



The Banking Sector To Promote Agricultural Sector And Poverty Reduction In Lao P.D.R.

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Abstract

The paper will provide the overview of banking sector, agricultural sector and poverty in Laos for the period 2013-2018. The paper also provide the evident of the role of banking sector to promote the agriculture for poverty reduction in Laos. Addition, paper will explain the challenges and prospects of agricultural sector and poverty reduction in Laos as well as the challenges of banking credit for Small and Medium Enterprise (SME). According, the result the paper will discuss the measures to promote the role of banking sector to promote agricultural sector and poverty reduction of Lao P.D.R. in future to ensure that Laos could reach sustain development goal (SDGs) in 2030.

The paper will divide in to 4 sessions like: (1) introduction, (2) the banking sector to promote agricultural sector and poverty reduction, (3) some measures to promote banking sector for agricultural sector to poverty reduction in Lao P.D.R. and to ensure Laos could reach the sustain development goal (SDGs) in 2030, and (4).Conclusions.

Key word: Bank credit, banking sector, agricultural sector, poverty reduction and sustain development goal (SDGs).



1. Introduction

According the SDGs for Lao PDR are: (i) End poverty in all its forms everywhere; (ii) End hunger, achieve food security and improved nutrition and promote sustainable agriculture; (iii) Ensure healthy lives and promote well-being for all at all ages; (iv) Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all; (v) Achieve gender equality and empower all women and girls; (vi) Ensure availability and sustainable management of water and sanitation for all; (vii) Ensure access to affordable, reliable, sustainable and modern energy for all; (viii) Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; (ix) Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; (x) Reduce inequality within and among countries; (xi) Make cities and human settlements inclusive, safe, resilient and sustainable; (xii) Ensure sustainable consumption and production patterns; (xiii) Take urgent action to combat climate change and its impacts; (xiv) Conserve and sustainably use the oceans, seas and marine resources for sustainable development; (xv) Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss; (xvi) Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels; (xvii) Strengthen the means of implementation and revitalize the global partnership for sustainable development; and (xviii) reduce impacts of unexploded ordnance in Lao PDR. We see that poverty reduction become the first target of sustainable development of Lao PDR.

Economic growth relies on industrialization and modernization. Agricultural production must be significant in terms of quantity and highly competitive in terms of quality. Norms and regulation must be improved and enforced, inflation must remain stable and food security and safety guaranteed. Agricultural production contributes to various areas such as: employment creation, income generation for communities and people, it also decrease disparities between urban and rural areas. It contributes to rural development preserves the Lao culture, protect the environment and contribute to the stability of ecosystems.

In order to achieve food and nutrition security people will be able to consume 2,600-2,700 kcal/person/day. This will be achieved through an increased availability, accessibility and stock of products such as: rice, vegetables, beans, sesame, fruits, sugar, meat, fish and eggs.



Quantitative targets were formulated in terms of production and consumption of food products up to 2020 and to 2025.

The objective is to make agricultural sector growth ensuring both quantity and quality of products with focus on the domestic, regional and international markets, through the combination of various factors including the development of farmers' organizations and the associations of producers and processors.

Implementation was in pursuit of the Resolutions of IX Party Congress, particularly stability building for the People's Democratic Republic state and promoting local ownership. Therefore, the Party's Central Politburo issued the Resolution No.03/PCP dated 15 Feb 2012 regarding "Building province as a strategic unit, district as a strong comprehensive unit and village as a development unit" and the Government issued the Prime Minister's Instruction No.16/PM dated 15 June 2012 regarding identification of 15 ministries, 51 districts and 108 villages for piloting from 2012 to 2013. Through three years of the implementation, various sectors at central and local levels, together with the population, have put their attention to the practical side of the 3-builds, which are the contributing factors in the development of local infrastructure and overall change, which can be seen as follows:

- Target ministries and all provinces developed legislation with regard to the division of responsibility between central and local levels, and between provinces, districts and villages, especially on benefit sharing on revenue and expenses management at the local level and budget allocation at the district level. There has been a committee in charge of supervising piloting activities in each sector and locality, acting as a focal point for coordinating, supporting and monitoring the actual progress of target districts and villages, particularly the division of responsibility to each level that resulted in gradual increase in local ownership.
- Fifteen target ministries have sent their officials for local visits, both short and long term, in order to build stronger localities, especially in the areas of administration, justice, district- and village-level fund management, and to build a socio-economic development plan and manage government invested projects at village level.
- Patriotism competition was encouraged and development village built, to actively support the 3-builds works nationwide.



