

## CHAPTER III

### LAO PDR'S POLICY ON AGRICULTURAL DEVELOPMENT

This chapter reviews the policy of socio-economic development that relates to local agricultural and livelihood changes, particularly the policy of transition from traditional subsistence agricultural production and isolated toward intensive agricultural and commercial production, which is operated in Ban Thin Pheer from 1986 until present. This chapter is divided into two sections. The first section examines the formulation of Lao government policy emphasizing commodity agricultural production and services under the New Economic Mechanism or Market-Based Economy. Additionally, this chapter also examines ways of ensuring food security and food price stability, and promoting agricultural export. The second section examines the implementation of policy of irrigation system development, agricultural credit and technical promotion to respond to cash crop cultivation in dry season, including land use rights to peasants in this village.

#### **3.1 The Policy of Food Security and self-sufficiency**

Previous to the introduction of the New Economic Mechanism in 1986, the Lao economy was central planning economy and peasants have to follow these planning authorities. At that time, the most of peasants were still practice subsistence-based agriculture. Domestic food insecurity, food price instability and people poverty in rural areas were still main problems for national socio-economic development, which created challenge to the Government of Laos (GoL). In addition, the conflicts between state authorities and local peasants had increased due to the policy of agricultural cooperative and agricultural collectivization.

In the mid 1980s, the GoL decided to change from traditional subsistence-based agricultural and isolated production toward intensive agricultural and commercial production under market economic mechanism. Kaysone's speech to the Fourth Party Congress, Lao PDR gradually oriented from agricultural production that is engaged in basic rice crop cultivation and a single season production towards diver-

sified and intensive agriculture including increase season in practices by using modern agricultural technology. He repeated that "our party's main functions are to solve food deficiency problems and try to increase food production to an average of 450-500kg/a person/year in accordance with commodity production for export and raw materials to agro-industries" (Kaysone, 1987 cited in Propaganda Department of Party Central Committee, 1987:15).

As a result, the government of Laos has deemed agriculture and forestry as principle factors in developing the national economy. Agricultural Law (1998) specified that activities of agricultural productions deem to be the first priority in developing national bases of economy. Simultaneously, the government has promoted agricultural production and agro-business to guarantee food security and commodity production for export. In order to follow the objectives, the government has created conditions for agro-industry extension in accordance with environmental balances. At the same time, the government has persuaded private investors from both internal and external country to invest in agricultural field to achieve food sufficiency and security and move toward sustainable agriculture production in future.

According to the government's 1993 to 2000 Socio-Economic Plan, the government would ensure food security; food price stability and promote agricultural exports in accordance with stabilizing slash -and- burn agriculture and improving basic infrastructure in the six plains. The MAF (2002) stated that the government aims to become self-sufficient in rice crops and will need to continue increasing rice production to meet the demands of population growth. The government has attempted to seek many ways to promote more commodity production and export in the near future. In 1999, the government requested the Asian Development Bank (ADB) to provide Technical Assistance (TA) to conduct the Lao Agriculture Sector Strategy Study. Besides this, the government has also requested agriculturally concerned organizations conducting agricultural experiment continuously in the three main agricultural regions of the country in the north, central and south (MAF, 2002: 4).

The government intends that national socio-economic development will take place within eight National Priority Programs, which are outlined in the national Socio-Economic Development Plan. The eight programs include: (1) Food Production; (2) Reduction and Stabilization of Shifting Cultivation; (3) Commercial

Agricultural Production; (4) Infrastructure Development; (5) Improved Socio-Economic Management and Foreign Economic Relations; (6) Rural Development; (7) Human Resources Development; and (8) Services Development (MAF, 1999: 51). According to the Agriculture and Forestry Sector Development Plan to the Year 2000, the government has provided programs for supporting commodity production to develop the agro-processing sector, to create local income opportunities and to increase value-added (MAF, 2002: 52).

