

Juth Pakai



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Perspectives on Lao development

**Carbon emission trading,
wildlife for nutrition, dollarisation
and community-based tourism**

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The United Nations in the Lao PDR is supporting the production of *Juth Pakai, Perspectives on Lao Development* with the aim of stimulating dialogue on all issues related to development in the country. The Editorial Board has reviewed the articles presented in this issue. The views expressed in this publication are those of the authors and do not necessarily represent those of the United Nations in the Lao PDR.

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Sharing Information to Stimulate Development

The Editorial Board of *Juth Pakai* firmly believes that the objectives of alleviating poverty and stimulating development in the Lao PDR will be better pursued if information and innovative thinking are shared. The articles presented here challenge our current way of thinking and/or contain information that has not yet been published. We sincerely hope that *Juth Pakai* will stimulate an active development debate and will contribute to a better understanding of the development challenges in the Lao PDR.

Editorial

This edition features articles on a variety of subjects that have been in the news over recent months, and will be invaluable to everyone working in the Lao development context. Our first piece concerns the environmental issues that are dominating international headlines as the global community explores ways of decreasing the effects of global warming. Phonsavat Khamlar's timely paper presents the Clean Development Mechanism and discusses the potential for implementing it with investors in Laos. The mechanism allows companies in industrialised countries to offset their polluting activities by investing in clean technologies in poorer countries. This issue has provoked much international discussion and it is clear that developing countries need a strong regulatory framework to handle the subject properly.

In the second article Jutta Krahn and Arlyne Johnson discuss whether people in remote areas should be allowed to continue their tradition of hunting wild animals for meat. The authors argue that managed hunting by local people may actually form the best strategy for preserving endangered species, and that more importantly such a policy could help reverse the worrying trend of increased malnutrition among ethnic groups. Phetsathaphone Keovongvichith next raises the matter of foreign currency use in Laos, an issue which the government is keen to address. His article explains this technical matter in detail, and many of us will need to use the glossary at the back of the journal in order to understand the language of economics! Lastly, Meike Mirete Mumm and William Tuffin emphasise that preservation of forests is vital to the continued success of ecotourism efforts in Luang Namtha. Their article outlines a pioneering approach that aims to give rural people control over tours that bring visitors to their villages. This can develop into a sound means of developing livelihoods and preserving culture, as long as the environment that tourists want to see is protected.

I thank our contributors and those who have supported their efforts to bring these valuable papers to the attention of our audience, and hope that many will benefit from this generous sharing of knowledge.



Sonam Yangchen Rana
UN Resident Co-ordinator

Potential Clean Development Mechanism Projects and Funding Sources - a Case Study from the Lao PDR

by Phonsavat Khamlar

After being adopted at the 1997 United Nations Framework on Climate Change Conference in Kyoto, the Clean Development Mechanisms agreement finally came into force in 2005. This is designed to help industrialised countries, known as Annex I parties, to meet greenhouse gas emission reduction obligations by investing in emission reduction activities in developing countries. This paper analyses various such projects, and funding sources for them, in Southeast Asia. It also discusses the types of projects that can potentially be developed in the Lao PDR, taking into account experience in other parts of Southeast Asia and the resources available in Laos.

Global warming has become one of the most controversial issues of recent times, with its adverse impacts on the economy, on humans and on the environment seemingly becoming more significant and apparent around the world. Many scientists believe that global warming has triggered climate change and climate variability, and has been primarily influenced by the rapid rise in the amount of greenhouse gases produced by human activities since the dawn of the industrial era (UNFCCC, 2005).

Under the 3rd Conference of the Parties (CoP-3) of the Kyoto Protocol, adopted in 1997, all Annex I countries (industrialised countries) that ratified the United Nations Framework Convention on Climate Change (UNFCCC), are required to reduce their greenhouse gas emissions (e.g. carbon dioxide, methane and nitrous oxide) by 2012. The Kyoto Protocol announced some innovative 'flexible mechanisms' to help enable Annex I parties to meet their emission reduction obligations and targets. One, the Clean Development Mechanism (CDM), aims to do this by investing in carbon emission reduction project activities and/or clean technologies in developing countries, or Non-Annex I parties (UNFCCC, 2005; UN, 1998).

Aim and Scope

The aim of this paper is to evaluate some of the most promising potential CDM projects in the Lao PDR, and identify possible funding sources for them, based on the experiences of other Non-Annex I countries in Southeast Asia and on the country's available resources. Southeast Asian countries are the focus of the paper as their proximity to Laos means they share certain similarities in terms of geography, economies and natural resources. The paper examines only CDM projects that have been registered at the CDM Executive Board of the UNFCCC since 2005, the year when the CDM scheme became effective. The article is divided into three main sections, beginning with current theory and highlighting some of the history and background of the UNFCCC, the Kyoto Protocol, CDM and registered CDM projects, and funding sources in Non-Annex I countries in Southeast Asia. The next section studies the Lao PDR, providing a brief overview of CDM projects developed so far while examining the possibility of hosting projects similar to those running in other Southeast Asian countries. The paper ends with a discussion and conclusion section.

Current Theory and Debate

History and Context

The atmosphere of Planet Earth contains layers of gases, predominantly carbon dioxide (CO₂), nitrous oxide (N₂O), methane (CH₄) and ozone (O₃), which act as a blanket warming the earth by trapping and re-emitting solar radiation back to the earth's surface. This process is known as the greenhouse effect (UNFCCC, 2005) and is thought to be a natural warming process that has occurred for thousands of years. The gases that cause this effect are commonly known as greenhouse gases (GHGs).

A great deal of scientific evidence has been produced to argue that the level of GHGs in the atmosphere has risen sharply over the last 50 years due to human activities such as deforestation, the burning of fossil fuels (coal, oil and gas) for energy, and so on. This in turn has caused an overall rise in air temperature, known as global warming. Based on precise scientific modelling, the UNFCCC's Intergovernmental Panel on Climate Change (IPCC, 2001) predicted that global

temperature is likely to rise between 1.4°-5.8°C over the next 100 years as a consequence of global warming (UNFCCC, 2005). Global warming could induce climate pattern changes such as prolonged droughts and floods. These would disrupt food security and economies, lead to widespread increases in infectious diseases like malaria and yellow fever, and cause the sea level to rise and so submerge some of the world's low lying areas, such as the Pacific islands.

The impacts of climate change influenced by human interference were first recognised and discussed as a global environmental issue during the First World Climate Conference in 1979. In order to continue addressing the issues of climate change and global warming, a second World Climate Change Conference was held in Geneva in 1990 to establish a global treaty called the United Nations Framework Convention on Climate Change. After 15 months and five sessions of negotiations by more than 150 countries, the UNFCCC was formally signed at the Earth Summit in Rio de Janeiro, Brazil in 1992, and came into force on 21 March, 1994. A total of more than 188 countries, including the European Community, joined the Convention in 2004 making it one of the most universally supported of all international agreements. Annex I parties were required to adopt climate change policies and measures aimed at cutting their GHG emissions. Although no legal binding was set, the Convention established a solid foundation for the governments of the member countries to work together in identifying the best solutions to combat the potentially adverse impacts of climate change (CDM Malaysia; UNFCCC, 2005).

Since the Convention entered into force, its members have met annually at the Conference of the Parties, or CoP, to promote and examine its implementation and to continue to negotiate on the best options to deal with climate change. The Kyoto Protocol is the result of negotiations at the CoP-3 in Japan in December 1997 (UNFCCC, 2005). At this conference legally-binding targets were agreed for Annex I parties (table 1) that would bring GHG emissions to levels at least 5% below their 1990s levels during the first commitment period of 2008-2012. This reduction commitment does not include Australia or the United States, which stated that they “do not intend to ratify the protocol”. On the agreed principle of “common but differentiated responsibility”, Non-Annex I parties (developing countries) are not obliged to reduce their GHG emissions (UNFCCC, 2005).

Table 1: List of Annex I countries

Australia	Greece	Poland*
Austria	Hungary*	Portugal
Belarus*	Iceland	Romania*
Belgium	Ireland	Russian Federation*
Bulgaria*	Italy	Slovakia*
Canada	Japan	Slovenia*
Croatia*	Latvia*	Spain
Czech Republic*	Liechtenstein	Sweden
Denmark	Lithuania*	Switzerland
Estonia*	Luxembourg	Turkey
European Community	Monaco	Ukraine*
Finland	Netherlands	United Kingdom
France	New Zealand	United States of America
Germany	Norway	

* Countries with economies in transition. Source: UNFCCC 2005

The Kyoto Protocol provides a framework for three flexible mechanisms: i) The Clean Development Mechanism; ii) Joint Implementation; and iii) International Emissions Trading. The CDM is designed to help Annex I countries meet their GHG emission reduction obligations and targets by investing in project activities in developing countries which reduce or absorb (sequester) at least one of the six GHGs not covered in the Montreal Protocol, namely carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. The value of such activities in terms of the emission reductions achieved is expressed in certified emission reductions (CERs). One CER equals one tonne of carbon dioxide. The CDM came into force in February 2005 (UNFCCC, 2005).

CDM projects offer advantages to both industrialised and developing countries, helping Annex I countries cut the cost of reducing GHG emissions in their own country, while at the same time offering benefits in terms of technological transfer, employment opportunities and improved environmental conditions for sustainable development in the Non-Annex I countries (CDM Malaysia, 2007). In order to be eligible for the CDM, the project activities should:

- Be a voluntary action of the host party and the project participants involved;
- Result in the “real and measurable” reduction or sequestration of any GHG which “would not have occurred without the proposed project activity” (UNFCCC, 2001 in MoE, 2005);

- Prove that the project will contribute to the “environmental integrity” and “sustainable development goals” of the host country (UNFCCC, 2001 in MoE, 2005).

It is also important to note that CDM cannot be applied to project activities which:

- Are associated with nuclear facilities;
- Lead to the diversion of the Annex I countries’ official development assistance.

Table 2 below provides a few examples of project activities which can be developed as CDM projects in various sectors.

Table 2: Examples of projects eligible under the CDM

Sector	Examples of projects	Types of project
Forestry	<ul style="list-style-type: none"> • Reforestation • Afforestation 	Sequestration
Agriculture	<ul style="list-style-type: none"> • Biomass decay reduction 	
Energy Efficiency	<ul style="list-style-type: none"> • Changing to energy-efficient light bulbs • Boiler improvement • Switching fuel from coal to natural gas or clean coal technology 	Emission reduction
Waste Management	<ul style="list-style-type: none"> • Methane gas recovery from landfill • Waste water and animal waste treatment (anaerobic) • Power and heat conversion from waste 	
Renewable Energy	<ul style="list-style-type: none"> • Micro hydropower • Solar and wind energy • Biogas 	
Cleaner Energy	<ul style="list-style-type: none"> • Biofuel 	
Transport	<ul style="list-style-type: none"> • Vehicle efficiency improvement • Adopting biofuel or natural gas fuel system 	

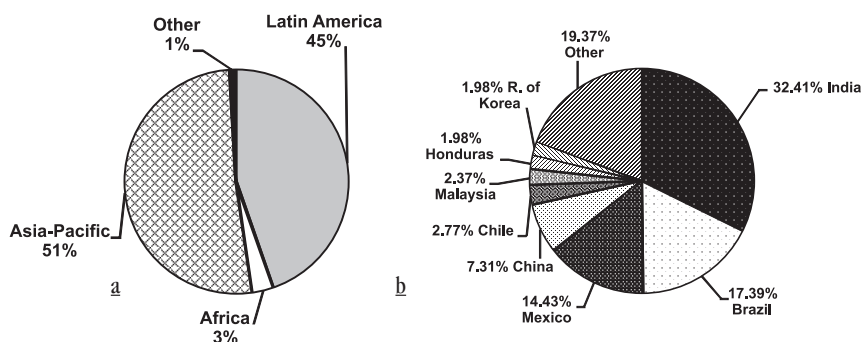
Sources: CDM Malaysia, 2007; MoE 2005

Current Status of CDM Projects

Since the Mechanism came into force in 2005, the number of CDM projects has been increasing exponentially. In 2005 a total of 62 projects were registered by the CDM Executive Board (Hanh, 2006) and by mid-February 2007 there were 506 CDM projects in more than 40 countries (UNFCCC, 2007). Of these, about half are hosted in the Asia-Pacific region, 45% in Latin America, and only 3% in Africa (figure 1a). By individual country, India is the biggest host of

CDM projects, with almost a third of all those registered, followed by Brazil, Mexico and China (figure 1b). Apart from these registered projects, more than 950 pipeline projects are being reviewed by the Board. It is expected that these will generate more than 1.8 billion CERs (1.8 billion tonnes of GHG emission reduction) in the initial commitment period between 2008-2012, which is equivalent to all emissions produced annually by Canada, France, Switzerland and Spain (UNFCCC, 2007c).