- 943 government-invested projects were implemented at the 3-builds district and village levels, with total investment funding of 248 billion kip, to support and build conditions for various developments.

- The Policy Bank has supplied loans to people for the amount of 261.65 billion kip to promote commercial productions.

- Party organization and those at village level as well as other working units within the experimented 3-builds villages have been reorganized for the sake of all aspects, strengthening political thinking, leadership and management working styles, implementation of support policy towards unwaged staff and encouraging greater sense of ownership and responsibility of staff at village level.

- The potential of localities has been explored and expanded, especially the increase in goods production; organization of production groups linking with professionals, bank credits and marketing also increased. Granting of ownership, responsibility and interest sharing to targeted districts and villages has been started; especially, the collection of income for the national budget increased in every district and the targeted 3-builds villages.

- Poverty reduction of the population and the construction of development villages have progressed, as shown in poverty evaluation and development results from Decree 309/PM in 2014, that there remained only four poor villages (Saiphuttana village, Sing district, Bokeo province; Phienghong 8th FIVE-YEAR NATIONAL SOCIO-ECONOMIC DEVELOPMENT PLAN (2016-2020) 68 village, Nonghad district, Xiengkhouang province; Pajudon village, Taoy district, Salavan province; and Xiengluang village, Dukkung district, Xekong province).

There are 1,322 poor families, 82 development villages, 109 crime-free villages and 98 traditional villages. Nevertheless, the actual implementation has been slow and was not sufficiently effective due to the legislation on delegation of authority and responsibility of some central sectors still being too general, some localities did not take ownership at their local level and were waiting for instruction from the central level; there is limited capacity of district staff in developing financial management and a district staff plan; the identification of the pilot districts and villages was not in accordance with the conditions of the resolution and the instruction from the higher authorities; and, at the same time, the dissemination of the resolution and instruction at the local level was delayed, leading to weak practical implementation by local people (The 8th Five-Year National Socio-economic Development Plan (2016–2020) “8th NSED”). Therefore to ensure the



implement of 3 built of Lao *People's Revolutionary Party* (LPRP) “Building province as a strategic unit, district as a strong comprehensive unit and village as a development unit” that the bank sector also become a necessary sector beside other sector. Particularly to supply credit for public project and private project as well as SMEs. In order to reduce the poverty of Lao people in the future.

Therefore, authors chose to research “*The banking sector to promote agricultural sector and poverty reduction in Lao P.D.R.*” to explorer the role of bank system to promote agricultural sector in order to reduce the national poverty in the future.

2. Statement of the banking sector to promote agricultural sector and poverty reduction.

After the banking system had reformed since 1990. The banking system has developed as quality and quantity. It became the elementary of factor for national economic growth. According to the foundation function of banking system as fund channel for economic. The banking system plays an important role in the modern economic world. Banks collect the savings of the individuals and lend them out to business- people and manufacturers. Bank loans facilitate commerce. Manufacturers borrow from banks the money needed for the purchase of raw materials and to meet other requirements such as working capital. It is safe to keep money in banks. Interest is also earned thereby. Thus, the desire to save is stimu-lated and the volume of savings increases. The savings can be utilized to produce new capital assets.

Thus, the banks play an important role in the creation of new capital (or capital formation) in a country and thus help the growth process. Banks arrange for the sale of shares and debentures. Thus, business houses and manufacturers can get fixed capital with the aid of banks. There are banks known as industrial banks, which assist the formation of new companies and new industrial enterprises and give long-term loans to manufacturers. The banking system can create money. When business expands, more money is needed for exchange transactions. The legal tender money of a country cannot usually be expanded quickly. Bank money can be increased quickly and used when there is need of more money. In a developing economy (like that of India) banks play an important part as supplier of money. The banking system facilitates internal and international trade. A large part of trade is done on credit. Banks provide references and guarantees, on behalf of their customers, on the basis of which sellers can supply goods on credit. This is particularly important in international trade when the parties reside in different countries and are very often unknown to one another.



Until now, the banking system of Lao PDR is very necessary for national poverty reduction in Lao PDR. By contribute bank credit for society and movement's project for remote areas and prior villages and city as well as household. The banking system actively provide the credit to private sector which increasing trend year by year. The bank credit for private sector not only contribute to a large enterprise but also Small Medium Enterprise (SMEs). The bank credit for private sector not only provide credit for the large city and large province but also contribute credit to rural areas forward facilitate for enterprise and households access formal financial services and reducing poverty (ADB, 2015). Furthermore, the bank credit for private sector contribute directly to private enterprises improve themselves to enhance their efficiency, extend business operation and promote their competitive capacity on globalization context.