In order to respond to the government strategy of agricultural development, in 1990s, MAF has determined flatland as its agricultural development targets: (1) improving and diversifying farming systems with increasing and intensifying cash crop, raising livestock and fisheries production; (2) expanding and intensifying value added processing enterprises through promoting local and direct foreign investment in agri-businesses; (3) government and private sector sponsored market research, market information systems and regional marketing links between producers and wholesale and retail buyers throughout the region; (4) developing internationally accepted product grades and standards; (5) strengthening and expanding rural credit facilities through free competition and market determined interest rates; (6) supporting and strengthening rural and agribusiness lending by State Owned Commercial Banks (SOCBs) and private commercial banks; and (7) rehabilitating, expanding and intensifying dry season irrigation schemes with participatory community-based management (MAF, 1999: x).

These agricultural development policies deem to be a main strategic policy for national socio-economic development, because agriculture and forestry fields are the basis of the national economy. Lao Committee for the Planning and Investment (CPI) and Japanese International Cooperation Agency (JICA, 2005) indicated that agricultural and rural development is undoubtedly the basis of economic and social development for the Lao PDR because the majority of the population lives in rural areas, the agricultural and forestry sector accounts for 50% of the GDP. Therefore, agricultural development policy is a key element to achieve national development. Indeed, Kaysone placed primary emphasis on mobilizing resources of the peasant family economy to transcend the natural economy, to lift the quality of peasant agricultural production and thereby enter into economic relations with the state.

Trading cooperatives are considered to be the primary link with the individual peasants (Kaysone, 1986 cited in Evans, 1995: 120). However, Laos still has many obstacles in agricultural development due to the geographical location of the country, which surround by mountain, poor infrastructure, unskilled work forces, the lack of technicians, agricultural tools, capital, market and other concerned factors. These problems indicated that it is not easy for GoL to achieve the needs of food self-sufficiency and export.

However, the GoL has been attempting to achieve food self-sufficiency and surplus for export. According to GoL's National Socio-economic Development Plan 1996-2000 (the 4<sup>th</sup> Five-Year Plan) launched eight national programs with the following objectives; food security, stabilized cultivation, commercial production, infrastructure development, socio-economic management and relations, rural development, human resource development, and service development (cited in MAF, 1999). In this case, MAF is the first agency that was responsible for all of these programs determines the seven large plains in the Mekong corridor for the rice field expansion where place water is available (MAF, 1999).

To achieve food self-sufficiency objectives, Vientiane Capital Division of Agriculture and Forestry (VDAF) indicated that if the government needs to achieve food security and export, the government must motivate peasants to use ferment fertilizers from domestic factories, qualitative improved rice seeds based on using modern technology into agricultural production. At the same time, the government has to mobilize to peasants grow ordinary rice (CR-203) for responding to Lao brewery factory (Summary of VDAF's in Year 2001-2005 and Development Plan in Year 2006-2010). However, currently, agricultural production is still insufficient to meet the requirements of domestic population growth and provide sufficient surplus to be commodity for export.

Nevertheless, the government has attempted to improved capacity for peasantry whose have suitable condition in rice cultivation by providing agricultural technicians to advise to farmers in farming practices to increase cereal productivity. Moreover, the government also promotes cultivating fruit trees and growing vegetable crops in household gardens to obtain food self-sufficiency and security in all years. Based on the MAF (1999), the policy of the government supports Lao farmer's

livelihood strategies with objectives of: (1) achieving household food security; and (2) channeling remaining land, capital and labor resources into diversified cash crop farming enterprises (MAF, 1999: 16).

Recently, the Lao PDR could produce rice sufficiency for the entire year and produce some surpluses in years without natural problems. According to official data, the shares of major food groups were: cereals 70.8%; roots, tubers, bananas and plantains 5.8%; pulses, beans and soybeans 3.8%; fruits and vegetables 2.5%; animal products 10.5%; alcohol and beverages 2%; fats and oils 2%; total sweeteners 1%; nuts and oilseeds 0.8% and others 0.9%. While, FAO assessed that the national food supply in Laos is approximately 2,200 calories per capita (FAO cited in MAF, 1999). However, food self-sufficiency is based on production of rice to meet domestic needs and stocks, which indicates in table 3.1.