Figure 1: CDM projects hosted by (a) region and (b) country



In Southeast Asia, eight states are grouped as Non-Annex I parties. The date of each country's ratification of the UNFCCC and the Kyoto Protocol is shown in the table below, along with the number of registered CDM projects.

Table 3: Status of CDM Projects among Non-Annex I parties in Southeast Asia

Country	Ratified UNFCCC	Ratified Kyoto Protocol	No. of Registered CDM Projects
Cambodia	December 1995	August 2002	1
Indonesia	August 2003	December 2004	8
Lao PDR	January 1995	February 2003	1
Malaysia	July 1994	September 2002	12
Myanmar	November 1994	August 2003	None
Philippines	August 1994	November 2003	8
Thailand	December 1994	August 2002	None
Vietnam	November 1994	September 2002	2

Sources: UNDP & GoL, 2006; UNFCCC, 2005; UNFCCC, 2007a; UNFCCC, 2007b

An extensive review of the project design documents for the registered CDM projects in each country (UNFCCC, 2007) reveals that most are associated with GHG emission reduction, i.e. improving energy efficiency and renewable energy production for small-scale power generation. So far only one reforestation project has been registered at the CDM Executive Board but many are in the development stage. For instance, eight of the projects in Malaysia are energy efficiency improvement projects which replace fossil fuels with fuel from the biomass that is the waste product of vast palm oil plantation and milling processes: mesocarp fibre, empty fruit bunch and palm kernel shell. In Cambodia, rice husks are used to generate 2 MW of electricity to supply a local rice mill which used to run on diesel.

*Energy utilisation within Laos
remains dominated by fuelwood*

Apart from improving energy efficiency, many CDM projects in the region are associated with electricity generation from renewable energy such as biogas from waste (e.g. landfills and wastewater treatment). These are particular to the Philippines, where six projects involve methane recovery from waste and two are associated with renewable geothermal energy. CDM projects on renewable energy from solar and wind power are still limited with only one solar project in Indonesia and one wind project in the Philippines registered so far. It is mostly private companies in Annex I countries who buy the CERs in these CDM initiatives, though in two projects in Indonesia the CERs were bought by the World Bank Prototype Carbon Fund.

Case Study

Circumstances

Laos acceded to the UNFCCC in 1995 and the Kyoto Protocol in 2003 and is therefore eligible to host CDM projects. The country is well endowed with abundant potential energy resources from rivers: approximately 23,000 MW of electricity could be generated from hydropower. However, only 5% of this potential has been developed so far and energy utilisation remains dominated by fuelwood, which represents approximately 90% of total energy consumption (TRI & SNV, 2006).

Current Status of CDM Projects in Laos

A Japanese-sponsored CDM project was formulated in early 2006 to improve energy efficiency at the Lao Brewery Company in Vientiane and was registered at the CDM Executive Board in April 2007. The energy efficiency of the brewery's pasteurising system has been radically altered by installation of vapour re-compression and heat-pump systems, as well as a biogas boiler to supplement the previous heavy oil-fuelled system. The biogas is methane, produced by an on-site anaerobic wastewater treatment system. These new systems will reduce fuel oil consumption by a total of 1,072 tonnes per year when production volume reaches the planned capacity of 160,000 kilolitres of beer in 2010. In addition, carbon dioxide emissions are likely to be reduced by approximately 32,000 tonnes of carbon dioxide equivalent (t CO₂-e) between 2007 and 2016. The CERs acquired from this project will be bought by a Japanese company (Proact International, 2006). One CER unit is equivalent to one tonne of abated or sequestered carbon dioxide (UNFCCC, 2005). One tonne of carbon dioxide equivalent refers to the overall sum of GHG emissions (carbon dioxide, methane, nitrous oxide and sulphur oxide), all multiplied by their respective Global Warming Potentials to take into account their time in the atmosphere.

In addition approximately 5,000 carbon credits from solar systems provided by Sunlabob, a private rural electrification provider in Laos, will be sold to a UK company, Traditional Finance Services, by 2012. This is not worth formally registering as a CDM project since the solar units sold by the company are small and the sums of money obtained are not sufficient to cover the administrative costs of registration. This type of emission reductions, which fall outside the Kyoto Protocol, are called Verified Emission Reductions. Sunlabob was able to sell these emission reductions with the help of a regional carbon consulting firm called Carbon Bridge (Vientiane Times, 2006; 2007).

A number of other projects in Laos are investigating their eligibility for CDM. These projects include hydropower projects such as Nam Nhone, for which the Lao government has already issued a letter of non-objection, Nam Ham, Xeset II and Nam Theun II, plus a biomass to energy project. Besides these, the German agency GTZ is looking at the possibility of implementing a pilot project on the principle of 'avoided deforestation'. The principle of avoided deforestation

is not yet included in the CDM, but some stakeholders would like it to be included after the first commitment period of the Kyoto Protocol.

Constraints in Hosting CDM Projects in Laos

Laos is lagging behind other Southeast Asian countries in attracting capital investment and mobilising funding for CDM projects. Reasons for this include slow progress in the governmental institutions which have to deal with CDM and provide assistance to CDM investors or project developers, and the difficulty Lao project developers and officials have in understanding the complex principles of CDM. For example, each country needs a designated national authority to act as the primary contact for potential investors and to approve CDM projects. The Lao government assigned this task to the Science Technology and Environment Agency (STEA). STEA requested assistance in this from the SNV Netherlands Development Organisation, and from 2006 SNV has been helping STEA to formulate a CDM decree and approval procedure. SNV is also working with the agency's Department of Science and Technology to formulate a Renewable Energy Strategy and Action Plan for the Lao PDR as well as arranging capacity building on CDM for STEA staff. UNDP supports these efforts and is exploring funding opportunities for CDM development within the Global Environment Facility.

Competing on the global CDM market is likely to be difficult for a country that lacks experience and expertise

Seeking funding from CER buyers for CDM projects can be complicated. Like other countries in the region, Laos will need to attract international CER buyers from the global CDM market. Accessing and competing on the global CDM market is likely to be difficult for a country that lacks experience and expertise. Furthermore, as Laos has a primarily agriculturally-based economy and a relatively small population with low density, most CDM projects are likely to be small (like, for example, Sunlabob) and therefore not as attractive to many CDM investors who can invest in large-scale activities in Thailand or Vietnam.

It is important to note that the CDM projects formulated so far will be valid for the first commitment period (2008-2012) only (UNFCCC, 2005). The next commitment period is as yet unknown, which implies that conditions for future CDM projects after this may be different. The post 2012 CDM regime will be one of the principal topics to be discussed at the next United Nations Climate Change Conference in December 2007 in Bali, Indonesia.

Discussion and Conclusion

Four large-scale cement plants and more than ten medium to large steel factories have been established in Laos so far. Currently many of these rely on coal, waste engine oil, and used tyres as their main source of energy. These energy sources emit greenhouse gases such as carbon dioxide, nitrous oxide, sulphur oxide and particulates, which pollute the environment and are also detrimental to human health. Therefore during this first commitment period, the country could develop small-scale CDM projects to switch these factories to cleaner, greener and more efficient energy sources using innovative technology. Good examples for changing such production systems can be found in two CDM projects developed for cement factories in Indonesia, the details of which can be found on the UNFCCC website.

Whilst micro-hydropower plants have not yet proved popular as CDM projects in Southeast Asia, it is believed that Laos has a comparative advantage in developing this type of CDM project. Small hydro schemes fit the topography of the country, require relatively little capital investment and maintenance, and can provide great benefits to rural people with limited access to on-grid connection systems. It should be noted, however, that as the Lao national electricity grid is mainly comprised of hydropower (which has a zero carbon emission rating), only projects exporting electricity or displacing electricity imported from carbon-emitting producers will earn emission reductions. Reforestation and afforestation projects to rehabilitate degraded land areas affected by commercial logging and deforestation prior to 1990 can also potentially be developed as sequestered CDM projects.

With its predominantly small-scale agricultural economy, Laos also demonstrates high potential for small to medium renewable energy projects such as methane gas recovery from waste (e.g. landfill, waste water and livestock manure) and biomass-fired electricity generation from residues such as rice husks and sawdust. These types of project would provide effective waste management solutions and benefit the public, especially farmers. However, medium to large-scale geothermal and wind power projects would require further detailed studies plus great capital and technical investment.

In addition to the decision on CDM validation and the approval procedure, a comprehensive CDM Information Guide or “CDM Manual for the Lao PDR” is required in both Lao and English languages. This would need to be prepared by the government with assistance from a CDM expert and be made publicly available in order to raise awareness and provide information on identification and hosting of CDM projects in Laos, plus potential CDM projects in the country. The guide should include, but not be limited to, general information about UNFCCC and CDM, its relevance to Laos, the steps required to formulate CDM projects, validation and approval procedures, and relevant laws and regulations. In addition, government officials working on the review and approval of CDM projects will need further technical training and support to enhance their capacity in handling these projects. As Laos is a least developed country, such extensive capacity building is only feasible with technical assistance and contributions from donors.

The government and local project beneficiaries (firms and communities that can host projects) need assistance and facilitation to access and negotiate with international CDM investors and buyers in the global CER market. The UNDP MDG Carbon Facility, launched in late 2005 to assist carbon emission trading, will be very valuable not only for helping in negotiations with international CER buyers but also in providing sound legal and technical advice, and project monitoring skills. Funding for CDM projects is available from private companies in Annex I countries and also through development funds, for example from the World Bank and the Dutch and Austrian governments.

The Lao PDR should significantly increase its efforts to make the country 'friendly' to CDM projects as the end of the first commitment period 2008-2012 draws closer. Although the next commitment period is as yet unknown, if some of the barriers to investment discussed above are removed, Laos should be more capable of and more competitive in developing CDM projects for that period. In addition, further studies on potential renewable energy projects, on energy efficiency improvement measures, and on the simplification of the CDM process should be carried out in the near future.

About the Author

Phonsavat Khamlar previously worked with an environmental consulting company - Earth Systems Lao - as an Environmental Scientist before joining UNDP as a Programme Officer for Environmental projects. She holds a Bachelor's degree in Environmental Management from Flinders University in South Australia (2003) and is currently reading for a Master's degree at the University of Melbourne's Office for Environment Program in Victoria, Australia. The author acknowledges all the Introductory Academic Program staff, especially Dr Paul Gruba, at the Faculty of Arts, University of Melbourne, for giving her the inspiration to write this paper, and also wishes to thank Ivo Besselink at SNV and Andy Schroeter at Sunlabob for providing valuable inputs to this paper.

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Upland Food Security and Wildlife Management

by Jutta Krahn and Arlyne Johnson

This article discusses the nutritional consequences of decreased wildlife consumption in rural households in the Lao uplands. As wild animals have become a less frequent ingredient in upland cooking, incidences of poor nutrition through lack of meat intake have increased. This is especially true in areas inhabited by ethnic minorities, where peoples' ability to substitute wild meat with domestic or aquatic animals is currently limited. The authors suggest that sustainable consumption of wild meat through wildlife management is feasible in the Lao uplands and should be incorporated into the Lao concept of how to achieve food security. If current misconceptions about wildlife management are maintained and its harvest left unmanaged, the potential to arrest this decreased nutrient intake will be squandered.

Western societies tend to connote the eating of wildlife in developing countries with half-naked people sitting around a fire grilling monkeys or gnawing at bat bones. People working in the field of food security should know better, but in the current development dialogue it has been observed that some sources present subsistence hunting as evidence for 'underdevelopment' and to support the argument that ethnic minorities are eking out a miserable and backward life (FAO, 1995; Redford, Godshalk et al, 1995). Facts on how wild meat contributes to subsistence and livelihood strategies are often overlooked.

