

**Ministry of Agriculture and Forestry
The Sub-Working Group on Uplands Development**



Policy Brief #3: Pro-Poor Institutional Development

1. Introduction

The Sub Working Group on Upland Development (SWGUp) has identified institutional strengthening as a priority component of the planned northern uplands development program for agriculture and natural resources. The purpose of this policy brief is to examine key issue areas where the Ministry of Agriculture and Forestry (MAF) and other government agencies need to cooperate to improve the delivery of services to villagers. The policy brief also examines some of the structural and capacity related issues and constraints among the relevant agencies at different levels.

The Institute of Development Studies (IDS) provides the following definition of institutional development that highlights the importance of improved interactions among three sectors of society (public, private and civil) interacting to improve services for the poor.

“Institutional development includes institutional reform and organizational development. It is about changing the formal and informal rules of the game, which govern the relationships between policy-makers (the enablers), service providers (the responders) and poor people, both as consumers of services and as citizens with voices”.

2. Institutional Context

The most significant features of the institutional context in Lao PDR are as follows:

- Lao PDR is a multi-ethnic country, with 49 officially recognized ethnic groups. These ethnic groups fall into four main ethno-linguistic language groups, each with their own distinct customs.
- The recent history (i.e. the past 50 years) includes periods of colonialisation, civil war, migration, collectivization and now an opening to the market economy.
- Laos is a one-party state and ranks low on many international governance reports¹.

¹ Laos ranks 161 out of 169 in press freedom index, (Freedom House, 2007) 151 out of 180 in the Corruption Perception Index (Transparency International 2008) and 165 out of 189 in Ease of Doing Business (World Bank 2009)

- The political and administrative structure is decentralized, with local authorities interpreting national policy in divergent manners, and being responsible for (i) processing and authorizing company registrations and investment licenses; (ii) company-level inspections; and, (iii) allocating land-use rights and a private company's access to other resources.

2.1 Stakeholder Groups

Society is often divided into three sectors: public, private and civil (Figure 1). The public sector is that part of the society which is owned or controlled by the Government. In Lao PDR this includes Government programmes and public investment projects supported by the donor community. It also includes government led mass organisations such as the Lao Women's Union (LWU) and the Front for Reconstruction. The private sector is the part of the society privately owned and in the control of individuals and companies. This includes Lao and foreign actors from large-scale regional investors and agro-industrial corporations to small and medium enterprises (SMEs) village business-people and local traders.

Civil society consists of informal and formal networks, voluntary associations, and organisations which act independently of the market and state. Civil society is still in its infancy in Laos and a draft law on allowing Non-Profit Associations is still under debate. In addition, a law on farmer cooperatives has yet to be approved. Most farmers are active in both the private and the civil sectors, and organizations such as INGOs can switch between the civil and public sectors depending on the source of funds. Some are also engaged in activities in the private sector. As groups within civil society develop into business entities they become part of the private sector.

While the distinction between these sectors is not always clear, they do provide a useful frame of reference when considering institutional development. In particular, these sectors help us understand the changing roles of different organizations during periods of economic transition. Cooperation between the three groups is therefore needed to ensure poverty reduction efforts are successful.

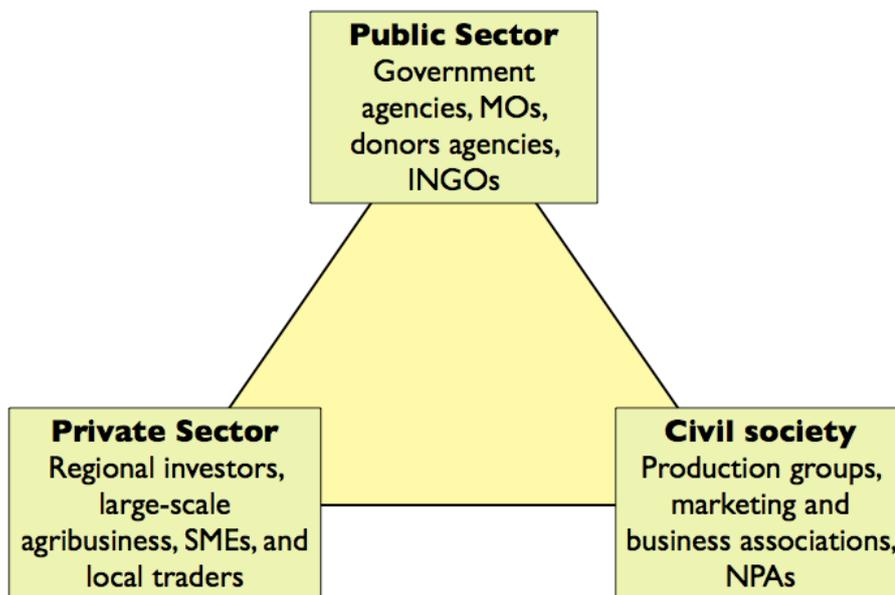


Figure 1: Key stakeholder groups

In regards to relations between the three groups, neither the public nor the private sectors have been able to adequately meet the needs of farmers and upland communities. For example, the public sector provision of extension services has been hampered by low capacities and finances. Extension agents are being encouraged to assist villagers to form production groups and marketing and business associations, however the extension agents acknowledge that they do not possess the guidelines and capacities to assist farmers to develop production groups effectively. (Consultations, Oudomxay, 2008).