Table 3.1 Rice Balance for 1995-2000

Item	1995	1996	1997	2000
Requirement (kg/milled rice/person)*	180	180	180	180
Population**	4,574,848	4,689,219	4,806,450	5,176,021
Total milled rice required (tons)	823,473	844,059	865,161	931,684
Production (tons) ***	1,417,000	1,414,000	1,600,000	2,000,000
Less seed and post-harvest loses, 16%	226,720	226,240	256,000	320,000
Net paddy milled (tons)	1,190,280	1,187,760	1,344,000	1,041,600
Milled rice production at 62% recovery	737,974	736,411	833,280	1,041,600
Less: rice for other uses, 2%	14,759	14,728	16,666	20,832
Net milled rice available (tons)	723,214	721,683	816,614	1,020,768
Surplus/deficit	-100,259	-122,376	-48,547	89,084
% Self-sufficiency	-7%	-9%	-3%	4%

Source of Data: Summary of MAF, 2000

\* No adjustments for stocks. Consumption of 180kg rice/annum provides 1804 calories per of daily calories require

\*\* Year 2000 rice production from agricultural Development Plan, 1996-2000, MAF.

\*\*\* Census Figure, adjusted at 2.5% per year 1996-2000.

In Lao PDR, since the government has expanded irrigated rice field areas and introduced modern technologies into productions make agricultural products have rapidly increased. MAF (1999) indicates a potential for food sufficiency in the mountain areas if the traditional farming system similar to improvement and development in Vietnam, Thailand and China. Based on the information above, the activities of agricultural productions are deemed to be national bases of economy. The government has created many conditions for agro-industry extension in accordance to the impact of environmental balances. According to a Report of VDAF, food production is sufficient for the population in Vientiane. However, Vientiane imports meat from other provinces of country due to the fact that most of farmers have sold buffaloes and bought modern agricultural equipment instead following model of socio-economic growth until now (Summary of VDAF's in Year 2001-2005 and Development Plan in Year 2006-2010).

According to the Annual Report of VDAF (2005), Vientiane has a land area of 392.000 hectares, arable land for agriculture and livestock is 1936.1580 hectares, natural forest land area cover 161,950 hectares, and other land is 36.900 hectares. It consists of nine districts and 496 villages. The populations in Vientiane increased to approximately 711,000 people in 2005 with 129,273 families, about 63 percent of people are living in urban area and 37 percent is live rural area. The density of population is 181 people per kilometer. MAF (2002) indicate that rice is overwhelmingly the major cultivated crop (cultivated by over three-quarters of the population, glutinous rice accounts for over 90% of total planted area) (MAF, 2002: 2).

According to official data, Vientiane will attempt to expand agricultural production to achieve cereal self-sufficiency. It is predicted that in 2010 Vientiane will achieve rice production of about 1,904,727 tons. In fact, the average need of rice for the population of Vientiane is about 300,000-paddy rice tone/year. In order to achieve this expected number, first of all, they have to extend area of rain filled paddy field about level 60,000 hectares and irrigated paddy field of about 30,000 hectares, simultaneously with largely intensive agriculture practices. At the same time, it is necessary to up grade productivity of rain filled paddy rice to achieve about 4.30 tons per hectare and irrigated paddy field to achieve about 5.25 tons per hectare (VDAF,

2005). Mr. Buanthong, president of the committee for planning and cooperation, from a speech at the Seventh Party Congress (2001), “our country could solve basic food insecurity and food price instability, especially rice, vegetables, fruits, egg and meat. In 2000 can produce rice about 2.2 tones averages per capita is sufficiency and provide surplus in particular irrigated-rice cultivation” (Bouanthon, 2001 cited in Propaganda Department of Party Central Committee, 2001).

In order to guarantee food security and food price stability, the government has stimulated and encouraged Lao peasants grow more crops in both dry and rainy seasons in particular rice, green vegetables and livestock. At the same time, the government has given cooperative priority in working irrigated land in the dry season partly as an attempt to pressure farmers to grow more dry-season crops.