Various ethnic groups have been hunting in tropical forests for around 40,000 years and wildlife is an integral part of their customary diets (FAO, 1995; Redford, Godshalk et al. 1995; FAO, 1996; Bennett & Robinson, 2000). Wild meat still provides more than 50% of protein intake for many of these people, at an approximate average of 60 g of protein per person each day (Bennett & Robinson, 2000). It is often the poorest families who continue to rely on wildlife for subsistence (FAO, 1995) as it takes these people longer to intensify livestock production (Millar & Photakoun, 2006). In such households, the amount of wildlife eaten often exceeds that of domestic meat (FAO, 1995).

Across the tropics, large-bodied (>1kg in size) primates (monkeys and apes), ungulates (hooved mammals) and rodents make up most of the wild biomass hunted for food (Robinson & Bennett, 2004). Unfortunately, Asia exhibits the least remaining forest cover of any continent and wildlife resources are dwindling swiftly (Wikramanayake, Dinerstein et al, 2002). A long history of hunting coupled with high human population growth rates (on average 1.7% annually), has resulted in declines among even small mammals and birds in some locations (Tungittiplakorn & Dearden, 2002). Unless rates of extraction are better managed, species will continue to disappear. Bennett and Robinson (2000) estimate that undisturbed tropical forest can produce a maximum sustainable amount of 102 kg of wild meat per square kilometre each year. This is sufficient to meet the human protein needs of a population density of only one person/km², if that population is wholly reliant on wildlife for its protein.

Urgent action is required to address the nutrition problems affecting people whose cooking pots have been left without meat

There is a critical need in each country for identification of who, and in which areas, is most affected by the decline in wildlife resources and how this is linked to overall animal intake, especially in regard to fats and protein. In Laos, without proper substitution of wild meat, there is the threat that more families will involuntarily have to become vegan. So far though, the nutritional and socio-cultural impact of decreased wildlife consumption has been left largely unrecorded and is not reflected in national consumption statistics nor in national development strategies (GOL, 2005; 2006). Ethnic minorities in particular have been left to cope with less access to the wild meat that is their traditional source of protein, fat, iron, zinc, and vitamins A and B. According to national statistics, stunting and wasting levels are highest for ethnic minorities, who also have the lowest intakes of protein and fat (GOL, 2001; FAO, 2003; WFP, 2007).

In the Lao food security dialogue, the management of wildlife extraction is sometimes interpreted as ‘stopping people from eating wildlife’ so as to ‘keep monkeys in the trees’. In

the rural development toolbox, wildlife management strategies that aim to conserve animals in their native habitats through sustainable use are largely unknown, or are rejected with the argument that setting aside natural resources (e.g. by zoning) reduces food availability and is contrary to classic food security strategies (FAO, 1995). While this intellectual debate on managing wildlife is ongoing, urgent action is required to address the nutrition problems affecting people whose cooking pots have been left without meat.

Negative dietary change in the uplands is a recent phenomenon (ADB/SPC/NSC, 2001; Krahn, 2005). This article follows the international assumption that for many indigenous people, customary diets in their original state were nutritionally adequate (Johns, Chan et al, 1994). It is argued that the decreasing consumption of wild meat due to declining wildlife populations, combined with insufficient substitution of domestic meat, has led to inadequate dietary intake. This raises a question: can and should wildlife resources be managed for sustainable use within upland diets and food security strategies? The article draws from case studies in three parts of the Lao PDR – Houaphan, Luang Namtha, and Sekong, to illustrate that if the challenge of managing wildlife resources for sustainable harvest is met, it may prevent more and more rural people from involuntarily becoming vegans.

The Relevance of Subsistence Hunting in Lao Upland Food Systems

In the traditional shifting cultivation systems of the Lao uplands, hunting was an indispensable element that contributed to a seasonally fluctuating and marginal, but year-round food supply. Data suggests that hunting usually revolved around three seasons: 1) February-March, when animals are attracted by ripe cassava, 2) July-August, when maize is ripe, and 3) October-December, when rice is harvested (Johnson, Singh et al, 2003; Krahn, 2005). It is safe to argue that the customary diets of ethnic minorities in Southeast Asia were short in rice at times, but regularly included large amounts of terrestrial wildlife (Izickowitz, 1951; Clendon, 2001; Krahn, 2005). For example, Krahn has reported that the Katou (Katu) traditionally ate a wide array of animals including pangolin, macaque, loris, weasel, badger, bear, wild dogs, boar, wild cattle, elephant, porcupine, bats, several different kinds of cat, civet, otter, deer, squirrel, turtle and many different types of bird, rodent, fish, frog, toad, snake, lizard, shrimp, snail, crab and insects.

Over centuries people developed a broad spectrum of culturally specific hunting techniques and invested much time in their installation, maintenance and use (Tayanin & Lindell, 1991; Simana, 1997)). Hunting devices included crossbows, blow pipes, trip logs/stones, pit falls, arrow shooting devices, fences, nets, poisons, and a wide array of other traps and snares used in close proximity to upland rice fields (Johnson et al, 2003). Krahn (2005) describes 50 traditional hunting methods and ten types of fishing technique for the Katou. It appears that in many cases hunting techniques were more elaborate than agricultural techniques (Izikowitz, 1951; Krahn, 2005).

A combination of hunting and livestock raising can form a complementary system that provides seasonally diverse meat production and also social prestige and spiritual equilibrium (Kirsch, 1973; ADB/SPC/NSC, 2001; Krahn, 2005). In this 'meat chain' opportunistic harvest of wildlife helps supply a daily intake of protein. Customarily, wildlife is shared among close kin or the whole village (depending on the size of the animals), providing a regular means of protein and fat intake, and buffering the diet at times of poor rice harvest. In the past, for some ethnic groups such as the Katou, nibbling chunks of dried wild meat even provided 'hunger' food when rice was short (Krahn, 2005). In contrast, production of big livestock is not opportunistic, but carefully planned. Consumption of domestic meat, especially buffalo, is traditionally associated with the acquisition of ritual power or the appeasement of spirits during festivals (Kirsch, 1973; Condominas, 2003). This is an important practice that is still applied today (ADB/SPC/NSC, 2001).

Studies show that wild animals remain a considerable part of the diet in the Lao uplands, especially in remote areas and among poor families (ADB/SPC/NSC, 2001; ICEM, 2003; Johnson, Singh et al, 2003; Krahn, 2005; Johnson & Duangdara, in preparation). In a recent survey of almost 4,000 households, the World Food Program's (WFP) Food Security and Vulnerability Assessment, findings from a seven-day recall suggested that large-bodied wildlife was eaten by 6% of the households, small wildlife by 26%, wild fish by 81%, other aquatic animals by 55%, fish from ponds by 20%, poultry and pork each by 41%, and buffalo/cow meat by 42% of the households. This shows the importance of wild animal protein and fat sources:

taken together, wildlife, fish and other aquatic animals were eaten more often than domestic meat. Moreover, it can be assumed that the consumption of wildlife was under-reported by respondents in this assessment (WFP, 2007).

However, the extent of actual dependence on wild meat remains unclear, as does the willingness of ethnic minorities to switch to other sources of food in order to maintain a potentially sustainable level of wildlife harvest. By definition, hunting is 'sustainable' when the wildlife populations being harvested do not exhibit a continual decline in numbers and there are sufficient animals to provide a significant resource to human users (Bennett & Robinson, 2000). In Laos, villages are reporting a continuous decline in wildlife numbers plus ever-increasing effort by hunters to find wild meat. Evidence from Clendon (2001), Johnson, Singh et al. (2005), Krahn (2005), and Johnson and Duangdara (in preparation) indicates that with population growth and increasing food demand, hunting has become unsustainable for most species.

*Villages are reporting a continuous decline
in wildlife numbers plus ever-increasing
effort by hunters to find wild meat*

It is safe to assume that the development of trade routes linking the uplands with Lao urban centres and neighbouring countries since the mid-1980s paralleled the precipitous decline of wildlife populations. Wildlife trade is identified as one of the principle drivers of unsustainable harvest practices (Nooren & Claridge, 2001; Johnson, Boonaratana et al, 2004; World Bank, 2005). With changing livelihoods many villagers, especially the younger generation, are losing indigenous knowledge of animal habits and feeding patterns. Hunters are abandoning traditional gear for metal and automatic weapons, and are not maintaining social and religious food sanctions (Krahn, 2005). Change in the use of primates provides a good example. For many ethnic minorities, gibbons and langurs (small apes and leaf monkeys) traditionally carried hunting and postnatal consumption taboos. Langurs were viewed as protectors of people as they gave warnings when big *felidae* (cats) were near. Gibbons were appreciated for

their beautiful songs, and seen as reincarnated ancestors. Only the more abundant macaque monkeys were regularly consumed (Krahn, 2005). Today however, macaques, gibbons and langurs are all hunted and traded to urban and international markets (Duckworth et al, 1999; Johnson et al, 2005). Government agencies and conservation organisations responsible for wildlife realise that villagers urgently need support in ‘managing’ offtake to avoid over-harvest and the subsequent decline of wildlife populations (GOL 2003; 2005). However, development tools for wildlife management within food security measures have not yet been adopted.

Changing Trends in Wildlife Consumption

Despite there being a relatively slim body of information on the importance and extent of wildlife in rural Lao diets, certain trends and arguments can be established, and these overlap with issues from the food security dialogue.

Trend 1: More Access, Less Wildlife

Hunting, be it for subsistence or trade, is easier where rivers and roads facilitate access and where slope and landcover do not impede movement. Even before a change in forest cover can be detected, increased access facilitates the extraction of large-bodied wildlife such as sambar deer, wild cattle, and primates. Many of these animals reproduce slowly and occur at naturally low densities, so therefore quickly decline when harvest is unregulated. As a result, unless a system of community-based wildlife management is in practice, only the remote corners of the most inaccessible uplands will continue to harbour relatively healthy levels of wildlife biomass.

In the three sites studied in Laos, reports show a continual decrease in large-bodied wildlife. In Luang Namtha province, where access is easiest among the three sites, sambar deer, wild cattle, and primates were reported by ethnic minorities (largely Ahka, Kmh mou and Mien) to be decreasing in abundance or no longer detected at all (Johnson, Singh et al, 2003). In Houaphan province, where access is more limited, fewer households (largely Hmong and Kmh mou) reported that the same animals were declining (Johnson and Duangdara, in preparation).

Trend 2: Fewer Monkeys, More Squirrels

Eating of small-bodied wildlife (<2 kg in size) is now on the increase (Johnson, Singh et al, 2003; Krahn, 2005). The consumption of large-bodied wildlife is a remnant of the past and is only found in pockets of less accessible upland forests. In a survey from Luang Namtha province, over 45% of ethnic minority households interviewed (n=320) indicated that small songbirds, squirrels or frogs are the wild meat that they most commonly consume (Johnson, Singh et al, 2003). In contrast, in Houaphan province over 45% of households interviewed (n=120) still report eating muntjac, as well as some other larger-bodied animals (Johnson & Duangdara, in preparation). In Sekong province this trend was confirmed by reported kill rates of 10-20 sambar deer per village per annum in remote Kalum district, in contrast to the almost complete absence of deer from cooking pots in Lammam district, which lies adjacent to an access road (Krahn, 2005). Before the Indochina war about 100 deer were caught annually by each village.

In Luang Namtha, a survey of 317 households found that some type of meat is eaten on average 6.7 times per week, with wildlife making up 28% of occurrences of all meat consumed, including fish and domestic animals (Johnson, Singh et al, 2003). In Houaphan, 135 households eat some type of meat an average of 8.7 times per week with wildlife making up 29% of all meat consumed (Johnson & Duangdara, in preparation). In a survey in Sekong, an average of 53 kg of mammal meat (usable meats and body parts) per capita and annum was reported for one village in remote Kalum district. In Lammam district village, on the roadside, the average was around 1.3 kg (Krahn, 2005).

