

The second priority, which is closely related to the first one, concerns the renovation and improvement of the existing healthcare facilities, notably of the three university hospitals Mahosot, Friendship and Sethatirath, as well as the completion of the Lao/Luxembourg Hospital in Vientiane Province. The renovation and completion of these major health facilities, together with the provision of better equipment and training facilities, is key to improving the overall level of expertise. The same can be said for the three regional hospitals: Luang Prabang for the Northern Region, Savannakhet for the Central Region and Champassak for the Southern Region. These hospitals will become regional references and training centres for satellite provinces and districts. Once the medical practitioners are effectively trained, they will be able to go and train local staff and village volunteers. It is expected that their knowledge will trickle down to local level and enable a comprehensive coverage of reliable healthcare for the whole population.

The third priority consists in reviewing the financing system for health care in order to achieve the overall objectives of the healthcare sector since chronic resource deficits have traditionally hampered the smooth implementation of health policies. With regard to the promotion of an appropriate health-insurance scheme, several options are presently under consideration such as a community-based and informal sector health insurance schemes.

The fourth immediate priority is to develop a set of rules and regulations (legislation/decrees) for improving the legal and regulatory framework in various areas such as the food and drug sector for increased consumer protection and the roles and responsibilities in the management of the health system.

Once these four priorities are efficiently tackled, the Lao P.D.R.'s health care sector will be able to contribute immediately and in an efficient and coherent manner to the overall goal of sustainable poverty alleviation.

Rural development

One of the main obstacles to achieving rapid progress in the focal sites is the lack of resources both human and financial.

Successful rural development is essentially a human-resource intensive undertaking, which exceeds the Government's present capabilities both in terms of recurrent financial needs and of enough extension workers.

Given the lack of resources, the Government is presently considering concentrating its efforts on "3 model focal sites" in each of the country's 3 Regions: North (Nam Thuan Focal Site in Nambak District in Luang Prabang Province, South (Houei Kong Focal Site, Pak Song District, Champassak Province) and Centre (Muang Hom-Long San District Focal Site of Vientiane Province).

The objectives of concentrating on these focal sites are to:

- Develop model focal sites in different contexts, and in each region of the country;
- Encourage the population to plant food crops (food security), commercial crops and to develop income generating activities;
- Initiate capacity building at each level for the staff involved in the development of focal sites so as to ensure improved knowledge and capabilities; and

- Promote, by showing successful approaches and increasing awareness in the population, the new methods of production and the potential of market-oriented crops.

The criteria for the selection of these 3 model focal sites include their representativeness for the region in terms of physical characteristics, presence of a multi-ethnic population, presence of a potential for economic expansion with some basic infrastructure already in place to facilitate the activities. The selected focal sites are to become a model for the region since new approaches will be tested and the progress will be monitored. From this perspective, the selected focal sites will truly become centres of “learning”. Indeed, the “models” that the Government wishes to establish aims at identifying approaches, which under similar agro-geographic, climatic and socio-economic conditions as well as cultural traditions should serve as a catalyst promoting good practice and enhancing people-centred development.

In the longer term, these 3 focal sites, one for each region, should become “self-sufficient” in the sense that over time the Government as the primary supplier of all inputs will gradually be withdrawn in favour of the extension of private sector activities which, through product marketing and private initiatives, will ultimately provide for market linkages, inputs, technology, etc.

For this reason, the Government gives high priority to appropriate investments in these 3 selected ‘regional reference’ focal sites in terms of poverty alleviation.

Support programmes

As indicated in Part Two, Chapter 5, the support strategies are an essential part of the Government’s strategic approach to poverty alleviation, because of their direct involvement in removing causes of wide spread poverty.

The **Drug Control Programme** aims to simultaneously eliminate the causes of opium production, to replace it with alternative income sources and to develop health, education and other social services through alternative development. The need to produce opium to generate cash income for food and other purposes will be removed by providing infrastructure improvements in roads and small scale irrigation, access to markets, credit knowledge about non-opium based farming systems, improved cropping and livestock production practices.