Therefore, in period 1983-1986, GDP average was approximately 53.77 billion kip (US\$ 6,437,978.93) and GDP growth rate average was around 4 percent (ADB, Key indicator, 1985-2017). In period between 1986 and 2017, Economic of Lao P.D.R had transited from the centrally planned economy to market-oriented economy under New Economic Mechanism (NEM). We recognized several of owned enterprise in economy. In this period, the bank credit for private sector had growth in every year.

Therefore, the private sector becomes a largest contributor to economic growth and plays a key role in creating economic. Average GDP increase as follow: 53.8 billion kip, 682,06 billion kip, 81,609.9 billion kip in 1982, 1992, 2012 and 2017 which growth rate average around 6.5 percent in period from 1990 to 2017 (ADB, key indicator, 1985-2017).

The Lao PDR economy is still heavily reliant on natural resource sectors. The economic growth has been largely resource-driven and capital-intensive, but not broad-based and inclusive generating sufficient productive employment. Labor productivity grew significantly from 1995, but remains low and without sufficient impact on the agriculture and fishery sectors, 88 which account for about 70 percent of employed persons. 89 The agriculture sector has low productivity (4 to 10 times lower than non-agricultural sectors in 2010). 90 In this context, the further development of local SMEs are key to diversifying the economy (see SDG).

During the past five years, agriculture and forestry was one of the sectors that generated a number of significant achievements despite the impacts of natural disasters, fluctuation of agricultural product and production input prices, and others. These accomplishments include food



production, the promotion of commercial production for domestic consumption and exports, and enhancement of quality and productivity.

Over the past 27 years, Lao PDR has made tremendous progress in reducing poverty. By 2012/13, Lao PDR had already halved the poverty rate from 1992/93 levels, achieving MDG target 1A ahead of time. Household welfare improved in terms of ownership of assets, condition of housing, and access to services and markets. The poor on average have become less poor, as shown by the steady reduction in the poverty gap and poverty severity over time. The government's drive to expand rural infrastructure, roads and services have led to poverty reduction in these areas, enhancing market access for agricultural produce and improving livelihood opportunities. 16 Challenges remain, with a significant proportion of the population at risk of falling into poverty. Households in agriculture are twice more likely than non-farm households to fall back into poverty, as they are highly vulnerable to shocks. The limited health insurance coverage and social protection limit the ability of households to mitigate risks. Overall, poverty reduction and consumption growth lag behind the country's GDP growth, the growth being resource-intensive. 17 Inequity patterns emerge from differences in location and access, which affect education and livelihoods. The poverty rate in rural areas is 2.9 times that of the urban areas (2012/13). One-third of the population in upland areas is still below the poverty line, while in lowland areas, only about one-fifth of the population is poor. The ethnic groups, who traditionally live in mountainous and remote areas difficult to access, have seen slower progress in poverty reduction. The lowland groups, with the highest levels of education, have the lowest poverty rate. Inequality has grown: in 2012/13, consumption of the richest quintile was 6.4 times that of the poorest, while two decades ago, the difference was 4.7 times

Over the past five years, each sector at national and subnational levels has given great attention to developing village and focal areas in accordance with the four concepts and four targets together with the implementation of the "3-builds" directive (building provinces to become strategic units, districts to become comprehensively strengthened units and villages to become development units), which is being piloted in 52 districts and 109 targeted villages.

This piloting is ongoing and has contributed to strengthening local capacity and poverty reduction.

Some highlights are:

- The process of dispatching government experts to help work at grass-roots level has been



strengthened. To date, 15,135 government officials have been dispatched to villages and Kum Ban to work on building the political base, 1,065 of whom are from the central level, 1,196 from the province and 12,874 from the district level, and some are students.

- The political system at the village and Kum Ban levels has been significantly strengthened. The proportion of villages with solid political organization with strong provincial Party unit leadership has increased to 68 percent of all villages in the country; of these, 80.98 percent were security villages, 68.25 percent were drug free villages and 74.47 percent were case-free villages.