Trend 3: Meat Still Symbolic in Villages but Wildlife Market Growing in the City

In Laos consumption of meat is often associated with alleged spiritual attributes or physical behaviour after ingestion, especially the killing and eating of domestic meat (cattle, pigs, goats and chickens). In Sekong research has shown that consumption of domestic meat is particularly related to sacrifice and not part of the daily diet. From 2000-2002, 40 families reported that 33-100% of domestic meat consumed was eaten as part of spiritual appeasement. For pigs the figure ranged from 26-100%, for goats 63-100%, and for chickens 23-92% (Krahn, 2005). Even ordinary consumption of domestic meat was mainly related to special events

such as marriage, birth or death. This is similar to previous descriptions by Kirsch (1973) and the Participatory Poverty Assessment before that (ADB/SPC/NSC, 2001). Additional reported domestic meat consumption was in many cases opportunistically related to mortal disease among pigs and poultry (Krahn, 2005).

*Wild meat is increasingly in demand as
a luxury item on urban markets*

With regard to taste preferences, among 317 households in Luang Namtha (Johnson, Singh et al, 2003), an expressed preference was found for domestic meat (42% of respondents), followed by wildlife (34%) and then fish (24%). In Houaphan (Johnson & Duangdara, in preparation), among 135 households there was an expressed preference for wildlife (45%), then domestic meat (43%) followed by fish (only 12%). In Sekong (n=40) fish was appreciated most, followed by domestic chicken and beef, which both ranked higher than wildlife. Among wildlife, birds, wild boar, and deer meat ranked highly, while bear and large cat meat were ranked low on the scale of preference (Krahn, 2005). Such data suggests that ethnic minorities do not have a strong taste preference for wild meat but seem to appreciate domestic meat as much as or in some cases even more than wild meat. This is in contrast to the growing urban markets in Laos and in neighbouring countries, where wild meat is increasingly in demand as a luxury item selling at a higher price than domestic meat.

Trend 4: Lower Nutrient Intake

Customary and traditionally adequate upland diets with a high intake of meat, mainly from wildlife, are increasingly shifting towards vegan diets with an occasional infusion of fish. While in Western societies vegans can cover their protein needs with a range of food items (e.g. pulses and nuts, plus dairy products for vegetarians), these foods are not generally available in the Lao uplands and they are alien to the existing cultures. This trend towards involuntary veganism results in unbalanced diets and is having serious nutritional consequences. With decreased mammal meat intake, a good source of calories is lost, especially when the meat eaten had fatty layers of skin such as was the case with wild boar, badgers or deer. The calorie

content of toads, frogs, snails, crabs, shrimps, freshwater fish, and wild birds is much lower. Thus with the dietary shift to small-sized mammals, fat intake has decreased. Domestic meat usually provides more calories than wildlife, but as stated above consumption is irregular. With lower meat consumption, zinc and iron intakes are reduced while calcium intake has significantly decreased with the decline of the customary and frequent simmering of wild meat in a bamboo tube, and the associated mashing of bone, cartilage and carapaces. In comparison, domestic meats show much lower calcium values, even lower than many vegetables. Lower meat consumption also means less vitamins B₁, B₂ and A, especially due to the lower consumption of vitamin A-rich organs such as liver.

Challenges for Policy Makers: How to ‘Keep the Monkey in the Tree’

It is safe to conclude that Lao upland diets, especially the cuisines of ethnic minorities, are suffering from a continuous decline in the abundance and intake of wildlife. These diets therefore need to be diversified to include more stable sources of fat, protein, iron, zinc, B-vitamins and vitamin A. One way of achieving this would be to restore wildlife to the local - not the urban - cooking pot by stopping the downward spiral in wildlife abundance and allowing wildlife populations to climb back to healthy levels in their native habitats. Balanced diets – including both plant and animal protein and fats - could be accomplished through a managed and sustainable harvest of the more rapidly producing species for subsistence consumption.

In fact, national guidelines and strategies for managing wildlife offtake for sustainable use already exist. Some aim at contributing to the subsistence of rural villages on the edge of protected areas while also conserving viable wildlife populations (Robichaud, Marsh et al. 2001). On a wider scale, other national strategies acknowledge management of natural resources as one of three essential pillars for poverty eradication (GOL, 2005). The specific legal instruments that guide wildlife use include Forest Law No. 01/1996 and the Ministry of Agriculture and Forestry (MAF) Regulation No. 0360/2003 (GOL, 2003). Although the regulations overlook some species that require protection and apply protection to some species

that do not require it, they represent the first steps in Laos towards outlining what can be harvested by whom and where, during which seasons, and with which methods of harvest. To support these steps, it is essential that the development community works alongside wildlife and protected area managers towards the following three major outputs, which as described in Programme 2 of the *National Biodiversity Action Plan to 2010* (GOL, 2004), should be in place by 2010.

Output 1: Core Zones for Wildlife Production

Core zones within National Biodiversity Conservation Areas (NBCAs) are large contiguous areas (>1,000 km²) that provide essential natural refuge for wild animals to safely reproduce and where hunting is prohibited (GOL, 2003). The rationale behind creating core zones is that surplus animals will disperse out from the zone and become available for harvest, and that by linking core zones via corridors, the viability and genetic diversity of wild populations can be maintained. The use of core zones as permanent refuges for wildlife reproduction is a widely recognised and successful management practice in hunting regimes throughout the world. In Laos, core zones are already being established in some NBCAs (e.g. Nam Et-Phou Louey NBCA in Houaphan) and are mandated for all NBCAs (GOL, 2003). The system resembles domestic animal production in that excess offspring are harvested but large populations of breeding stock are maintained to continue reproduction.

Output 2: Cooking up ‘Managed’ Species but not ‘Protected’ Species

The Ministry of Agriculture and Forestry (GOL, 2003) groups hunted species into ‘managed’ and ‘protected’ species (figure 1). The rationale behind grouping wild animals into categories is that protected species are those that are naturally rare or reproduce slowly (e.g. gibbon, gaur, serow) and will not persist if hunted (see table 1). Managed species are typically animals with naturally higher rates of reproduction that can sustain some degree of hunting (e.g. red muntjac, wild pig, porcupines). For example, estimated sustainable annual offtake rates for some rodent species can exceed 50% of standing biomass. The figure for ungulates is lower (~20%) and for primates even lower (~5%) (Robinson & Bennett, 2004). Along with zoning, the designation of hunted and taboo species is widely recognised as a successful management practice employed

in functioning hunting regimes around the world. Although this classification exists and has been widely communicated in Laos, implementation remains sporadic where funding and support for enforcement are absent (Robichaud, Marsh et al, 2001).

In the absence of management, most wildlife populations have slipped below normal levels of abundance and some are at risk of extinction in Laos, though the species may be secure elsewhere in the world (table 1). This means that harvest of even the most rapidly growing species must be carefully managed to allow populations to recover to their full reproductive potential. Surveys of village households in northern Laos affected by high levels of food insecurity indicate public support for existing government hunting regulations to help solve food security problems (Johnson, Singh et al, 2005; Johnson & Duangdara, in preparation).

Table 1: Estimated reproductive parameters, relative rates of growth and status for various primates, ungulates and large rodents in Laos

Common name	Type of animal	Young per reproductive event	Reproductive events per year	Years to first reproduction	Rate of growth	Status in the Laos PDR
Gibbon	Primate	1	0.25-0.5	8-9	Slow	At risk
Macaque	Primate	1	0.5	2.5-4	Slow	Potentially at risk
Gaur	Ungulate	1	0.5	2-3	Slow	At risk
Serow	Ungulate	1	0.5-1	2.5-3	Slow-Moderate	Potentially at risk
Sambar deer	Ungulate	1	0.5-1	2	Moderate	Potentially at risk
Black Giant Squirrel	Rodent	1-3	1-2	2	Moderate	Potentially at risk
Red Muntjac	Ungulate	1	1	1	Moderate	Secure in short to medium term
Brush-tailed Porcupine	Rodent	1-2	2-3	2	Rapid	Secure in short to medium term
Wild Pig	Ungulate	4-8	1	0.75-1.5	Rapid	Status unclear

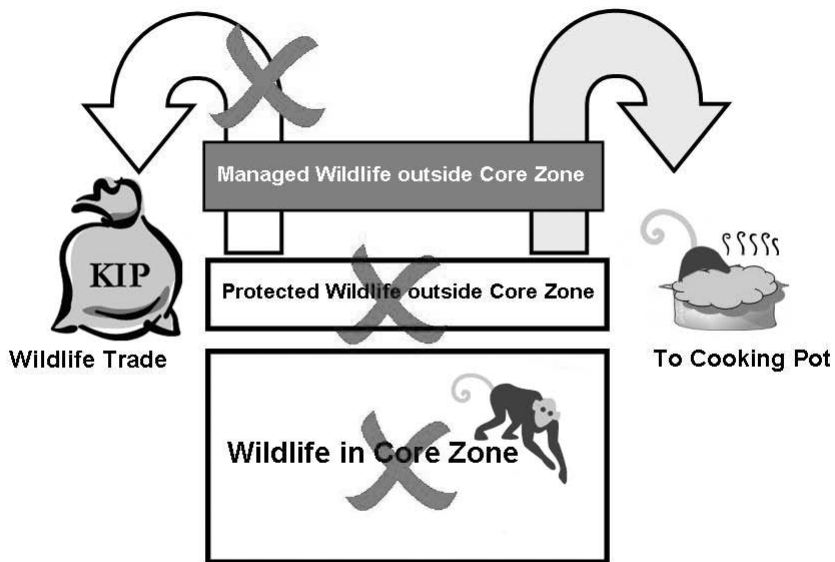
Sources: Nowak, 1991; Lekagul & McNeely, 1977; Duckworth et al, 1999.

Output 3: Going, Going, Gone – Nothing in the Cooking Pot

Fundamental to sustainable use of wildlife for food security is the elimination of wildlife trading from rural communities to urban centres, as noted in the Governmental Biodiversity Strategy and Action Plan to the Year 2020 (see also World Bank, 2005). The underlying rationale is that this trade contradicts national policies for poverty alleviation: extracting and selling

'managed species' to urban residents means that less wildlife is available for upland cooking pots. Trade of wildlife extracts any surplus production of wild animals that may exist and makes sustainable use of wildlife by upland villages impossible to achieve. In the absence of enforcement to control wildlife trade, new roads and tracks that are pushed into previously inaccessible regions of the uplands provide access for outsiders to hunt and buy wildlife from areas that were previously used only for subsistence consumption by ethnic minorities. It has been shown that roads, if left unmanaged, are associated with increased sale and eventual decline of wildlife and non-timber forest products, and tend to have negative impacts on families that are already poor and underprivileged (Chamberlain, Phomsombath et al, 2002; Marris, Hedemark et al, 2002).

Figure 1: National legislation for the cooking pot



Following national regulations for wildlife management, hunting of all wildlife in NBCA core zones and of protected wildlife species is prohibited (the two boxes with black frames). Managed wildlife species (grey area) can be harvested outside the core zone and eaten by villagers within their allocated village areas. If managed wildlife is illegally traded to urban centres, there is less meat available for the cooking pot and hunting becomes unsustainable.

Conclusion

In Laos ethnic minorities in the uplands live something of a marginalised existence (ADB/SPC/NSC, 2001). With increasingly disrupted livelihoods, they are suffering from disproportionate levels of stunting, wasting and associated diseases in comparison with people in the lowlands (GOL, 2001; WFP, 2007). Purchase of domestic meat is still rather rare in the uplands and given the distance to markets, the lack of meat supplies in such markets, the limited availability of transport and capital, plus lack of storage capacity, this situation cannot be expected to change soon.

It can thus be argued that the total wildlife offtake in Laos cannot be substituted by domestic meat production at present. In remote villages of Sekong, for example, to substitute the existing annual per capita consumption of 53 kg of wild meat with meat from livestock would require a transformation that is unlikely to be achieved in the next ten years. Complicating factors include the difficulties of livestock production in such areas, the limited aquatic resources available, plus the propensity to save livestock rather than eating it.

*Many remote villages have few
dietary options that provide
sufficient protein, fat, zinc and iron*

In the short and medium term, for many remote rural villages there are few dietary options available that provide sufficient protein, fat, zinc and iron. Consequently, in areas where wildlife consumption is still high, ways have to be found to manage the harvest to achieve sustainable levels of use. The authors would refute the idea that rice insecurity is the main nutritional problem in the Lao uplands, arguing that decreasing wildlife and less diversified meat consumption requires most urgent action. Despite this urgency, the decrease in wildlife consumption in the Lao uplands has not yet received the same level of interest as fish and other aquatic resources as a food source: the nutritional impact of the decline of wildlife populations on local upland diets is not understood at all.