To some extent the gap in service provision is being filled by private investors, by way of land concessions and contract farming arrangements which provide technology, planting material and market access. However agribusinesses are often unwilling to provide small farmers with improved crop seeds and breeds, affordable credit and technical support. The rural poor are drawn into various contract arrangements because they have few alternatives or avenues to diversify into commercial production activities. Some contract arrangements end up putting farmers, particularly the poorest, in a more risky position, e.g. the so-called 1+4 contract farming model (Shi 2008).

2.2. Factors Influencing Institutional Change

The three sector groups interact and respond in different ways to regional investment, accelerated growth, and greater prosperity created by economic advancement in the country.

Changes within the institutional framework have been strongly influenced by the preparedness of the Government of Lao PDR to open up the economy and improve governance since the late 1980's. This indicates a positive attitude of the Government and its agencies to reconsider the role of government, in particular, regarding the way services are delivered to rural areas.

Table I indicates important policy reforms made by Government (and particularly MAF) towards better governance and service provision during the period 1989 to 2008.

These policy reforms have been accompanied by governance and public administration reforms since 1997 initially with support from UNDP, and more recently, from other development partners. The Governance, Public Administration and Reform Program (GPAR) has been the primary source of the reforms being implemented.

Decentralisation in Laos is aligned with the Government directive in 2000 that redefined central-local level relations, i.e., with provinces as strategic planning units, districts as planning and budgeting units, and villages as implementing units. However the delegation of authority for decision making at each level has not yet been addressed in a systematic way (i.e., who is

Table 1: Key policy reforms by GoL and MAF

Year	Policy and/or Plan
1989	▪ New Economic Mechanism
1997	▪ Joined as Member of ASEAN ▪ Joined the ASEAN Free Trade Agreement (AFTA)
2000	▪ Strategic Vision of the Agriculture and Forestry Sector ▪ PM Decree 01/2000 on Decentralisation
2004-2006	▪ Northern Region Development Strategy (NRDS) ▪ National Socio-economic Development Plan 2006 -2010 (NSED) ▪ National Growth and Poverty Elimination Strategy (NGPES) ▪ Forestry Strategy to the Year 2020 ▪ Village Cluster Development Program 2004-2008 ▪ Four Goals and 13 Measures (MAF) 2006
2008	▪ Draft Plan for Industrial Economic Development and Co-operation in Northern Lao PDR (2008-2020)

responsible and authorized to do what). Annex 1 provides an overview of relevant governance legislation that has been enacted from 2003 to 2008 and Annex 2 provides an overview of the key poverty reduction programmes. Despite these commendable achievements, in the last five years the governance reforms have not kept pace with the rapid and large-scale investments and the fundamental changes that have been occurring in the country.

3. Key Issues in Institutional Development

Five issue areas of importance to the agriculture and forestry sectors are listed in Table 2. Each of these is discussed in more detail below, with recommendations for action.

3.1 Inter-Agency Cooperation

A number of governmental agencies share responsibilities for managing the country's land, natural resources and agriculture. Several of these agencies have been created relatively recently, and others have recently undergone major restructuring and reorganization exercises. This has resulted in overlapping jurisdictions, confusion over roles and responsibilities,

and in some cases duplication of effort, both among the agencies and within the agencies. At the national level, the primary agencies involved are:

- Ministry of Planning and Investment (MPI)
- Ministry of Agriculture and Forestry (MAF)
- Ministry of Energy and Mines (MoEM)
- Ministry of Industry and Commerce (MoIC)
- National Land Management Authority (NLMA)
- Water Resource and Environment Agency (WREA)

Potential problems stem from rapidly expanding developments in the hydropower and mining sectors, especially in the upland areas, that will have a substantial effect on the availability of agricultural land. Since 1993, the number of mining projects has reached 140 with a total investment of \$500 million. In 2006, foreign direct investment in Lao PDR was about \$500 million, and the majority of it was for hydropower development projects. Some of the projects are relatively small-scale, such as sapphire mines whose concessions may be just a few tens of hectares; but many of the projects are large-scale, such as coal mines and major hydropower dams and reservoirs that can affect tens of thousands of hectares. At the same time, and occasionally in the same general areas, concessions let for rubber plantations and other agricultural crops also extend to many