Community-based drug demand reduction focuses on the health aspect of drugs and on the economic well-being of the individuals and families using drugs and seeks to raise community knowledge of the harmful effects of opium, while assisting community efforts to reduce the incidence of new addiction. Efforts will be concentrated on detoxification and community-based rehabilitation programmes linked to the improved health delivery services. These will be combined with prevention campaigns.

Law enforcement is a separate national governmental responsibility that operates in parallel with alternative development and community-based demand reduction. It is a complementary and catalytic requirement for the successful elimination of opium.

With respect to the **UXO Decontamination Programme**, the Government will strive to deepen UXO-related activities because of their direct impact on improving the livelihood of people in the affected areas (more than 50 per cent of the country). The long-term need for UXO clearance and awareness should include:

1. Emergency response units, similar to the current roving teams as an “on call” service for reported or discovered UXO;

2. Humanitarian clearance for life saving, high risk areas where accidents are likely to, or have occurred;
3. Development clearance for community development where no other sources of funding are available;
4. Commercial, private clearance, in support of gem/mineral mines, commercial factories, tourism, and electricity supplies; and
5. Risk reduction education, to raise awareness of risks associated with UXO.

Good co-ordination is crucial in order to ensure that the UXO threat is taken into account in development plans when necessary, and that the use of resources is optimal.

Chapter 6: Finalisation of the Poverty Alleviation Strategy

In the first six months of 2001, the Government will finalise its poverty alleviation strategy based on the strategic approach detailed in the Government Report to the 7th RTM.

This will be done essentially by:

- i) Preparing and finalising the sectoral action plans (responsibility of line ministries and concerned agencies)
- ii) Analysing the results of the PPA at central and provincial and selected districts levels (responsibility of: SPC, in conjunction with mass organisations, other Lao representatives, non-governmental organisations, and donors.)
- iii) Translating the insights gained into policy and strategy priorities (responsibility of: SPC)
- iv) Identifying and finalising a poverty line, poverty criteria and indicators for monitoring, and establishing an appropriate monitoring system (responsibility of: Central Leading Committee for Rural Development (CLCRD) and SPC); and
- v) Ensuring coherence among the sectoral action plans by identifying cross-cutting strategies of each sector with macro-economic management, and governance, with a view to creating maximum synergy, inter-sectoral programme clusters, and multiplier effects – as indicated at several places in this document – (responsibility of: SPC in co-operation with concerned line ministries, agencies, provincial and selected district authorities).

Once the Government has finalised its poverty alleviation strategy, all the relevant dimensions will be integrated in the F-PRSP and its particular format, with special emphasis on monitoring and evaluation.

Particular attention will be given by the Government to the coherence and the mastering of its poverty alleviation strategy at the provincial and district levels, in the context of decentralisation and participation.

A technical inter-ministerial committee (TC), composed of representatives from the SPC, the Central Bank, the Ministry of Finance (MOF), the CLCRD, and mass organisations, will assist the responsible agency in the accomplishment of its tasks.

Once the final PPA is available, the results will be debated with all the national stakeholders in order to identify specific provincial and district measures to alleviate poverty. Consistent with the decentralisation strategy, there will also be important inputs from the

provinces and selected districts. In this way, the PPA will contribute to developing strategies and actions tailored for locally identified needs.

The Government will in due time identify the criteria for district and province selection and proceed to select provinces and districts for the discussion of the PPA results and ultimately the finalisation of the F-PRSP.

The Government has already produced a "Planning Guide Manual" to help provinces and districts improve planning and management functions. As part of that effort, there is a primer on basic monitoring. This resource is in wide use for monitoring and the Government intends to use it its poverty reduction strategy at local level, before adopting more complex monitoring systems. A participatory monitoring mechanism will be proposed in the F-PRSP and probably tested before its generalisation in a pilot district/village/province.

A Memorandum of Understanding has already been signed with the Asian Development Bank (ADB) regarding a poverty monitoring system appropriate for monitoring poverty alleviation, covering both implementation and impact.