In early 1990 dry season crops have widely been grown in Lao PDR. This can be regarded as an alternative in food deficit problem. Therefore, the GoL under Lao people’s Revolution Party (LPRP) has promoted peasants to grow dry season crops after harvesting rainy-rice for self-consumption and sale. In 1998 the government expanded areas of dry season crops cultivation from 53,000 ha (hectares) to 87,000 ha, the majority of these area are grow irrigated-rice and some vegetables and it can respond basic food deeds (cited MAF, 1999).

### **3.2 The Policy of Commodity Producing Promotion**

According to GoL’s the National Socio-economic Development Plan (2001-2005), Laos will attempt to produce cereal at about three million tones per year. The government has offered this development plan as a priority of MAF to play important role in stimulating and encouraging cash cultivation and animal raise to create food security and price stability, and to export (The Propaganda Department of Party Central Committee 5<sup>th</sup>, 2001). However, these development plan is unachievable if it is not cooperated from various sectors in society particularly peasants, state enterprises, private companies, NGOs and so on.

In 1986, the government has opposed market, price and trade liberalization in accordance with state enterprise oriented-privatization to respond to market economy. In the agricultural sector, it is now recognized that MAF works in partnership with farmers, supporting farmers’ needs and providing information and

technical assistance to overcome farmer and village problems. However, MAF (1999) indicated that main issues of commercial agriculture production, community and peasants needs are communicated to the Farming System Extension Workers (FSEW) in the district. What the district cannot solve is sent to Subject Matter Specialists (SMS) in the province, and what the province cannot solve is sent to the National or Central level, for resolution (MAF, 1999: 45).

In 2000, the government has continued expanding areas of dry season crop cultivation in low land areas to boost agricultural productivity for driving rural economic growth and agricultural systems transformation by expanding and intensifying small-scale community-managed irrigation systems to assist to develop rural peasants and improved their household economy. The FAO (2001) indicated that Lao PDR, there are three predominant systems of agricultural production, rainy season lowland; rainy season upland and dry season. During the wet season various varieties of rice are cultivated. While, vegetable crop cultivation is mainly focus on dry season. According to official data, the area under dry-season crop cultivation has increased significantly from some 87,000 hectares in 1996/97 to 92,000 hectares in 1999/2000. In this case, MAF estimates that the area target for growing cash crops in dry season is 120,000 hectares, but there are only 94,000 hectares have been transplanted (MAF, 2000). The government of Laos has encouraged peasants to restore and extend areas of irrigated field as much as possible, build weir or pond for produce paddy rice in seasons in the farms where are available.

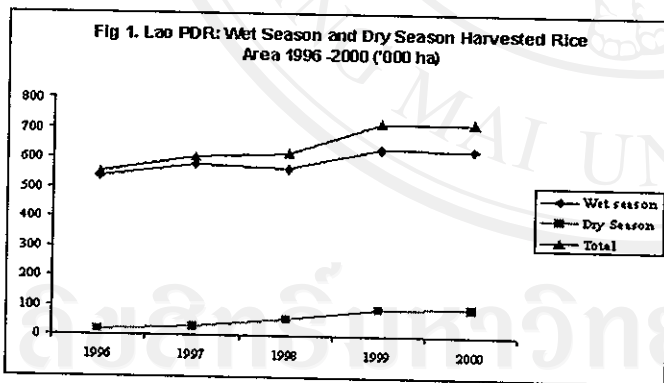


Figure 3.1 Areas of Wet and Dry Season Crop Cultivation (1996-2000)

Source: MAF, 2001



In Lao PDR, MAF has played significant roles in boosting farmers' income from rice production for subsistence, by promoting commercial crops and livestock production, particularly, rice, beans, sugarcane, cotton, coffee, fruits, tobacco, buffalo and cattle. As result, livestock particularly cattle and buffalo is widely produced and is considered as the main source of farmers' cash income. Timber and wood products are valuable foreign exchange earners. According to MAF's data (2002), the principle commercial crops of Lao PDR are tobacco, coffee, cotton, maize and sugarcane, which coffee is the major export. The government has been preparing industrial tree plantation programs in northern of country. These industrial tree plantation programs have created opportunity for local peasants in access to basic income sources.