Table 2: Key issue areas

Issue Area	Key issues
Inter-Agency Co-operation	<ul style="list-style-type: none"> ■ Government agencies have over-lapping jurisdictions and inter-agency communication systems are inadequate, resulting in confusion over roles and responsibilities and duplication of activities. ■ There is no clear policy and regulatory framework for inter-agency coordination across investment programs, and monitoring and evaluation systems are weak. ■ Responsibilities for coordinating poverty alleviation efforts are not clear. ■ Agriculture extension services lack a coherent strategy and mechanisms.
Compliance with Safeguards	<ul style="list-style-type: none"> ■ Large scale hydropower, mining and agricultural development projects developments are having widespread impacts on the development programs of other sectors. ■ Environmental and social safeguards are sometimes avoided or loosely applied to investment projects because the guidelines are inadequate or the monitoring and enforcement is weak. ■ Despite the growing numbers of large-scale investment projects in the mining, hydropower, agriculture and other sectors, there is as yet no system to evaluate their cumulative environmental and social impacts.
Planning, Implementing and Monitoring Systems	<ul style="list-style-type: none"> ■ MAF does not have unified project planning, implementation, and monitoring and evaluation systems. ■ Donors often require the use of specific planning, implementation and monitoring systems on projects they support.
Farmer Organizations	<ul style="list-style-type: none"> ■ The lack of a legal framework for the formation of farmer groups and associations limits their use of collective bargaining power. ■ Agricultural extension staff lack important skills to support the formation of farmer groups and crop-based associations.
Agricultural Processing for Local Benefit	<ul style="list-style-type: none"> ■ Currently relatively little value-added processing of agricultural commodities is done in Lao PDR. ■ The Government does not have a clear strategy to promote investments in agricultural processing. ■ Complex internal border taxation systems and uncertain payment schedules add to investors' perceived risks of doing business in Lao PDR.

hundreds or thousands of hectares. When there are possibilities for conflicts between projects on this scale, the potential costs could be high.

The National Leading Board for Rural Development and Poverty Alleviation (NLBRDPA) provides an example of the difficulties faced with inter-agency coordination. NLBRDPA's mandate is to support the implementation of all activities related to rural development and poverty alleviation, but it is finding it difficult to coordinate activities among the relevant ministries because they are used to acting autonomously. This has contributed to the World Bank observation that poverty reduction approaches are not currently coordinated geographically, technically or financially, causing inequities among different communities receiving financial support for poverty alleviation.

While the organizational relationships among these and other agencies are still being worked out, further changes appear likely. For example, the drafting of a new Law on Land and Natural Resources hints that the NLMA may at some point become the Ministry of Lands and Natural Resources, as discussed in Policy Brief 2: Rural Land Management and Land Administration (PB-2). Should this occur, then the roles and responsibilities of MAF and other agencies that currently have land and natural resources management responsibilities will need to be reviewed and reconciled with those of the new Ministry. This may cause some initial friction among the agencies involved, but it is necessary to avoid the probability of a continuing conflict among them if their overlapping jurisdictions are not resolved.

The Government's on-going decentralization program has devolved many planning and decision making functions to the provincial and lower levels. This has created the potential for conflict between national and provincial (and lower level) development programs and projects, or between projects in neighboring provinces, when information is not shared in a timely manner. For example, there could be conflicts between agricultural concessions areas granted to foreign investors independently by national and provincial authorities; or development plans in an upstream area in one province could conflict with development plans in a downstream area in a neighboring province. And in the absence of clear national guidelines for allocating land concessions for tree crop plantations and agricultural developments, provincial administrations have adopted opportunistic approaches and developed their own in-

dependent arrangements with investors, sometimes exceeding the level of their authority granted by the national authorities.

With regard to the extension system, there has been repeated restructuring of the extension service, most recently in May 2008, especially at the Provincial and District level. Operational mandates are ambiguous and inconsistent. There is no in-service training program within the Ministry, while staff depend on donor projects for equipment, operating costs as well as capacity development. The result is that services are fragmented and short-term, and the provision of materials to staff at different levels is sporadic and inequitable. Contradictory demands are being made by different stakeholders—national technical agencies, local government, agribusiness companies and donor projects—resulting in low levels of efficiency, and weak accountability to rural communities. Low salaries and limited incentives for good performance in the public sector lead to low motivation and secondary employment. The extension system has yet to adjust its basic approach to meet new challenges, for example, facilitating contract farming.

Recommendations

The problems currently being faced due to difficulties with inter-agency coordination present a strong argument in favor of a program-based approach to development, such as that proposed for the northern upland region.