- The Government has focused on building necessary infrastructure such as road access to districts and village to village; to date, 84.51 percent of all villages have road access. In relation to the target set for 2015, road access to all villages with essential conditions is highly achievable. At present, road improvement and construction is under way to access six districts: Kaleum, Dakcheung, Samouay, Saychamphone, Saysathane and Phonethong. At the same time, attention has continued to be paid to expanding the education network, health services and sanitation to poor and remote rural areas.

Based on the poverty assessment and village development criteria, the number of villages which achieved compulsory education (primary education) increased from 80 percent of all villages in 2011 to 99.63 percent of all villages in 2014, and health model villages increased from 24.5 percent of all villages in 2011 to 64.84 percent of all villages in 2014.

- Settlements and permanent job creation have been achieved through concentration on bordered and priority areas of the Government. Many families in the area shifted from slash-and-burn rice cultivation to commercial production using their local potential skills and new techniques, to secure permanent jobs as well as ensuring improved livelihoods. This consequently tackled poverty issues through progressive development villages, priority areas and establishment of new towns.

In summary, over the last five years, rural development and poverty reduction has been achieved to a large extent. A poverty assessment in 2014 (Decree No. 309/PMO regarding poverty and rural development 2012–2015) suggested there were 76,604 poor households and 1,736 poor villages which accounted for 23.09 percent of all villages nationwide. However, LECS5 indicates that the poverty rate fell from 27.6 percent in FY2007–2008 (LECS4) to 23.2 percent in FY2012–2013, and it is expected to remain at approximately 20 percent in 2015.



Based on the Lao Expenditure and Consumption Survey (LECS5) by LSB, it can be seen that the poverty ratio has been reduced from 27.6 percent in FY 2007–2008 (LECS4) to 23.2 percent in FY 2012–2013; compared with the target of 24 percent in 2015, it can be inferred that this target will be achieved and even exceeded. Nevertheless, the poverty disparity ratio is still very wide.

Nutrition is associated with several factors including access to sufficient, hygienic and nutritious food. The implementation target to reduce the ratio of underweight children under 5 years old has been very slowly; it clearly requires more time and increased efforts to move towards this goal. The Multiple Social Indicator Survey (MICS) in 2011 found that the ratio was 27 percent while in 2006 there was 37 percent.

It is estimated to achieve 24.51 percent in 2015 (the Plan target is 22 percent by 2015); the prevalence of stunting in children under 5 is also still lagging behind: in 2006 it was 40 percent and in 2011 it was percent, while the target for 2015 is to reach 34 percent. On average, the reduction has been only 1 percent per year. There are high inequities in stunting and underweight levels between children from the poorest and the richest quintiles. Stunting is more pronounced in rural areas and among children from ethnic groups living in remote mountainous areas, which is caused by insufficient food consumption.

As a result of increased incomes from rice farming and other rice- related activities, there should be a reduction in the poverty. In addition, there is significant potential for export earnings from the sales of specially targeted niche markets in the region and globally suggestions.

❖ Measures

Sustainable and inclusive economic-centered development, poverty reduction and modernization of the economy

- Rural development and poverty eradication, and gap reduction of the urban-rural area and the rich and the poor
- Education reforms, human resource development and livelihood promotion, with emphasis on the expansion of educational opportunities, the improvement of health and sanitation and training to produce skilled workers
- Increased effectiveness of public administration through rule of law and prevention of corruption



- Competitiveness by optimizing the use of natural resources, increasing regional cooperation and integration and developing investment promotion policies and industrialization strategies.

Promoting agriculture sector productivity and increased earnings for farm workers. This is key to poverty reduction and livelihood improvement in Lao PDR. Measures include (i) improving design and maintenance of irrigation systems, (ii) improving access to infrastructure (SDG 9), (iii) increasing value capture by smallholder farmers through partnerships with private enterprises and government linkage support, (iv) improving production and processing facilities with private sector involvement, (v) promoting labor-saving technologies suitable for small-scale farms and producer groups, (vi) organizing producer groups and cooperatives for improved access to input and product markets, (vii) facilitating rural finance, and (viii) incorporating the value chain approach into extension services to promote private investments in the rice value chain, and possibly in higher value- adding crops. Promote the One District, One Product Strategy. This is a government strategy to reduce poverty, create jobs, equip people with relevant skills, and bring Lao products to the regional and international market. In May 2017, the Trade Department under the Ministry of Industry and Commerce recorded more than 484 products from 17 provinces and Vientiane Capital, and awarded more than 130 businesses with the One District, One Product trademark.