In this case, Scientific Council for Agricultural Technique and Forestry (SCATF) (2004) indicated that if the government would like to achieve agricultural commodity production, the government must respond to; (1) capital and promotion of capitals; (2) crop and animal breeds; (3) fertilizers and foodstuffs; (4) pesticides; (5) agricultural tools; (6) irrigation; (7) technicians; (8) agricultural information, research center and experiment station; (9) farmer training center; (10) rice storages and curing factors, agro-industry factors; (11) animal and crop breeding bank; (12) marketing; (13) price policy; and (14) farmers' benefit protection (SCATF, 2004: 12). However, it is considered that it is not easy to achieve export of agricultural commodities for Laos, because of majority of Lao peasants grow rice for subsistence future success might be possible to success in the future if the government develops effective infrastructures and marketing systems.

In 2005, VDAF has offered the policy of crop cultivating promotion for domestic agro-industrial factories from the government such as Lao Brewery Company, animal feed factory, sugar factory and various flour and noodle factories to reduce import of raw material from foreign. Therefore, VDAF has cooperated with these factories to encourage peasants to grow crops for factories, particularly ordinary rice (CR-203), sugarcane, maize, and cassava. Nevertheless, in Vientiane Capital City these crop plants are very modest and have limitations, double season agricultural productions have not expanded significantly. In contrast, non-agricultural services have rapidly expanded. In addition, there are imported vegetable crops, fruits, eggs and meat from foreign countries, especially Thailand, China and Vietnam. These

appearances show that attention from concerned state organization still lack of quality. VDAF also points out that if these issues are not solved, Vientiane town has become city of service rather than commodity agriculture productions.

According to the VDAF (2006), the Lao government has promoted various economic sectors both domestic and foreign to invest in agricultural sector to produce food and raw materials for improved-industry factories and export. Similarly, the government has mobilized domestic improved-industrial factories. Particularly, Thagnon Animal Feed Factory, Lao Brewery Factory, rice flour factories to support and buy domestic agricultural products for raw materials. The goal is to reduce import of raw materials from foreign countries. At the same time, the Government creates agricultural production groups to respond raw materials for sufficiently domestic improved-industries.

However, the GoL and ADB have recognized that growth in the agricultural sector has been constrained by: (1) the limited capacity of public sector institutions and human resources; (2) unsupportive environment for private sector development; (3) limited transport, power, and communications infrastructure; (4) the unavailability of rural finance and undeveloped input and output markets; (5) international trade constrains; (6) variability in rainfall and incidence of floods; and (7) a predominance of subsistence agriculture (MAF, 1999: 10). The government has tried to help farmers move rapidly toward agricultural diversification in field and horticultural cash crops at the same time, improve the livestock and fisheries sectors to respond to market and national economy growth.

### **3.3 The Policy of Irrigation Development**

In the developmental condition of Lao PDR, the extension of irrigation system is necessary for national economic development, because the majority of the Lao population are involved in farming, the majority make a living based on traditional agriculture practices and are often affected from climatic changes such as the floods and droughts. Rice is the staple for Lao people, and nearly 95% of farming households grow rice for their own consumption, but most of Lao peasants plant only one crop of rice a year in the rainy season. While, neighboring countries namely Thai and Vietnamese peasants plant crops of two to three seasons per year with the

facilitation of irrigation systems, fertilizers, financial credits and modern agricultural techniques, which have supported from their government. According to FAO (2001), the agricultural sector is dominated by subsistence farmers, mainly engaged in wet season and, to a lesser extent, dry season rice production. However, irrigation facilities now have better developed and improved in many places water available and suitable for commercial agriculture production.

Giving considerable geographic diversity and access to resources and markets, there are significant differences in the potential for agricultural development in various parts of the country. MAF indicates that annual rice production is weather-sensitive (primarily the effects of floods, but also to droughts), and advocates the need for a second rice crop in the dry season to compensate for losses from floods in the low-lying areas (MAF, 2002).

In the 1990s, irrigation system development in Lao PDR has gradually shifted away from large, capital-intensive schemes toward smaller schemes, and away from government-managed systems toward local farmer-managed systems. According to official data, Department of Irrigation of MAF is working in irrigation system development through several projects to achieve the government policy of commercial agriculture producing promotion. In recent years, the government agricultural development policy strongly emphasized on the dry season farming practices under irrigation system to create enhances in rice production for domestic consumption and export. According to Lao official estimates indicate that the area under dry season rice has increased almost five fold in the period 1996 to 2000 (cited in FAO, 2001).