In the medium- to long-term, the Government needs to review the mandates of its agencies that have been delegated authority and responsibilities with regard to the management of the country's land natural resources, and rationalize them according to the current institutional framework (see PB-2). This is closely related to the need for legal reforms to support the growing market economy.

In the short- to medium-term, the Government needs to create formal structures to foster inter-agency cooperation in many areas. For example, it should develop a central data exchange system to compile information on the development programs of the various agencies and ensure that they are complementary rather than conflicting. It should also strengthen the coordination roles of agencies like the previously mentioned NLBRDPA, and the National Environment Committee (NEC) to ensure that the environmental and social impacts of development are adequately an-

anticipated, monitored and mitigated. This will not be easy given the autonomy that many ministries and provincial administrations have enjoyed in the past, but it is necessary to minimize potential conflicts and to optimize potential returns from development investments.

To improve the extension and service delivery, MAF and other government agencies need to modify their roles to focus on facilitating rather than directing the development process, to become proactive rather than reactive in guiding development, and to strengthen their very important monitoring functions. The following measures are suggested:

- A long-term organization and development plan for MAF, to provide a stable framework for capacity building based on agreed structures and functions;
- Reform of agricultural education at all levels—university, colleges and in-service—driven by the need to reach and maintain acceptable standards of competence;
- A programme-based approach to extension capacity-building, rather than a number of projects that target different provinces or topics;
- Improving governance by giving more attention to financing and accountability.

3.2 Compliance with Safeguards

Many of the mining, hydropower and commercial agriculture projects that are either under development or in various stages of preparation could potentially have serious environmental and social impacts. Uncoordinated concession allocation by the various line agencies and local administrations at all levels has occurred without prior surveys, land classification and capability assessments, or local participation. Recent surveys by NLMA and the National Agriculture and Forestry Institute (NAFRI 2007) have found it difficult to document with certainty the location, size, purpose and other details of land concessions. This lack of readily available information makes it difficult for the responsible authorities to ensure that environmental and social safeguards are being properly applied to the projects individually and in combination.

Due to the remote locations of many of these projects, many of the people that they could affect are among those least equipped to withstand those impacts. In the northern uplands and other remote areas of Lao PDR there has been a rapid transition to a dual economy where urban areas and some rural areas with easy access are quickly moving to a market-based economy while less accessible areas remain in a semi-

subsistence economy. The environmental and social safeguard policies and procedures written into Lao law, and into the prerequisites for investments by the donor community, are there to protect the lives and livelihoods of all of the people, and especially people like those in remote areas that have difficulty making themselves heard on the national stage.

Government agencies involved in these development sectors were not fully prepared to respond to the sudden interest in Lao PDR from foreign investors, especially those in the private sector. Their capacity to guide and monitor investments was quickly overwhelmed, and adherence to policy guidelines and legal requirements sometimes has been inadequate. The Environmental Assessment Decree of 2002 requires that responsible agencies screen Project Descriptions submitted by potential investors, but authorities granting the project concessions have been lax in ensuring compliance with this and other safeguards. As a result, many land concessions for large mining, hydropower and agricultural developments have been granted in isolation, without taking into consideration how the projects may interact with other projects proposed in the same or nearby areas, and often without adequately examining the projects' potential individual and cumulative environmental and social impacts.

Recommendations

The Government should increase enforcement of the environmental and social impact assessment process to evaluate the appropriateness of proposed projects and to minimize the impacts from approved projects. They should also develop a mechanism to ensure that there is close coordination among the agencies responsible for approving land concession applications and issuing investment licenses at all levels of government.

In the short- to medium-term, the Government should:

- Promulgate clear guidelines for the evaluation of applications for land concessions based on the Land Law, and provide instruction in their application to responsible provincial and district authorities;
- Develop guidelines for the application of environmental and social guidelines for different types of investment projects, similar to MAF's directions on mitigating potential negative impacts from agricultural monocultures;

- Develop procedures to assess the potential cumulative impacts of development projects that are located in the same geographic and/or ecological regions;
- Strengthen the role of the National Environment Committee to ensure that environmental and social impacts of investment projects are closely monitored.

3.3 Planning, Implementing and Monitoring Systems

In Lao PDR, development and investment is proceeding on many fronts, guided for the most part by the National Growth and Poverty Eradication Strategy (NGPES, 2004) and the National Socio-Economic Development Plan for 2006-2010 (NSEDP). In the northern upland regions, the Northern Region Development Strategy (NRDS) provides additional guidance, as do other plans such as the Draft Plan for Industrial Economic Development and Cooperation in the Northern Region (DPIEDC). However, while each of these plans provides guidance to government ministries and agencies, the ministries and agencies generally implement them independently of each other. More importantly, the Government does not yet have a system to evaluate, compare, and contrast the potential impacts of the development programs and projects prepared by the separate ministries and agencies, and then choose the most favorable combinations among them.