Suggestions

Japan provides its assistance to increase productivity with irrigated agriculture and promote the cultivation of commercial crop with the aims of achieving a stable economic growth in Lao PDR and narrowing gaps between the urban and the rural generated by economic growth through enhancing the agricultural sector that is the key industry in Lao PDR and increasing the earnings of farmers who constitute a huge majority of poor people. At the same time, Japan extends its assistance for sustainable use of forest resources toward forest conservation and livelihood improvement toward poverty reduction.

The analysis identifies five principal elements of a poverty reduction strategy for Lao PDR. These include (1) reduced numbers of dependents in households, (2) investments in (female) education, (3) efforts to stimulate entrepreneurship, (4) adoption of measures to raise agricultural productivity, and (5) improved infrastructure. In addition, it is clear that stable macroeconomic development is a precondition for generating growth and alleviating poverty,



Apply a policy promoting linkage between land use and land protection to ensure people's rights by law on land use for their livelihood, housing and production; harmonize land allocation, land capitalization and use as a source of wealth for the people and the nation; ensure public centralized authority and ownership; combat and minimize any actions that abuse and misuse the law on bribery.

Apply policy on development of a finance mechanism that ensures all rural areas enjoy the benefits from economic growth, to reduce social exclusion and environmental impacts as a result of forest invasion and non-timber forest exploitation. Collection of natural resource fees shall be reviewed to ensure the benefits from this source of revenue contribute to basic infrastructure development and socio-cultural and environmental protection

Lao PDR has achieved the MDG target of halving the proportion of hungry people. 21 The proportion of undernourished in the population 22 has declined from 42.8 percent in 1990 to around 18.5 percent in 2015. 23 Lao PDR reaffirmed its commitment to fight hunger and under nutrition through the launch of the National Zero Hunger Challenge in May 2015, and through its Agricultural Development Strategy, National Nutrition Strategy, and the NSEDP.

❖ Challenges

The network of financial- banking sector of Lao is still limit, particular in rural and countryside. In other hand, people access the financial –banking service are still small number, particular the people who lives in rural and countryside. The high cost of accession the financial –banking service is elementary challenges for people who has low income. As well as challenges remain, with a significant proportion of the population at risk of falling into poverty. Households in agriculture are twice more likely than non-farm households to fall back into poverty, as they are highly vulnerable to shocks. The limited health insurance coverage and social protection limit the ability of households to mitigate risks. Overall, poverty reduction and consumption growth lag behind the country's GDP growth, the growth being resource-intensive

❖ Suggestions

The government's drive to expand rural infrastructure, roads and services have led to poverty reduction in these areas, enhancing market access for agricultural produce and improving livelihood opportunities.



To reduce the national poverty in the future as well as promote national economic growth, the government should implement some policies:

- 1). Agriculture Investment (irrigation schemes, lab.)
- 2) Land management and development (land titling..)
- 3) Promotion of production and processing (value chain).
- 4) Finance and banking. (credit schemes...)
- 5) Good Agricultural Practices (comparative advantage...)
- 6) Energy (price of electricity for processors...)
- 7) Marketing & price stability (coordination with commerce..)
- 8) Agricultural Labor (shortage of labor, youth...)
- Intellectual Property Standards and Measurement
(rice brand...)
- 10) Research and Production of Improved Seeds.
- 11) Monitoring and Evaluation.
- 12) Integrate Rural Development Planning.
- 13) Promotion of Foreign Investment.

3. Conclusion:

All sectors are essentially involved in the socio-economic development under the market economy mechanism with the government administration. It is important to increase the coordination between economic growth and employment generation to reduce poverty by promoting SMEs quantitatively and qualitatively, for them to become a firm economic. Foundation and generate employment while providing the favorable condition for them to access finance services, to continue to improve and construct the basic infrastructure in the rural areas to improve people's livelihoods and to create the conditions for narrowing the unequal access to the public and private services. Building a political foundation from the grass-roots level and rural development shall follow comprehensively the 4 concepts and 4 targets, in a continuous and prioritized manner by boosting the economy domestically and internationally. Explore and use local potentials and uniqueness to develop rural areas and address poverty for the people; sectors, provinces and even the people in all classes shall jointly raise accountability and place emphasis on politics and development of the rural areas to be a battlefield for the national development and become a fundamental factor for rural development and poverty eradication. Rural development and poverty



alleviation need to be closely linked to the 3-builds activities and shall continue to be carried out with high results.

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