To promote qualitative agricultural productions and commercialization, the government has built infrastructural facilities for local peasants, especially road, irrigation, electricity and telecommunication in accordance with developing irrigated agricultural production system in order to achieve self-sufficiency in food, increase agricultural commodities and reduces shifting cultivation, including poverty alleviation in remote areas. According to the irrigation development program of MAF, increasing rural incomes and stabilizing rice availability by expanding irrigated areas for both wet and dry season production, and to improve the operation and maintain of existing irrigation systems (MAF, 1999).

The main objective of the government's irrigation development policy is to expand the areas of irrigated rice production and to increase diversity and intensity in cultivation of Lao peasants. While, MAF (1999) points out that the irrigation development of the government is to increase diversified commercial agricultural productions by emphasizes the flatland along the Bank of the Mekong River as well as to assist inaccessible sloping land communities achieve household food security and diversify their farming systems. The government gives priority to consolidating and improving the management of existing schemes through irrigation management transfer to farm communities (MAF, 1999: 25). In fact, irrigation development is one priority of the government's agricultural development policies, but these agricultural development policies are implemented under a market-oriented agriculture and commodity production to increase the cash income and food self-sufficiency through the expansion of irrigated areas for growing both dry and rainy seasons.

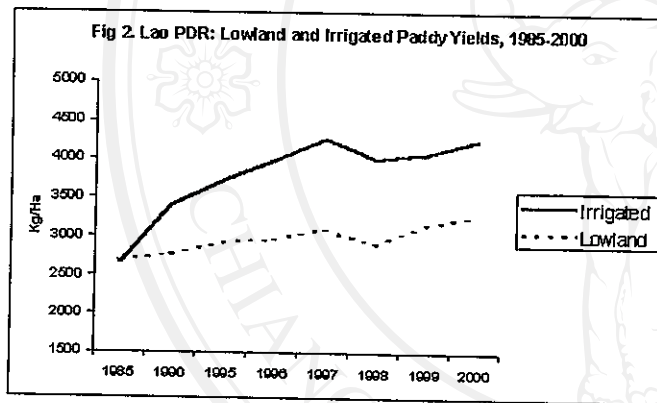


Figure 3.2 Lowland and Irrigated Paddy Yield, 1985 - 2000

Source: FAO, 2001

Based on agricultural economists, modernization of agricultural productions depends on efficiency of infrastructure development, especially irrigation system and its techniques. As a result, after introducing NEM, the government has improved small and medium scale irrigation technology, trained and transferred irrigation system management to local peasants as who manage and use. Particularly, the areas

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that have benefited from pumping machinery and storage reservoirs are in the flatlands along the banks of Mekong River and its major tributaries in particular place of good access to markets. According to Committee for Planning and Cooperation (CPC) and Japan International Cooperation Agency (JICA, 2002) since 1996 the irrigation development has contributed greatly to increase productivity in agricultural production and in 1999, the Lao PDR achieved food self-sufficiency. However, the efficiency of the irrigation system is still generally low; some of irrigation facilities were constructed during 1997 to 2000. However, pumping machinery stations were installed urgently without conducting survey or preparing design. Most of canals were excavated by farmers' community, using their own labor.

In order to promote using natural water resources sustainably, the GoL has organized Water Users' Association (WUA) for controlling and maintaining irrigation systems. The creation of WUA does not only empower to local peasants in using and managing water resources, but also gives rights and opportunities in accessing income sources and the state basic services. Therefore, the government has offered this policy to Department of Irrigation by through Ministry of Agriculture and Forestry has established irrigation development programs to train farmers and irrigation staff, down to the district level, in organizing and sustaining WUA through the Farmer Irrigated Agricultural Training Project (FIAT) (MAF, 1999: 26).