The DPIEDC has a strong focus on industrial development in the hydropower and mining sectors. However, hydropower dams flood large tracts of land, especially the best agricultural lands in the valley bottoms, and change the flows of rivers; and extractive mining operations for coal, gold, and other minerals strip the soil from large tracts of land and fill streams and rivers downstream with silt; and associated processing and smelting operations can poison the land and water with dangerous chemicals and heavy metals. Clearly hydropower and mining (and other) large-scale development projects are highly likely to have significant effects on the agricultural systems in their proximity and downstream areas—effects that should be mitigated to the extent feasible, and the costs of those effects and their mitigation should be factored into the projects' economic and financial feasibility studies. Equally important, plans for large-scale projects should be widely publicized early on so that other potential developments in the affected areas can take them into account.

MAF does not as yet have a standard monitoring and evaluation (M&E) system to track project implementation progress and the attainment of project objectives. Instead, MAF relies heavily on project-specific M&E systems that are usually defined by donor requirements; but even then the systems often are not well implemented. This situation makes it difficult for MAF to learn from the experience of its many projects and programs, and to effectively apply those lessons to future programs and projects.

Recommendations

Ideally, Lao PDR needs an integrated development planning and monitoring system to coordinate public and private investment programs and projects across sectors. Practically, as a first step, the Government should develop a central data exchange system to compile information on current and proposed development programs and projects. Using a geographic information system to store and analyze the information submitted by government agencies and private sector operators could make the projects' potential interactions, synergies and conflicts more readily apparent. And where potential conflicts make two or more projects mutually exclusive, they can then be evaluated simultaneously to determine the best way forward. For a central data exchange system to work, the Government would need to impose and enforce reporting requirements across all agencies and sectors; and providing access to the central databases would make the system more attractive to potential participants. The data exchange system would require investments in modern information technology hardware and software, and a core staff of skilled operators. The prerequisite for any of this to succeed is the general recognition and acceptance across government agencies and the private sector that information sharing is required for the common good.

With support from a number of donors, the Government has been pursuing the development of decentralized planning and monitoring systems at the provincial and district levels through the Governance, Public Administration and Reform Program (GPAR) and the Support for Better Service Delivery Project (SBSD). This approach is improving the Government's planning and monitoring systems, and should be expanded. MAF in particular should encourage donors to continue their support through programs and projects that support and are integrated with Government systems.

In parallel with the GPAR system, two examples of decentralized area based planning could be incorporated. The first is from the Strengthening Environmental Management Project based at WREA and carrying out area based planning in Oudxomay. In addition, GTZ and MPI have tested processes for developing district level 5-Year Area-based Development Plans.

As soon as possible, MAF should initiate the process of establishing a standard M&E system to track the implementation progress and monitor the attainment of objectives on all of its projects. This would include establishing standard reporting systems and formats, and developing an electronic information management system to facilitate the retrieval and analysis of data.

3.4 Farmer Organizations

Small farmers wishing to produce commercial crops and enter the market economy frequently are at a severe disadvantage because they have inadequate access to market information, technical resources (quality seed and other inputs, production techniques and post harvest processing, etc.), and credit, and they deal in such small quantities that they inevitably are price takers at the mercy of middlemen and traders. To address these and other shortcomings, the Government is promoting the formation of farmer production and marketing groups and encouraging the development of contract farming. However, there are still significant challenges to be overcome in the process.

First, the current legal and regulatory framework is inadequate to give formal legal status to farmer groups, and there is as yet no legal framework to enforce contracts. As an interim measure, in some areas farmer groups are being registered at the district level to give them some legitimacy. The Government has drafted a decree on cooperatives, but farmer groups and associations will remain informal organizations until it is approved by the National Assembly. Contract farming arrangements between farmer groups and traders and processors also will remain legally unenforceable until a body of contract law has been enacted by National Assembly. This does not mean that contract farming can not be done, but in the interim it must rely heavily on the mutual understanding and goodwill of the contracting parties—a situation that can result in contracts not being honored if one party or another believes that it is disadvantaged by the arrangement. And for contract farming to succeed in the long run, regardless of the law, each of the contracting parties must understand that continuing cooperation among the parties is needed to make them all better off.

Second, the process of group formation is important to ensure their effectiveness. Ideally, farmer groups are formed by like-minded farmers who are focused on the production of specific crops and who see an advantage in common action to access needed resources, to avail of improved cropping technologies, and/or to sell their crops. However, in some cases groups are organized by officials to meet government or development project targets, and when the process is not participatory and the purpose of the group is not focused on the interests of its members, then it is likely to be ineffective. Effective group formation also can require considerable support in the form of training and capacity building to ensure that the group is well organized and effectively managed to address the needs and meet the expectations of its membership.