The approach proposed by the WFP (vulnerability index) already mentioned, is considered by the Government as an excellent didactic instrument to raise awareness and commitment to poverty alleviation at the district and provincial level.

Again, with support from the ADB, the Committee for Investment Co-operation (CIC), in conjunction with SPC and MOF, has taken action to improve procedures to co-ordinate international aid and monitor outcomes of aid financed projects. Staff from these three agencies are working to standardise aid co-ordination and monitoring systems. This will make it possible to integrate planning, programming and budgeting.

With regard to the methodology of poverty identification (poverty measurements), the Government will finalise its approach in the coming months so as to ensure that a valid methodological basis can be used for future monitoring.

Action plans will be finalised according to a methodological approach discussed between SPC and the agencies concerned in order to harmonise information available.

PART FOUR : CONSULTATION PROCESS FOR F-PRSP

This document so far has focused on the firm commitment by the Government to reduce poverty (Preface and Introduction), the national poverty situation (Part One), the Government's current strategic approach to poverty alleviation (Part Two) and the planned priorities with respect to the implementation of the on-going poverty reduction strategy, including the macro-economic framework and the intended finalisation of the strategy itself (Part III).

Part Four will focus on the process leading to the preparation of the F-PRSP.

The Government's commitment to participation and involvement of the population is deeply anchored in the national tradition and shown by the fact, for instance, that most policy decisions are the subject of nationwide consultations. The Government's commitment to participation is further demonstrated by the determination with which it has conceived, tested and now generalised its decentralisation policy. In addition, the participatory rural development planning project tested in Bolikhamxay province and now in Houa Phan province, before being extended to other provinces, further attests of the Government's determination to place people in the centre of development.

On a level not yet seen before, the Government of the Lao P.D.R. undertook an exhaustive, and most successful stakeholder consultation in the case of the Nam Theun 2 (NT2) hydropower project. The NT2 shows that the Government has ample experience in consultations with all stakeholders, and in particular with the population at the grassroots level.

The Government believes thus that it has sufficiently shown how keen it is on the best possible participation process to achieve national development goals.

The TC, once it is fully functional, will, in co-operation with mass organisations and provincial and district representatives, identify the best possible way to get as wide a participation as possible and to ensure that the national poverty alleviation plan will become part of the national landscape, within the decentralisation process giving provinces the strategic lead, the districts planning and budgeting, and the villages, implementation responsibilities.

This process will be undertaken and enhanced according to the national characteristics, the present state of development and available human resources, and in harmony with the Government's gradual approach in all its endeavours.

The Government wishes to indicate that a series of national workshops have been held, over the last 3 years in-country, at several levels of the Government on issues linked to the national poverty situation. These have involved a relatively wide participation of stakeholders at the village, district and province levels, be it in relation with the RPAs or the preparation of the then planned National Poverty Alleviation Action Plan (1997/1998)²².

More recently, at the central level, several seminars or workshops have been organised within the Government on various themes linked to the poverty *problématique*, in relation with the improvement of the livelihood of ethnic minorities, rural development priorities and participatory planning, as well as to the preliminary results from the PPA.

For the Government, the participatory planning exercise, at the district and provincial level like the one carried out in Bolikhamxay province (already mentioned), is a good illustration of the dynamic that must be promoted, in particular in the context of decentralisation, to empower localities to achieve a vision on priorities and coherence within which they will fight poverty, in accordance with local needs and resource potential.

The timetable presented below suggests tentative "check-points" for the process leading to the finalisation of the F-PRSP.

²² See Government Report 1997, p.28.