As such, there is a need to identify the upland equivalent of the ‘fish-rice based diet’ characteristic of the floodplains. Where is all the padek and the rice in the uplands? It should be realised that ethnic minorities living on sloping lands are traditionally not rice sufficient, do not customarily adore padek, and may have started eating more fish only recently as a wildlife substitute. Some eat fermented birds and birds’ nests, or simmer the skin, bones and joints of deer for hours to create a jelly-like stew. Their children suck the flesh out of grilled mammal paws as commonly as lowland children suck fish bones. There is a risk that before the padek of the uplands is ‘found’ and studied it may have already disappeared.

In summary, taking the nutritional predicament of involuntary vegan diets seriously means acknowledging that management of wildlife resources (and not only of fish and other aquatic resources) should become an integral part of food security strategies. This would involve forming an alliance between rural development and wildlife management initiatives. If, however, tools for wildlife management continue to be misconceived as irrelevant, the availability of wild meat to increase intake of animal fats and proteins in Lao upland diets will be unknowingly squandered.

About the Authors

Jutta Krahn (jukrahn@gmx.de) is a consultant specialising in diet and nutrition in rural Southeast Asia, and currently working for WFP and FAO Laos. Arlyne Johnson (ajohnson@wcs.org) is the co-director of the Wildlife Conservation Society Lao PDR programme in Vientiane. Both authors are contributing to Juth Pakai for the second time. This article is condensed from a longer paper, with fuller referencing, that is available from the authors upon request.

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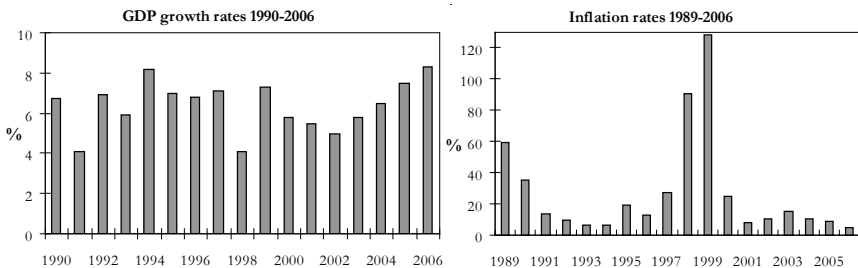
Foreign Currency Use in Laos: Recent Evidence and Policy Perspectives

by Phetsathaphone Keovongvichith

This article presents an analysis of 'dollarisation' in Laos. Use of US dollars and the Thai baht in business and consumer transactions has been common since the 1980s, making the Lao economy one of the most dollarised economies in the world. The author here attempts to analyse this little-studied phenomenon, exploring the origins and fluctuations behind use of foreign currencies in Laos. He then moves on to discuss the possible effects of dollarisation, both positive and negative, before presenting possible policy options for dealing with this situation.

In the second half of the 1980s Laos took the decision to walk off the path of a centrally-planned economic system and instead adopted a market-based economic system guided by the state. This economic reform, known as the New Economic Mechanism (NEM), was supported by the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). Following the launch of the NEM, Laos made progress in achieving relatively high and sustained economic growth, with average Gross Domestic Product (GDP) increasing by approximately 6% annually between 1990 and 2004. Laos was also able to bring inflation under control following the high inflation rates experienced in the late 1980s and 1990s (see figure 1).

Figure 1: Annual GDP growth and inflation rates in Laos, 1989-2006



During this process of economic reform, Laos began to suffer the monetary phenomenon of widespread use of foreign currencies (FC). This situation, commonly known as ‘dollarisation’ (Reinhart, Rogoff & Savastano), has now prevailed in the Lao economy for some time and can be defined as the use of a more stable unit (most often US dollars) than the national currency to serve in standard functions of money: as a unit of account, a medium of exchange, and a store of value. In Laos both Thai baht and US dollars are used widely for many economic transactions.

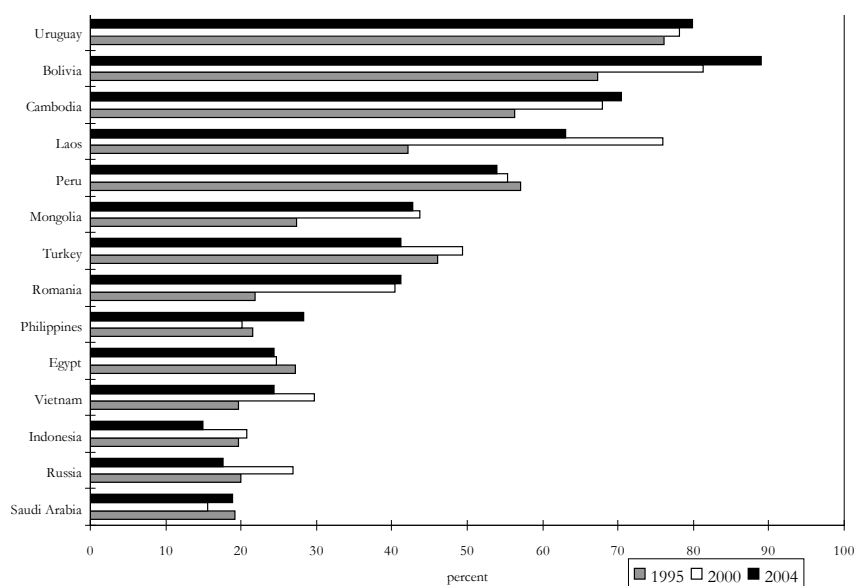
*‘Dollarisation’ is the use of a more stable unit
than the national currency to serve in standard
functions of money*

To get a picture of the scale of dollarisation in Laos, it is useful to put it into a comparative perspective. Figure 2 depicts the degree of dollarisation in Laos and in other dollarised economies around the world between 1995 and 2004. The degree of dollarisation - commonly measured by foreign currency deposits (FCD) to broad money (M2) – rose remarkably in several countries, including Laos and its neighbour Cambodia. The rate of dollarisation in Laos was already high in the early 1990s (around 42%) and rose to nearly 80% in the late 1990s. As can be seen, Laos and Cambodia rank among the top five most dollarised economies in the world. Although Vietnam can also be described as dollarised, it appears that the Vietnamese authorities managed to maintain a moderate degree of dollarisation during this period. It should be noted that this system of measuring dollarisation relies on the available data, but that it misses an important element – cash in circulation. The actual rate of dollarisation may in fact then, be even higher.

A high degree of dollarisation in a particular economy raises certain questions. Firstly, what are the factors driving dollarisation? Secondly, what are the likely effects? Finally, what policy options are available for dealing with dollarisation? Persistently high dollarisation is of concern in Laos because it makes it difficult for monetary authorities to set appropriate monetary and exchange rate policies. Since the Lao economy has been dollarised for such a long time and research on this issue is thin, this study aims at drawing attention to Lao dollarisation and stimulating debate in economic and business circles. Laos has not formally dollarised its

economy, and this study focuses on informal/*de facto* dollarisation, emphasising empirical facts and policy issues rather than theoretical issues. Laos presents an interesting case since in 2004 the ratio of FCD to M2, and FCD to total deposits rose sharply to around 53% and 65% respectively, despite considerable progress in macroeconomic stabilisation during the same period. The Lao case is similar to developments in other dollarised economies, which despite restoration of growth and rapid disinflation have generally experienced persistently high, and in some cases rising, dollarisation ratios.

Figure 2: Globally dollarised economies, 1995-2004



Source: Author’s calculation based on IFS, IMF.

FC Dominance in Laos during the Past Decade: Recent Empirical Evidence

Over the last fifteen years the role of the kip, the Lao domestic currency, has changed significantly because it no longer fulfils fully its traditional functions of unit of account and store of value. Since the adoption of an open economy and a liberal exchange rate regime, the Thai baht and the US dollar have coexisted as *de facto* currencies along with the kip. As a result, Laos has long been confronted with multiple currencies, diminishing the role of the domestic currency. It seems that the use of baht is predominant for cash transactions, while

most FCD are in US\$. Of bank deposits held in 2006, 73.1% were in dollars, 20.1% in baht, and less than 16% in kip.

By law, FC are not legal tender but in reality they are widely used for high and low-value transactions. In urban areas, prices for goods and services are often quoted either in baht or dollars and transactions are carried out in both currencies. Consumers do not want to pay in kip, especially for high-value items. For example, if the average price of land plots is \$100,000, conversion of this amount into kip will give a nine-digit number, which frightens potential buyers. In rural areas, however, the kip is used more. The Lao economy is largely cash-based, with a large amount of baht and dollars circulating outside the domestic banking system. FC are used as financial investments in the form of bank deposits and loans while the reserve requirements of commercial banks are set in both domestic and FC-denominated assets.

Magnitude

Beyond the descriptive analysis of dollarisation, in order to know its 'true' scale in a particular economy, data is required on cash FC in circulation and on FCD held abroad by domestic residents. In Laos, as elsewhere, such data is not readily available. Most formal empirical work on dollarisation in Latin America, in developing countries and in transition economies has used a measure based on two indicators: a) the ratio of residents' FCD to broad money (M2); and b) FCD to total currency deposits. According to IMF economists, if a country's ratio of FCD to M2 exceeds 30%, it is considered a "highly" dollarised economy. Laos and Cambodia are classified as highly dollarised economies, while Vietnam is a moderately dollarised economy (Balino, Bennett & Borensztein, 1999).

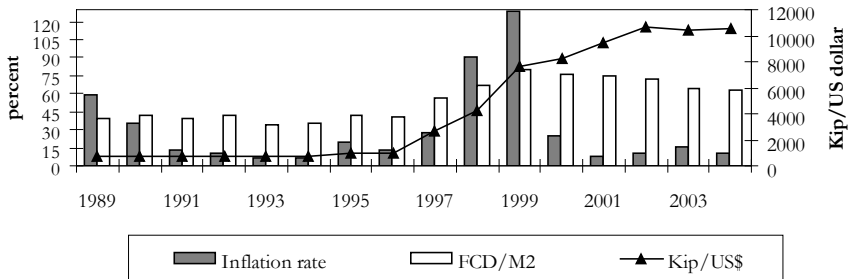
Explaining the Underlying Causes

The widespread use of FC is influenced by a variety of factors, depending on the particular economic situation of an individual country. In Laos, firstly the deregulation of the financial sector in the early 1990s allowed residents to maintain FCD in domestic banks. This encouraged the repatriation of balances kept in foreign banks (mainly in Thailand) and of workers'

remittances. These remittances were originally kept in overseas banks, and informally brought into the country in the form of cash or bank transfers. Later, they were deposited directly into FC accounts in Lao banks. These contribute to the large amount of FCD in the domestic banking sector.

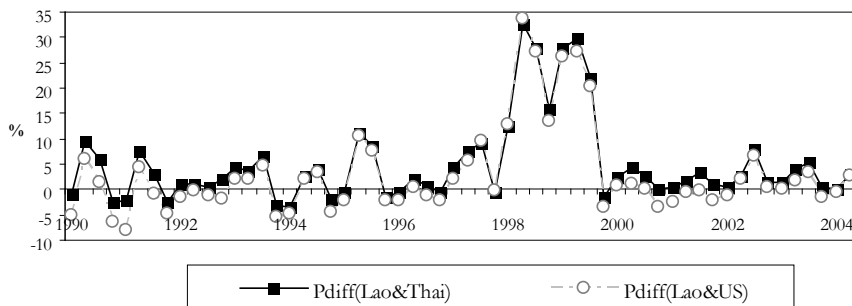
Secondly, the rapid rise in the rate of dollarisation is tied to high inflation and the exchange rate instability of the domestic currency. This really is the main reason for dollarisation. Episodes of sharp devaluation of the kip, particularly in 1995 and 1997-1999 in the aftermath of the Asian financial crisis, were a major source of dollarisation in Laos. The value of the kip dropped sharply from 962 kip to the dollar in January 1997 to 9,430 kip to the dollar in June 1999. Inflation rose from an annual rate of 12% to 124% during the same period. In response, people started to diversify their wealth portfolios by switching from kip into FC-denominated accounts to avoid the impact of repeated devaluation. The immediate effect was a surge in dollarisation, which leapt from about 40% to nearly 80%. The effect on inflation was particularly strong, given that many prices were indexed in FC. Zamaroczy and Sa (2002) confirmed this situation in their causality analysis between inflation and dollarisation in Cambodia, Laos and Vietnam. The governor of the Bank of the Lao PDR, Phouphet Khamphounvong, has explained that “many factors hinder currency control in Laos. There is a lot of use of FC here because of the unstable value of the national currency in the past. During the Asian Crisis from 1996-1999, the annual inflation rate went up to three digits, and the exchange rate fluctuated. . . people are not confident about the stability of the kip and so they keep dollars and baht instead.” (Vientiane Times, 2005).