Third, Government extension agents are often called upon to initiate and guide the process of farmer group formation. However, the extension service itself often lacks the resources to effectively form groups and develop their capabilities and capacity to the point where they can function on their own. Currently many extension staff are not adequately trained, and they often do not have the necessary resources to guide the process of group formation. If an extension agent's resources are not adequate to form the group, train its members in farming operations and group management, facilitate their access needed resources, guide them through the initial cropping cycle(s) and post-harvest processing, and assist them with marketing the group's production at a fair price (whether through contract farming or other arrangements), then the chances that the group will be successful and sustainable are significantly reduced.

Box 1: Lao Coffee Production on the Boloven Plateau

MAF's Rural Development Division has assisted with the formation of 52 Coffee Producer Groups on the Boloven Plateau that have achieved semi-legal status through a registration system with the District Government. The Groups are linked through the Association des Groupements de Producteurs de Café du Plateau des Bolovens (AGPC, or Coffee Producers Association) that gives them better access to local and international markets, and a stronger voice when dealing with suppliers and buyers. This is the first such Association in Lao PDR, and it provides an example for the formation of additional commodity-based associations to strengthen the bargaining positions and reduce the risks of local agricultural producers and processors.

Due to these and other problems, the Lao Extension for Agriculture Project (LEAP, 2008) found group members are not sufficiently aware of the reasons they are in groups and the benefits that they will receive as compared to acting as individuals; and a recent survey of about 180 farmer groups formed under the Smallholder Development Project during 2005-2008 has shown that many are not yet functional. This situation is likely to persist until concerted action is taken to rectify the problems.

Recommendations

There are various courses of action that MAF and the Government can follow in the short, medium and long term to resolve the current issues with regard to farmer groups. In the short term, MAF should focus on facilitating and guiding, but not controlling, the formation and operations farmer groups. Because extension services are generally under-resourced, the private sector should be engaged where possible to fill the gaps, with extension staff assisting to ensure that the farmer groups are not disadvantaged in contract farming and other production and marketing arrangements. Farmer groups should continue to be encouraged to register as a preliminary step in gaining legal status, and MAF should expedite the submission of the Cooperatives Decree to the National Assembly.

In the short to medium term, MAF should focus on retraining extension staff with the skills required for their expanding roles that should include facilitating farmer group formation and development, acting as honest brokers between farmer groups and the agribusinesses they supply, monitoring agricultural markets and disseminating market information, etc. These efforts should also include periodic assessments of the skills required by staff in their various roles, and of improvements needed in the agricultural training programs at all levels to develop those skills. Wherever possible, advantage should be taken of development partner support, including cooperative programs such as the Ayerwaddi - Chao Phraya - Mekong Economic Cooperation Strategy (ACMECS) Plan of Action.

In the medium to long term, the Government should continue its efforts to establish a framework of contract law and regulations. For the agriculture sector, this will need to include a national framework for agricultural trade agreements with neighboring countries and major trading partners, and for foreign investments in agricultural production, trade and processing in Lao PDR. Expanding the land titling program to rural

areas is also essential, as farmers are unlikely to invest to a great extent in commercial agriculture if their land holdings are not secure.

3.5 Agricultural Processing for Local Benefit

Laos has only recently become a focus for commercial agricultural development by foreign and locally based investors for a wide range of crops such as rubber, maize for livestock feed, jatropha for biofuel, sugar cane, and various vegetables and organic foods. On the surface this appears to be advantageous for Laos. However, in many cases land concessions have been granted to the foreign investors at very inexpensive rates and thus bring relatively little income into Laos. In some cases the foreign investors even import foreign labor to work their plantations, so there is minimal job creation where local farmers are displaced. And in many cases the produce is exported raw or with minimal local processing, so that Government income from export tariffs is low, and so is the local economic impact through job creation and skills training.

Where these conditions occur, the foreign investors are able to exert considerable control over the local market and ensure that they rather than the land-owners and/or local producers reap most of the profits. While this situation may have been acceptable for some of the early investments to initiate the commercialization of local agriculture, the situation has changed and Laos should be taking action to ensure that local farmers and agribusinesses realize more of the benefits from agricultural development.

Some foreign investors are building local processing plants, such as Mitr Lao Sugar who will export refined sugar from their factory being constructed in Savannakhet. Local agribusinesses also are slowly developing in some commercial production areas, such as maize drying facilities in Houn District of Oudomxay, and NTFP processing also in Oudomxay. However, virtually all of the rubber from Chinese plantations in the northern provinces is exported raw for processing in China, and there aren't even adequate storage facilities for most of the maize grown in Sayabouri for export to Thailand. One of the best examples of local agricultural processing comes from the coffee producers on the Boloven Plateau—they have not only organized farmer production and processing groups, but a coffee producers association to assist with marketing and other aspects of the business.