Timetable for Preparation and Finalisation of a PRSP			
Objectives	Activities	Stakeholders concerned	Timeframe
1. Interim PRSP	• Discussion with TC on draft I-PRSP	➤ State Planning Committee (SPC) and Technical Committee (TC)	❖ Dec. 12, 2000
	• Transmission of I-PRSP to IMF		❖ Dec. 12, 2000
	• Organise a meeting with TC, line ministries/agencies to reach agreement on the revised draft of I-PRSP	➤ SPC,TC, line ministry concerned	❖ Feb
	• Prepare a revised draft of I-PRSP	➤ SPC, TC, line ministries	❖ January-March 2001
	• Circulate the revised draft of I-PRSP to government agencies, donors (including the IMF and WB) & NGOs.	➤ SPC,TC, line ministry concerned ,WB and IMF	❖ Mid-March
	• SPC/TG to convene a workshop with the above stakeholders to be elicit feedback on the I-PRSP	➤ SPC, IMF, WB	❖ Mid- March
	• A consolidated summary of the comments should be attached to I-PRSP with a view to addressing them in the preparation of the F-PRSP.	➤ SPC, WB, IMF	❖ 3 rd week of March
	• I-PRSP (in Lao and English) completed	➤ SPC, WB, IMF	❖ 3 rd week of March

2. F-PRSP Preparation and finalisation	<ul style="list-style-type: none"> • After the I-PRSP is approved, the formulation of the F-PRSP will start, in collaboration with Lao representatives of civil society, mass organisations, donors, and NGOs. • Preparing and finalising the sectoral action plans. • Analysing the results of the PPA at central and provincial and selected districts levels. • Translating the insights gained into policy and strategy priorities. • Identifying and finalising a poverty line, poverty criteria and indicators for monitoring, and establishing an appropriate monitoring system. • Ensuring coherence among the sectoral action plans by identifying cross-cutting strategies of each sector with macro-economic management, and governance, with a view to creating maximum synergy, inter-sectoral programme clusters, and multiplier effects. 	<ul style="list-style-type: none"> ➤ SPC,TC, line ministry and agencies concerned, ADB, IMF, WB, UNDP and other donors. ➤ Line ministries and concerned agencies. ➤ SPC, in conjunction with mass organisations, other Lao representatives, NGO, and donors. ➤ SPC. ➤ CLCRD and SPC. ➤ SPC in co-operation with concerned line ministries, agencies, provincial and selected district authorities. 	<ul style="list-style-type: none"> ❖ 2001-2002 <p>Expected timeframe</p> <ul style="list-style-type: none"> ❖ July 2001 ❖ May 2001 ❖ July 2001 ❖ June 2001 ❖ January-March 2002
--	---	--	---

For several of the “check-points” mentioned above, the Government will determine, according to its resources and the perceived needs, the particular modalities once the time has come to define them, and the needed institutional settings are in place. For the time being, the Government considers the following timetable as its reference for the next steps leading a F-PRSP.

The estimated cost for organising some of the planned manifestations (workshops, consultations) amounts to approximately US\$ 300,000. Indeed, a broad estimation is the only indication that the Government is able to provide at this moment in time, simply because the detail of these manifestations will be finalised once the conditions are in place to do so and the SPC with the TC has adopted concrete proposals.

Final observations :

- Several of the above activities will have to be closely co-ordinated with initiatives undertaken at various levels and in various areas so as to create maximum synergy: e.g.

the planning activities at the provincial/district levels must progressively integrate and adapt to local circumstances the monitoring/evaluation framework once it has been tested in a given province – which indicates the need to proceed with discernment and to adapt initiatives, etc. within a time frame of 2 years or more while striving for optimal and progressive into the particular local contexts. Some of the ideas/consultations expressed by the Government in this document will have to be adapted, when the time has come, to the particular circumstances of the moment: e.g. the linkages between capacity building/decentralisation (a probable topic for a policy dialogue meeting with the donor community in the context of the RT process) and M+E/capacity building needs for poverty monitoring in the context of a decentralised planning ought to be integrated for maximum efficiency.

- Each province will have to identify the most appropriate way to proceed with the consultations regarding the discussions on the result of the PPA. The SPC will assist the provinces in their choices and their implementation. Each province has also particular projects at the district or village levels which could become interesting vectors for testing ideas or policy recommendations.
- In the context of the national planning system and the decentralisation policy, villages will formulate their own village development plan. Provincial authorities, with support from the line ministries and the SPC, will help develop capacities in this respect. Identifying poverty fighting priorities will thus become the villages' own responsibilities; their needs will be then taken into account in the district's planning and budgeting priorities.