Figure 3: Dollarisation and exchange rates between kip/dollar and inflation rates, 1990-2004



Source: Author, based on data from annual reports of Bank of the Lao PDR

Figure 4: Inflation differential between domestic and foreign rates - Laos, Thailand, USA, 1990-2004

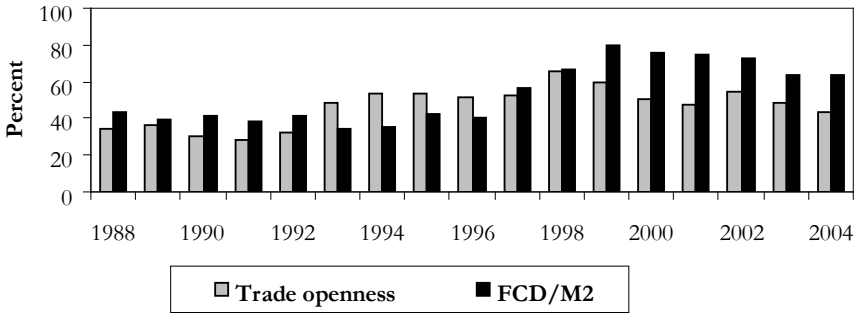


Source: Author's calculation, based on IFS, IMF

Thirdly, the inflation differential measured by the difference between annual domestic and foreign inflation may also contribute to dollarisation in Laos. According to Obstfeld and Rogoff (1999), when anticipated home inflation is less than or equal to anticipated foreign inflation, it will turn out that there is no point in using FC. However, when home inflation is higher than foreign inflation, the FC share of total domestic transactions will turn out to be an increasing function of the inflation differential. This is likely in developing countries, with high levels of dollarisation typically arising when inflation rates are high. In the past Lao inflation rates had often been higher than international rates, prompting residents to shift from the domestic currency to FC holdings (see figure 4). People in Laos are believed to be more susceptible to Thai inflation than US inflation because of the dominant role of Thailand in trade and investment.

Indeed, widespread use of FC in the country - especially the popular and relatively stable use of Thai baht - is possibly driven by the close economic, investment and trade ties with Thailand (formal and informal). Prices in border trade are usually quoted in either baht or dollars and payments for smaller items are mostly carried out in baht. Although the kip is accepted as a means of payment, there is less demand for it. As trade grows and Laos moves towards closer integration with the international economy, traders seek lower costs and assured stability of prices by using FC, with which there is a little concern for sharp depreciation. Therefore, dollarisation can also partially be seen as a consequence of trade liberalisation and international integration.

Figure 5: Level of dollarisation and trade openness in Laos, 1988-2004



Source: Author’s calculation based on data from IFS CD Rom, 2004

As shown in figure 5, Laos’s external trade (export plus imports) as a proportion of GDP is relatively open compared to the early period of economic reforms of the 1980s. However, it seems that Laos is mainly confined to regional trade because it is landlocked. Laos mostly trades with Thailand, which is a regional economic power whose major trade partners require FC for transactions. Laos’s economy thus depends on that of Thailand. Between 1999 and 2004, Lao exports accounted for only around 20% of the Lao-Thai trade balance, while imports from Thailand accounted for nearly 60% of total imports. As a result, the baht and dollar are particularly important for traders, who need FC to carry out international transactions. Furthermore, legal restrictions have been imposed for foreign exchange earnings from exports. This forces many exporters (who are also importers) to keep FC-denomination accounts with local banks in order to finance their import activities and reduce related exchange rate risks. Increasingly, urban residents in Laos are travelling to Thailand to buy goods and services, and for this they need FC, especially baht.

Thailand is the biggest investor in Laos, accounting for \$2,754 million or roughly 35% of total foreign investment. All foreign investors arrive with some amount of FC in cash and need a wide range of services (local staff, housing, transport etc.) and goods in what is still largely a barter economy. The influx of investors after introduction of the NEM was thus another factor behind extensive dollarisation. With the persistence of this dollarisation, it is important that the possible effects of this phenomenon are explored.

Possible Effects of Extensive FC Use on the Lao Economy

A high degree of dollarisation is often viewed as providing several benefits, challenges and costs to a particular economy. The benefits include fiscal discipline, limited capital flight, and promotion of financial intermediation in an under-monetised economy, though this essentially depends on the strength of the banking system. It also encourages the use of money rather than barter. However, a high degree of dollarisation is also associated with the loss of the monetary authorities' capacity to conduct effective monetary and exchange rate policies, loss of the lender of last resort, and possible risks of banking crises. Discussion of the possible costs and benefits in the Lao context follows.

*Partial dollarisation in Laos is likely to
encourage fiscal discipline*

Partial dollarisation in Laos is likely to encourage fiscal discipline by raising the inflation rate that is needed to collect a given amount of seigniorage. In the presence of partial dollarisation, the demand for real money balances in domestic money declines. Thus, the amount of seigniorage that can be collected at a given inflation rate becomes lower. Monetisation of fiscal deficit becomes more costly in terms of inflation, and therefore the authorities have a strong motive to keep the deficit on a sustainable path. Furthermore, the effect of capital flight can be contained as domestic residents are given the opportunity of holding FC-denominated assets in domestic banks rather than transferring their money to overseas banks. These resources can be utilised for domestic financing, though cash holdings of FC are not intermediated and only benefit the issuing countries – i.e. the US and Thailand. The growing importance of FCD in the financial system can perhaps help enhance the opportunities for domestic financial re-intermediation functions and financial deepening. This strengthens the financial performance of banks. As table 1 suggests, the degree of financial deepening as internationally measured by M2/GDP per year in Laos, Cambodia and Vietnam would be slight if these financial systems were only allowed to accept domestic currency. When the financial system is permitted to accept FC, financial depth is significantly enhanced. This is particularly important for Laos, which allowed its domestic banks to accept FCD in the

early 1990s, so limiting the motivation of residents to open accounts abroad (particularly in Thailand) and also encouraging those with foreign accounts to transfer their money back to Laos. This promotes financial re-intermediation, competition and efficiency among financial institutions, and generates additional financial resources for economic development. However, the enhancement of financial re-intermediation is still inconclusive because of large-scale non-performing loans (NPLs) in domestic banks.

Table 1: Financial depth in Laos and neighbouring countries, 1992-2004

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cambodia													
M2/GDP	n.a	5.00	6.47	7.83	10.10	10.71	10.59	10.99	13.26	15.15	18.43	19.64	22.05
M2/GDP(Excl FCD)	n.a	3.19	3.14	3.42	3.72	4.01	4.85	4.30	4.42	4.57	5.66	6.02	6.36
Laos													
M2/GDP	9.06	13.23	14.99	13.51	14.19	18.45	20.42	14.96	16.11	16.98	19.19	20.87	19.45
M2/GDP(Excl FCD)	5.30	8.69	9.66	7.81	8.44	8.01	6.72	3.08	3.88	4.26	5.65	7.90	7.23
Vietnam													
M2/GDP	22.74	20.13	20.5	19.78	20.93	22.57	24.21	36.37	44.6	52.12	53.12	62.45	69.48
M2/GDP(Excl FCD)	16.86	15.93	15.7	15.88	16.87	17.59	18.09	26.14	31.45	35.87	37.81	48.01	53.34

Source: Author's calculation based on data from IFS, IMF

It seems that when Lao domestic banks accepted FCD, some faced difficulties managing their FC resources in an effective way. These banks lent FC and so faced foreign exchange risks arising from rapid depreciation of domestic currency or inflation. With limited lending opportunities and high possibility of default risks, they chose to manage their FC resources by re-depositing them in overseas banks to earn some returns (and to cover charges for international transactions). For a bank manager, this type of decision may be seen as rational. Since Laos has long been regarded as a least developed country dependent on foreign aid however, this practice of expatriating capital needed for national development is questionable. According to recent estimates by a JICA expert (Komatsu, 2005) Lao banks kept approximately 56% of their FCD in foreign banks in 2000, 39% in 2001, 54% in 2002 and 50% in 2003. These ratios indicate that a relatively large proportion of domestic financial resources are deposited outside the country. Rectifying this situation in the short term will not be easy due to the underdeveloped domestic financial sector and the fact that domestic management of mobilised funds is constrained by a lack of good investment opportunity. In the near future, the concerned authorities must think carefully about how to use FC resources productively.

Partial dollarisation is often regarded as limiting a central bank's capacity to play its role as 'lender of last resort'. When monetary authorities are capable of issuing only domestic currency, the domestic financial sector faces the problem of lack of liquidity in terms of foreign liabilities, making the sector vulnerable to solvency risks. When these risks are not sufficiently assessed and controlled by financial institutions, they can cause bank runs and financial crisis. Liquidity risk in financially dollarised system occurs when there is inadequate support for the foreign liabilities of banks. A perceived increase in banking risks may lead depositors or other creditors to convert their deposits or funding into dollar cash or to transfer them overseas. Unless they are backed up by sufficient liquid dollar assets abroad, banks may run out of dollar liquidity reserves and drain the international reserves of the central bank. A partially dollarised banking system resulting from depreciation of the local currency is associated with a risk of excessive foreign currency exposure. Such currency exposure occurs when FC assets are greater than foreign currency liabilities.

Such a situation partially explains the origins of the relatively high amount of non-performing loans (NPLs) in the Lao banking sector. Banks granted credit in FC even when borrowers did not have revenues in foreign exchange. As the kip depreciated sharply in the late 1990s, borrowers needed more and more kip to repay loans. Borrowers first increased the prices of their goods and services (thus fuelling inflation) until at last they could raise them no higher, and they then defaulted on their loans. These were thus written off as NPLs (World Bank et al, 2002). Although the banking sector is supported by some schemes such as depositor insurance, or forms of reserve requirement, these back-up systems may not fully cover the amount of deposits demanded by customers. According to a financial sector report published by the World Bank et al (2002), roughly 60% of total loans outstanding in Laos in December 1999 were non-performing, largely arising from policy related lending (to State Owned Enterprises) by state-owned commercial banks and unsound credit management. The Lao banking sector was thus in a difficult position and required a \$50 million capital injection. At the time NPLs represented 3% of GDP (Unterobderdoerster, 2004) but since then their level has been brought under control through restructuring under the supervision of the monetary authorities.

Possible Policy Perspectives: What Can be Done about FC Use in Laos?

Various policy actions can be considered to de-dollarise, each with their own benefits and drawbacks. Following international de-dollarisation experience, these can be divided into three types: macroeconomic policies; regulatory/legal measures; and administrative measures.

Macroeconomic Policies

Dollarisation has its roots in macroeconomic instability. Therefore, the most powerful tool is restoration of confidence in the domestic currency by maintaining stable exchange rates and prices while introducing inflation targeting to curve inflation expectations. Financial liberalisation, which results in higher domestic interest rates, can also help affect the degree of dollarisation. Such price stabilisation policies have been used in many countries, including Poland, Israel, Armenia, Estonia and Lithuania. These countries pursued financial liberalisation, which led to a rise in domestic interest rates and thereby helped to gradually reduce dollarisation.