### 3.4 Policy of Agricultural Credits

Generally, the Agricultural Promotion Bank (APB) in Laos has played a significant role in agricultural credit promotion for farmers. Mr. Phanthaboun Xaiyaphet on behalf of APB explained that APB established in 1993, the objective is to respond to the government policy of creating food security and price stability, and export. APB gives loan in both finance and fertilizers, and other agricultural equipments based on guide of the government. APB is not merely give loan for agricultural practices but also promote trade in rural areas (cited in Ministry of Industry and Handicraft and International Labor Organization, 2005).

In practice, the APB has not responded fully with credit for local peasants in rural areas. In Laos, there are many APBs have faced with the issues of lending. According to CPC and JICA (2002), the banks in Laos are facing serious constraints

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mainly due to the underdevelopment of the financial market and institutional framework. Presently, the role of policy lending for infrastructure development and long-term credit is taken by State-owned Commercial Banks (SCB) together with the APB (CPC and JICA, 2002: 7). However, the CPC and JICA (2005) indicate that the bank systems in Laos have been improving administrative structure under management of bank of Lao PDR and consultation of the ADB. According to the Bank of Laos summary (2005) it was found that deposits have regularly expanded, but loans have lowered (cited in CPC and JICA, 2005). In Lao, finance institutions still do not loan for entrepreneurs especially agribusinesses field, which make agricultural producers can not access to capital sources.

As a result, if the government does not solve and manage this system of credit is difficult for peasants or poor people to access financial services. Based on the statement of condition of the banking system as of December 31, 1996 indicated that APB held 10% of reserves, less than 1% foreign assets, 44.5% of claims on the private sector and 14% of total assets of the State Owned Commercial Banks (SOCB) (cited in MAF, 1999: 31). In principle, the government is fully committed to encouraging the mechanisms of financial competition and growth between private and public sectors through the Bank of Laos. According to official data, public sector financial institutions will also play an important role the near term by bringing credit facilities on-stream, which are targeted on the poorest segments of society in the critical sloping land areas. It is expected that private sector banking mechanisms will provide the bulk of rural lending, both commercial lending for agribusiness development and micro-finance schemes for farming investments over the medium to long term.

In general, public sector financial institutions still cannot respond to agricultural credit facilities. However, according to National Socio-Economic Plan (2001-2005), the government will attempt to facilitate credit for agricultural production to peasants through SOCB and private commercial banks. Similarly, the state will provide freely competition in determining interest rates for promote agribusiness and growing crops in dry season (cited in MAF, 2001). Practically, informal and semi-formal credit markets are presently more important than formal financial institutions in rural areas of Lao PDR. According to UNDP (1997) found

that savings are more common, and greater, in the Mekong River corridor areas than in the sloping lands (cited in MAF, 1999: 30).

### 3.5 Summary

The government gives high priority to the agricultural sector production and deems it to be a principle factor in national socio-economic development. Integration of market economic mechanisms into agricultural productions is main strategy in solving the problems of food insufficiency and rice price instability. Because of the market mechanism is main key in deriving subsistence agricultural production to commercial agriculture with using modern technology. The government of Lao PDR has attempted to solve problems of food insufficiency and instability in the market prices.

The objective of integration of market systems into agricultural production and land reform is to stimulate and diversify traditional isolated agriculture productions to more commercial production and services. Furthermore, the government also has promoted private investors both internal and external to invest in agro-industrial business to increase productivity in food production and to stabilize availability. However, the government policy of agricultural development still has faced very obstacles at both national and local level, because of inefficiency of structure, infrastructure and market system with lacking of capital and unskilled work forces.

Institutionally, the government has tried to expose increased market, trade and price liberalization to provide commercial opportunity to Lao peasants and entrepreneurs in agro-businesses through state concerned regulations and laws. Simultaneously, the government has been strengthening and expanding agricultural credit facilities for farmers in both urban and rural areas. In addition, the government has created many conditions for expanding agro-industries, which are environmental friendly businesses. In this case, the Ministry of Agriculture and Forestry plays significant role in crop seeds, animal breeds and credit promotion, including technical guidance for peasants. But, nowadays, the process of non-agricultural productions and services has been rapidly expanding in Vientiane.