A related issue that makes the climate unfavorable for agribusiness investment is the practice of provincial and district governments levying taxes and fees for produce crossing their internal borders. These taxes and fees are not standardized, and they create an incentive for transporters to pay ‘negotiated fines’ at the checkpoints which results in reduced government revenues. CIAT’s Small-scale Agro-enterprise Development for the Uplands Project found that the loss of income was substantial at the provincial and district level. For example, it was estimated that in 2006 the loss of provincial and district revenue amounted to 1.14 billion kip, and that 68% of the large ruminant trade to Vientiane and 89% to Vietnam was informal.

A similar issue arises in land tax assessment and collection system that overburdens the rural population compared to the urban population, and is not in line with poverty alleviation strategies. In many instances shifting cultivators pay higher taxes than paddy farmers, the system of collection differs from one district to another, there is little transparency and no grievance system. Tax collected is forwarded to the National Treasury and not available for local development. Furthermore, the high land tax rates reduce villagers’ preparedness to invest in land and form a heavy burden for them. The Department of Land Planning and Development/NLMA has prepared a proposal to introduce a value-based property tax system in all urban areas and to abolish land tax collection in rural areas from 2010 onwards.

Recommendations

In order to capture a larger share of the profits from export-oriented agricultural production, the Government needs to develop a framework of national policies, strategies and regulations to encourage investment in local value-added processing. This should be done with the active involvement of the private sector.

The following should be considered for inclusion in the investment framework.

- Controls on foreign agricultural investments to ensure that they contribute to national development goals and conform to environmental and social standards;
- Incentives to encourage foreign investors to invest in local agricultural processing plants, and to train and employ local labor;
- The adoption of international grades and standards for commercial crops, and their introduction to the local agriculture sector through extension services and farmer training programs;
- The development of national sanitary and phytosanitary inspection capabilities to international standards;
- The standardization and rationalization of provincial and district level procedures related to commercial agriculture, including the complex system of taxes and fees levied on the transport of agricultural products and other commercial goods;
- The earmarking of at least a portion of the proceeds from transport taxes and fees for the maintenance of transportation infrastructure;
- The promotion of investments in basic infrastructure to support the development of commercial agriculture—such as primary markets, market information systems, warehouses, silos, drying facilities, and cold storage facilities, in addition to roads and bridges;
- The identification of incentives to encourage companies to invest in sustainable development, together with the development of a framework for friendly and responsible investors

About the SWGUp Policy Brief Series

The purpose of the policy briefs is to initiate dialogue among SWGUp members around key livelihood issues related to agriculture and natural resources management, with the aim of reducing poverty in the Northern Uplands. It is expected that the policy briefs will contribute to enhancing GoL policies to be addressed by the interventions under the future programme based approach to be developed. Three policy briefs that will be developed over the next three months include: 1. Improving upland farming systems for poverty alleviation; 2. Sustainable land and natural resource management 3. Pro-Poor Institutional Development.

This policy brief was produced on behalf of the Sub-Working Group on Uplands Development. The views expressed in this document are the views of the consultants at this stage and do not necessarily reflect the views of the SWGUp itself or the Ministry of Agriculture and Forestry.

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Annex 1: Relevant Governance Legislation