Regulatory/Legal Measures

Adjustments can be made to the regulatory structure by setting reserve requirements or remuneration rates in various currencies, or by changing provisioning and liquidity requirements. A state may also introduce alternative financial instruments and require all or certain payments or contracts to be made in local currency. In Peru in the late 1980s, a 2% transaction tax was imposed on cheque payment in FC. Bolivia, Honduras, Nicaragua, Peru, Cambodia, Laos and Vietnam have all imposed reserve requirements for FCD. Some of the Latin American countries listed above introduced higher reserve requirements for FCD than for local currency deposits. Israel used differential remuneration rates and imposed a one-year holding period for all FCD to encourage the use of local currency dollar-indexed deposits over dollar deposits.

Administrative Measures

Direct administrative measures can be taken. These include prohibition of FCD for residents, restrictions on residents holding accounts abroad, and forced conversion of dollar to local

currency deposits. Israel provides one example of setting a limit for payments in FC by imposing a ban on direct transfers of FCD among residents. Lebanon limited FC lending to 60% of FCD, which forced banks to keep the remaining amount outside the country. In Asia, Vietnam, Malaysia, and the Philippines restricted FC loans to particular uses or borrowers. Peru, Bolivia, and Mexico forced conversion of FCD. Finally, in many African nations, FCD are still controlled or are strictly prohibited. In most of these cases however, there are indications of extensive unofficial uses of dollars as cash in circulation. It appears that only a few countries implementing such measures have been successful in de-dollarisation.

*Only a few countries have been
successful in de-dollarisation*

Lao Policies

In response to persistently high dollarisation, the Bank of the Lao PDR has implemented a series of policy measures. These include macroeconomic, regulatory and administrative measures. In terms of macroeconomic measures, the monetary authorities tightened monetary policy by limiting the growth of credit and adjusting the ratio of reserve requirements. Through a combination of policy measures economic stability has been regained, as evidenced by persistently low inflation rates and stable exchange rates. Actions on the regulatory and administrative fronts include: i) the promulgation of a decree requiring all domestic transactions to be made in monetary assets denominated in domestic currency; ii) a programme to encourage payments in domestic currency; iii) improvements to the domestic payment system, such as clearing and settlement procedures; iv) promotion of the use of cheques (Decree on cheques No.175/PM, October 1996); v) the introduction of reserve requirements in various currencies (kip, baht and dollars); and finally, vi) the issue of large-denomination banknotes and automated teller machines. However, these policies have not so far had a significant effect on the degree of dollarisation. Therefore, Laos could also consider some alternative policy measures.

Suggested Measures

Given the extensive degree of dollarisation, policy measures should continue to focus on preserving the value of the currency by maintaining a low rate of inflation and a stable exchange rate. De-dollarisation is a long and tedious process, and with a small domestic monetary base, policy aimed at output stabilisation is likely to be powerless. Even a moderate amount of seigniorage may involve high costs in terms of inflation, capital flight, and further rise in dollarisation. Regulations and legal restrictions specifically aimed at reducing dollarisation by increasing the domestic monetary base are also likely to be highly ineffective, leading to capital flight and underground transactions. Instead, use of the kip should be promoted through incentives and stabilisation rather than regulations. Maintaining a stable macroeconomic environment with low inflation and a stable exchange rate would promote confidence in the national currency. As history has shown, it is events of a high inflationary nature coupled with currency depreciation that move people to shift their investments from a weak to a strong currency.

Efforts to limit dollarisation could also be made through institutional measures. In Laos, as noted earlier, domestic payments are still mostly made in cash. The authorities should continue to improve the domestic payment infrastructure through clearing and settlement procedures. Regulatory arrangements are already in place to help improve this but implementation is still lacking. Bank inefficiencies hinder the use of modern instruments: cheques are rarely used and their use is almost exclusively confined to banks and larger enterprises. Use of credit cards is still mostly confined to foreigners settling hotel bills and purchasing air tickets. Cash payment for large bills requires huge amounts of kip, which people are reluctant to carry due to worries about security and inconvenience. As a result, FC are preferred for payment. Use of cash, with the baht and U.S dollar circulated widely along with the kip, will become more expensive and inefficient as the volume of business transactions increases.

The authorities could try to develop alternative financial instruments such as stocks, mutual fund shares, corporate finance bonds and asset-backed securities. They could facilitate the use of specific indexed instruments, which, if they could be introduced, would unbundle

risk or coverage from transactions and the store-of-value functions of currency. By limiting the replacement of local currency by FC, including reserve money, these instruments can in principle enhance the scope for monetary policy. However, they are only a partial substitute for FCD and FC ownership, plus they are subject to high transaction costs and may be difficult to develop in unsophisticated markets. Furthermore, derivatives entail risks and authorities should ensure that banks are not unduly exposed. Laos is still in the early stage of financial development so these instruments are not yet available, but the authorities should try to foster their creation in the long run.

Alternatives for the operation of monetary and exchange rate policy advocated by IMF economists are 'hard' or 'soft' exchange rate pegs, inflation targets, monetary targets, and controls on the amount of domestic credit extended by the central bank. All of these options involve costs and benefits and Mishikin and Savastano (2000) and Berg et al (2000) provide detailed discussion on their pros and cons. 'Hard pegs' such as full dollarisation or a currency board are the most powerful tools for dealing with inflation because they are enforced legally and so are difficult to reverse and provide additional assurance for credibility. By limiting and eliminating currency risk, a hard peg promotes foreign investment and facilitates trade and financial integration with the rest of the world. However, hard pegs are associated with complete loss of control on monetary policy, removing an important tool for adjusting to asymmetric shocks. Moreover, under a hard peg the currency is anchored to (or replaced by) a single FC, exposing the country to external shocks from movement in the relative exchange rates of its trading partners. This risk is particularly relevant in Laos, because of its diversified pattern of foreign trade. Choosing an appropriate currency regime for a hard peg could also be problematic since both the baht and US dollar are widely used in Laos and would be candidates for adoption.

A 'soft' peg regime allows more room for flexible movement, such as potential devaluation of parity, and can limit the possible risk of external shocks by anchoring national money to a basket of currencies reflecting the composition of foreign trade. This option, however, is less credible and may be less trusted by the public, particularly at an early stage when the

monetary authorities have not yet established a reputation for credibility. In Laos, the risk of a lack of confidence inducing speculative attacks is a concern because of the recent memory of large and rapid depreciation. Under these conditions a soft peg may even result in increased dollarisation. Expectations of a devaluation (or even an abandonment of the peg) may be self-fulfilling. A soft currency peg may be more easily enforced at a later stage in the stabilisation process, when the monetary authorities have acquired public trust.

The authorities have made clear their aim of stabilising the value of the currency by targeting inflation and undertaking a commitment that is easily understood and verified by the public. Meanwhile, the Bank of the Lao PDR wishes to maintain control of monetary policy so that it can respond to possible unforeseen or asymmetric shocks. However, inflation targeting requires an accurate understanding of the relations between the instruments at the disposal of the monetary authorities (credit, interest rates, money supply) and inflation. In addition, it requires prompt and reliable information, forecasts of the relevant variables, and efficient financial institutions that allow an accurate transmission of monetary impulses on prices (Masson et al, 1997). In Laos, owing to the weakness of financial institutions and the instability of money demand (deriving in turn from dollarisation), neither of these requirements are currently satisfied.

*The risk of lack of confidence inducing
speculative attacks is a concern given recent
memory of currency depreciation*

Monetary targeting requires a stable- and known-money demand function. In a highly dollarised economy, money demand is relatively unstable due to the ease of substitution between domestic and foreign currencies, and to the possibility of large movements of funds between FCD held at domestic and foreign banks, and (unrecorded) foreign cash holdings. Such shifts may occur even with minor variations in the relevant parameters, and thus hamper capacity to accurately estimate money demand function. Due to Laos's high degree of dollarisation, the money supply may be largely endogenous and thus escape the control of the authorities.

The Bank of the Lao PDR could tackle the root of inflationary money expansion by minimising the amount of domestic credit given to finance the debts of the government and of state-owned enterprises. This would help create the basis for effective stabilisation of the currency. Domestic credit is largely controlled by the authorities even in the absence of developed financial institutions. The drawback of this type of policy is that domestic credit is only indirectly linked with inflation. However, if there is a ceiling on domestic credit, sustained expansion of broad money could only be demand-driven from the inflow of FC and would thus have a lower impact on inflation. While not allowing fine-tuned control of the actual inflation rate, a monetary policy focused on domestic credit would allow effective reduction of inflation over time.

*Incentives to public confidence will be more
effective than regulatory restrictions*

Conclusion

Laos has experienced a relatively high degree of dollarisation for a long period of time. Empirical evidence, such as FCD to broad money and FCD to total deposits show it to have one of the most highly dollarised economies in the world. This is due to deregulation of the financial sector (allowing banks to accept deposits in FC when the country entered an era of economic reforms), the experience of high inflation rates and a plummeting currency during the reform process, underdevelopment of the domestic financial sector, and trade and economic links. This extensive and persistent dollarisation brings both benefits and costs. While this paper does not argue that the authorities should adopt an official dollarisation policy, it argues that other policy options must pay special attention to maintaining the stability of the macroeconomic environment through a stable exchange rate and low inflation. Any administrative measures or regulatory restrictions to encourage the role of domestic currency should be implemented with great care. Administrative or regulatory restrictions should be used as supporting measures and incentives to public confidence will be more effective than regulatory restrictions. Overall, it is hoped that this paper will stimulate active debate on the matter of foreign currency use in business and economic circles in Laos.

About the Author

Prior to taking temporary leave for study in Japan, Phetsathaphone Keovongvichith (phetsakeobol@hotmail.com) served as Director of the International Economic Affairs Division of the Economic Research Department (now the Monetary Policy Department) at the Bank of the Lao PDR. He has received a Master of Business Administration from Thailand, and a Master of Arts in International Economics & Finance and Development from the Graduate School for International Development and Cooperation at Hiroshima University, Japan. He has continued to take a doctoral programme at the same university. The views expressed in this paper are those of the author and do not necessarily reflect the official views or positions of the Bank of the Lao PDR or Hiroshima University.

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The Ahka Experience: the First Community-Based Tourism Public-Private Partnership in the Lao PDR

by Meike Mirete Mumm and William Tuffin

Eight Ahka villages in Sing district, Luang Namtha, own and operate a cultural trekking tour which brings tourists directly into their lives. This 'ecotourism product' is sold to a private tour operator who can attract paying customers eager to experience the cultures of upland ethnic groups in Laos. The tour was set up by a German development agency in partnership with the villagers, local authorities and a private tour company. This paper argues that such public-private partnerships can benefit communities, although great care must be taken to ensure that all partners respect their responsibilities and the rights of the other parties.

Community-based tourism (CBT) involves multiple participants, each of whom has their own agenda and desired outcomes. Great care, patience, and attention to process and detail are required if communities are to reap the benefits that CBT is intended to bring. The ideals of CBT are high but attainable:

“CBT is tourism that takes environmental, social, and cultural sustainability into account. It is managed and owned by the community, for the community, with the purpose of enabling visitors to increase their awareness and learn about the community and local ways of life” (REST, 2003).

CBT is designed in a multi-faceted way to address issues of preservation and sustainability with regards to the environment, society and culture. It aims to benefit the community and promote local ownership while providing a marketable, satisfying and meaningful experience for tourists. In 2004 the GTZ Programme for Rural Development in Mountainous Areas of Northern Laos set out to use tourism as a tool for livelihood improvement and poverty alleviation with the Ahka ethnic group in Muang Sing, Luang Namtha Province. The model built upon the experiences of other community-based tourism projects in the area, most notably the UNESCO Nam Ha

Ecotourism Project. However, to promote sustainability it has taken this example a step further by integrating the private sector more completely as a strategic stakeholder. The project, marketed as *the Ahka Experience*, is a Public-Private Partnership (PPP) between a German government agency, the Ahka communities, and Exotissimo, a tour operator.

Public-Private Partnership/Community-Public-Private Partnership

Tourism is a private sector activity. It is a business by its very nature and community-based tourism should not be considered differently. Communities and the tourism industry are mutually dependent on one another. Rural village life, culture and the surrounding environment are the main attractions for tourists. While tour operators hold the keys to the doors of the global tourism network and the potential revenue which that holds, they are dependant on villagers to provide an authentic cultural experience and genuine hospitality. If villagers can provide an atmosphere of meaningful personal interaction and quality service, the tour operator is able to demand a good price for the experience. The villagers themselves lack the experience, knowledge and skills to manage and operate a tourism service business in all its aspects. Therefore they are dependant on others to provide training, guidance, marketing and logistics to bring the tourists to them.