Legislation	Description
Decree No. 34/PO on the Amended Law on the Government of the Lao People's Democratic Republic, 30 th May 2003	The Law on Government determines the organization, operation and framework of the government to have effective State administration, socio-economic management, natural resource utilization and environmental protection, strengthen the rule of law, enrich the country, while improving the living conditions of the multi-ethnic people, and ensuring security and justice in the society.
Decree No 060/PM, January 2007	Relates to the organization and implementation of the National Leading Board for Rural Development and Poverty Alleviation (NLBRDPA). Main role of NLBRDPA is to assist the Government and the Prime Minister to coordinate with ministries, organizations and local authorities regarding studies, directives, work plans, and projects relevant to poverty alleviation and rural development.
Notification No 361 of the Office of the Government Secretariat, Lao Revolutionary Party, July 2008	The National Leading Board for Rural Development and Poverty Alleviation (NLBRDPA) is responsible for supporting the implementation of all activities related to rural development and poverty alleviation including monitoring the 500 million Kip government budget allocated to each of the 47 first priority poverty districts. The Office of the Secretariat is responsible for monitoring and support.
Lao Government, November 2006: Strategic Plan on Governance, 2006-2010	Relates to Public Service Improvement, People's Participation, Rule of Law, and Sound Financial Management. The intention of the plan is to support the NSEDP 2006 – 2010 by changing the primary role of the civil service to providing better services to all members of Lao society, informing communities of the services that the Government is undertaking, and to facilitate dialogue between the Government and its development partners to ensure efficient coordination.
Draft Decree No.... PM on Associations (2008)	Defines the principles and regulations for the establishment, activities and management of associations as legal entities in Lao PDR, the freedoms of Lao citizens to form associations in accordance with the Law and regulations. It also is ... to encourage the active role of associations to contribute to socio-economic development and poverty alleviation, especially in rural areas. It also aims to prevent activities that are risky for national security, social order and freedom of others.
Instruction No 39/PM of November, 2007 on Restructuring District Organisations	The purpose is to strengthen district organization capacities, reduce administration costs, improve service to the public, and reduce infrastructure construction costs. Actions will include merging of smaller units/offices into larger ones, merging administration sections, and outlining clear sector responsibilities. Provincial offices will co-operate with ministries in implementing and evaluating reorganization in pilot districts first, and staff counseling will be undertaken regarding the re-organisation.
Notification No 361 of the Office of the Government Secretariat, Lao Revolutionary Party, (2007)	The National Leading Board for Rural Development and Poverty Alleviation (NLBRDPA) is responsible for supporting the implementation of all activities related to rural development and poverty alleviation including monitoring the 500 million Kip government budget allocated to each of the 47 first priority poverty districts.
Mass Media Law (Draft) (2008): Ministry of Information & Culture, Mass Media Department	The law on media defines the principles, rules and regulations on development and management of the media to strengthen the roles and improve the quality of the media as well as to guarantee the rights of citizen toward the media, contributing to "guarding national interest and to national development". The Government promotes/supports and develops the State media by providing resources and budget. The Government allows local and foreign organizations and individuals to operate the media which are in line with their roles and the laws.

Annex 2: Current Poverty Alleviation Funds

Name of Fund	Agency/s and Partners	Goal/Purpose, Priorities and Coverage
Poverty Reduction Fund (PRF) 2003	Prime Minister's Office, World Bank; SDC from 2008	Strengthen local capacity in village development by financing small scale investments and services. In <u>2003</u> : Ten districts in the three Provinces, Houa Phanh, Savannakhet, Champassak. <u>September 2008</u> : 24 districts, 16 of which are first priority poverty districts; five provinces: Houa Phanh, Savannakhet, Champassak, Salavane, Xieng Khuang. <u>October 2008</u> : 19 first priority poverty districts, in 6 Provinces including three first priority poverty districts in Luang NamTha.
Special Development Budget Allocation	GoL Budget	This is a "top up" from the Ministry of Finance (MoF) to the 47 poorest districts for development purposes under the Government's public investment program. District Governor has responsibility for utilizing the funds
Development Fund for Poverty Alleviation in 47 priority districts 2002	GoL and MPI	A fund with an allocation of \$50,000 per District for all 47 poorest districts with infrastructure as the first priority. This is to support the village development cluster (kum ban) grass roots development program, for which the MPI developed a participatory planning process, a manual, and prepared 53 kum ban development plans.
Village Development Fund (VDF) 2003-04	Government of Lao (GoL) (District Governor's responsible)	Village Funds operate in all 47 first priority districts. Supports the creation of revolving funds for small infrastructure, VRF, agriculture, livestock, land clearing, handicrafts, processing and trade based on district capacities. There is a focus on promoting village participation and ownership of funds, increase household production, improve capacity of individuals to improve their economic situation, and promote decentralization. By June 2007 VDFs covered 315 villages.
District Development Fund (DDF) 2004	United Nations Capital Development Fund (UNCDF)	Primarily a governance strengthening mechanism. Piloted by GPAR Salavane since 2005 in three districts, Salavane, Lakhonpheng and Ta Oy, and now in Samoi District. Supports infrastructure and service delivery; uses existing government mechanisms to develop ownership and vertical and horizontal co-ordination in planning and budgeting Integrated into the GPAR Lao programme and will be expanded to Houa Phan, Xiengkhouang and Xepon in 08-09
Village Investment for the Poor 2002	World Bank	A component of the Agricultural Development Project. It finances block grants for small scale projects identified by the community (\$500 to \$1,500). Objectives are: to support very poor communities, strengthen village capacity in designing and implementing projects, facilitate closer links with DAFO staff. Extension Unit in DAFO is responsible. By October 2007 204 villages in 15 districts had received 601 small activities.
Agricultural Development Services Fund (ADSF)	DAFO	Initiated in 2006 by GPAR Xieng Khuang and PAFO; a limited grant facility for DAFO extension services in villages and kumban previously hampered by insufficient funding; it is closely aligned with the Lao-Extension Approach (LEA) and the LEAP project. Between 2006 and 2008 coverage increased from 9 to 45 villages and from 6 to 15 kum ban.