In this relationship between the villagers and the tour operators, neither side possesses all the skills and resources to ensure a successful and sustainable operation. A third party, from the public sector, is needed to facilitate a successful sustainable business partnership that provides authenticity and quality for the tour operator and benefits and ownership for the villagers. The Public-Private Partnership, coupled with CBT, offers such an opportunity, helping communities to access the potential of a global market while minimising the negative impacts of tourism. At the same time it offers tour companies the chance to invest in an authentic village-based tour programme without the company itself having to develop all the skills required in community development approaches. The CBT approach with PPP creates local ownership, jobs and sources of income. It trains local personnel, and transfers business know-how and technology in a sustainable and participatory manner, linking and drawing on the strengths of all three parties: the community, the private partner and the public sector.

The Ahka Experience: a PPP-CBT Product

With the goal of enabling local communities to fully, actively and sustainably participate in the tourism business economy, the German federal development enterprise *Deutsche Gesellschaft für Technische Zusammenarbeit*, or GTZ, initiated the first PPP project in the Lao PDR. The project framework was designed to allow villagers, a private tour operator and the development agency with its government partners to combine their resources, each partner doing what they are best at. A PPP differs from a traditional aid project in that the public partner provides the initial investment in the project for a private company. The aim is to establish a private sector activity which will achieve a development policy goal - in this case poverty alleviation through community-based tourism.

The Public Partner

To set up the project, GTZ and its government partners contributed expertise and twelve years of experience in community development in the Ahka villages of Muang Sing district. Working as a mediator between the tour operator and villagers, GTZ took the responsibility of assessing the villagers' and the company's needs, and then bringing both partners together. Beyond this facilitation, GTZ's main duty consists of enabling the villagers to make decisions on their own concerning all the steps of setting up a tourism business and running it. This is achieved through a process of providing information and advice. Tourism awareness workshops have been conducted along with technical training in hospitality, cooking and hygiene, housekeeping and management. A crucial component in this process is the education of guides who need skills and knowledge in various fields, including English language. GTZ also provided technical and financial assistance towards the construction of community lodges in each village involved with the project. Since the tourists started arriving, GTZ has maintained a presence by contributing advice in setting up a feedback and monitoring system, including capacity building for the local government offices involved in supporting the activities.

The Private Partner

The tour operator Exotissimo was chosen as the private partner in this project due to the company's reputation as a high standard Lao tour operator with a worldwide marketing

network. The company's focus is on the group tour market, for which it required organised treks. For this project, the tour operator's task was to design a trekking tour of international standard for visitors of a wide range of ages and abilities. Using its regular and existing channels, Exotissimo is also responsible for domestic and international marketing: it is the company which brings the tourists to Muang Sing and sends them to the villages. The tour is also sold locally in the company's Muang Sing office. The company's relationship with the villagers is as a business partner of equal rights and for mutual benefit. To guarantee minimal cultural and environmental impact, Exotissimo has a local manager who liaises with the villagers and government offices. This also helps ensure that the tour operator does not remain an abstract entity for the villagers but becomes close to the communities, building trust between the partners and creating opportunities for building and strengthening their relationship.

*These villagers are not passive
recipients of tourism but are rather
the owners of the tour*

The Villagers

Eight Ahka villages nestled in the foothills surrounding Muang Sing plain united to set up the cultural trekking tour. These villagers are not passive recipients of tourism but are rather the owners of the tour, making all decisions concerning the operation by themselves. Support and advice are always available from both the private and public partners, while the villages own the two eco-lodges, which they themselves constructed, and are thus responsible for protecting the guesthouses from damage and theft. They also have to take care of the maintenance and cleaning of all lodges, facilities and equipment. The villagers invite tourists to spend three days in their communities, offering their guests the chance to take part in everyday Ahka life, explaining and showing their traditions and customs. People from the eight villages contribute to the partnership through their knowledge of nature, traditions and culture, and their warmth, friendliness and hospitality. It is the villagers' responsibility to guarantee the quality of the tour and the smooth operation of all visits.

The Product

The Ahka Experience takes the participants on a learning experience into the culture and daily life of the Ahka in Muang Sing. This three-day, two-night trekking tour is primarily about cultural exchange and gaining knowledge about Ahka life. It is thus quite different to the jungle trekking and nature adventure tours available elsewhere in Luang Namtha province. The tourists experience the Ahka culture and way of life first hand. The villagers share their life in the forest, in the fields and in the village with their guests.

Each tour programme begins with an orientation session for the tourists. In addition to learning the itinerary and trail conditions, guests are informed about etiquette and told how the villagers benefit, and what is done to make the enterprise environmentally friendly and culturally sensitive. Tours are led by two village-based guides who have basic English language skills and unique local knowledge. Once in the communities, the guests do different activities with their hosts, such as collecting bamboo shoots, planting or harvesting rice, spinning cotton, pounding rice, feeding pigs or riding buffalo. Visitors stay overnight in lodges constructed by the villagers in traditional Ahka style, with the added comforts of toilets, solar-powered hot water showers and lamps, and mattresses and blankets. Ahka food is prepared by the villagers and eaten together with the guests. The village hosts spend the evenings with their guests, playing traditional Ahka instruments, singing and telling folk tales. According to Ahka custom, a massage is given to all guests.

Contrast with Traditional Tourism

The history of tourism in Muang Sing is of uncontrolled and unplanned development. It began with Vientiane- or Luang Prabang-based operators, who would bring tourists to Muang Sing in mini-vans and go to visit easily accessible Yao and Ahka villages unannounced. The tourists would be escorted by a guide with little or no personal experience of these ethnic groups, and the tour would take the form of a walk around the village, a look in a house, and a guide asking a few questions of the villagers to satisfy the customers' curiosity. Similarly, independent tourists would follow guide book directions and arrive in a village for a walk around, trying to interact with the villagers as best as they could.

In both cases, the tourists would seek to capture the experience and compensate for their inability to interact personally with the villagers by taking photographs. In neither case was there any mechanism for the villagers to benefit from the experience. They had no control over arrivals, and could not determine the conditions for visits to their village. It seemed to them that rich people wanted to see how poor people lived and were paying others to bring them to their village. Seldom were the tourists explained how to be a polite and proper guest in the village, nor were they advised how to interact with the villagers beyond asking questions and taking photos. After some time, the novelty of tourist visits wore off and villagers began to attempt to reap some benefits by demanding payment for photos or by begging. In some cases the villagers' irritation with the intrusion manifested itself through indifference, and occasionally aggressive and rude behaviour.

Local Participation

Village Representation and Decision Making

Respect for a combined decision-making process, and recognition that the villagers are the owners of the tour programme, are vital to the success and sustainability of this initiative. Most tour operators in Laos bring tourists into a village situation without first consulting villagers on how, when, and on what terms the tourists can visit, and without clearly defining the role of the villagers or what their benefits will be.

In this project, each of the eight Ahka villages is represented by two community members in a monthly management group meeting. These managers are in charge of all matters concerning tourism in their villages. They are responsible for organisation within the village, for the smooth operation of tours, and for coordination with the private company. At the monthly meetings the managers get together with the company's local manager, the GTZ advisor, and occasionally local government representatives. Tourists' feedback is then given to the villagers, and the company raises current or pressing issues. The community managers report villagers' feelings and experiences, and discuss problems and possible solutions. Important decisions are not taken

on the spot: rather, the information is taken by the managers back to their respective villages for discussion at village level. Decision making includes matters such as yearly negotiations about the price which the villagers charge the tour operator, logistical arrangements, how to respond to feedback from tourists and the villagers alike, how and when to distribute benefits and use communal funds, and how to improve the quality of the experience and service for the tourists. Having clearly defined responsibilities for the village managers ensures close and easy cooperation between the company and the communities, with direct communication and room for necessary dialogue institutionalised in the regular management meetings.

Village Commitment and Benefit Distribution

For this operation to be successful both the tour operator and the villagers must be committed to a partnership of equal rights. Tourism is and should be only one source of livelihood for the villagers, complementary to their traditional economic activities. Care must be taken that its benefits are spread widely across the community and that the economic benefits are noticeable, or villagers will lose interest and commitment and the quality of the village experience for the tourist will suffer. *The Abka Experience* was designed to provide monetary benefit at household and village levels. Thus households can receive income by offering services like guiding, housekeeping, cooking, leading activities, producing a ‘village gift’, providing food, or giving massages. In order to distribute these benefits to as many people as possible, the villagers decided to use a rotational system, giving each household the opportunity to provide services. The only permanent ‘service providers’ are the village tourism managers.

*Care must be taken that the economic benefits
are spread widely across the community*

Income for the entire communities is generated through a fee which goes to each village’s development fund. Extra money collected in a donation box is split between the eight villages and added to their development funds. An additional way for women in particular to benefit from the visitors is by producing handicrafts, which are sold in two small handicraft shops along the trek.

In the present contract between Exotissimo and the villagers, the tour operator pays the villagers for 14 different services and fees. A group of eight visitors making a three-day trip leads to a total of \$337 being paid to the villagers. Prices for food and accommodation are comparable with the average prices tourists pay in Muang Sing town: the price of \$2 per person per meal is very similar to a typical restaurant meal in town, while the price of accommodation is a bit higher in the village than the \$3-\$5 range that most tourists pay in town. In addition to services there are also fees for forest conservation and village development. These are paid into general funds administered by the Management Committee. Other villager benefits not included in this table are tips for the guides and the donations and gifts that many tourists make to village schools.

Table 1: Fees paid to villages for three day and two-night tour on *the Abka Experience*

Breakdown of Payment of Services and Fees	Income for villages (US\$)	
	4 Guests	8 Guests
Fixed Costs		
Guide fee	18	36
Village activity (e.g. rice pounding, harvest, bird calling)	8	8
Entertainment	4	4
Fee for food preparation at waterfall	6	9
Management group salaries	12	12
Fee for food preparation	18	18
Food for guide	14	0
Massage for guide	2	2
Total fixed costs	82	89
Fixed costs per guest	20.5	11
Operating Costs per Guest		
Lodging fee	8	8
Massage	2	2
Forest preservation and trail maintenance fee	1	1
Village gift	2	2
Food	14	14
Village development fund	4	4
Total operating costs per guest	31	31
Total receipts per guest	51.5	42
Total receipts for villages	206	336

All fees in US\$. Rates based on two nights spent at Ban Lao Kao and Ban Tamee. Many other alternative packages are also offered to tourists.

The Guides

During any trekking tour or cross-cultural meeting involving tourists, guides play a crucial role. They build a bridge between the two cultures, being able to communicate directly with and pass local knowledge on to tourists, as well as informing them about the way to behave

in order not to offend anyone. Villagers can use the guide to find out something about the lives of the tourists or their countries. In contrast to the majority of tourism programmes in Laos, the guides on this project come from the eight participating villages, although in the early stages of the project these guides are assisted by a national guide, who at this point is still essential due to the English language capabilities. Using local guides ensures acceptance and trust among the host communities. The guides receive ongoing training in guiding, cultural interpretation, safety and most of all English language, with the course starting more than a year before operations began.

Key Issues for a Successful Community-Private Partnership

The literature and case studies (e.g. Roe et al, 2001) on community-private partnerships in tourism identify several basic factors for success. Firstly, it is vital that all partnerships be structured by clearly defined roles and responsibilities. In addition, there should be joint and transparent objectives and aims. Villagers have to be involved in the design of the project and in decision-making from the very beginning, while their skills and knowledge should be further developed as the project proceeds. A long-term, exclusive cooperation or business relationship seems to be of great value in achieving a sustainable operation. Furthermore regular, open and honest communication between the tour operator and communities is a must. This ideal needs to be adhered to at all times in the partnership, in both the preparation and the operational phases. There is also great advantage in involving a third party to serve as a go-between.

The participation of a public partner was critical to setting up *the Ahka Experience* tour in a bona fide community-based style. Tour operators work to make profit and do not usually have the time, skill or funds to invest in a community-based tourism enterprise in a remote area. Working closely with villagers, and in this case with eight communities at the same time, requires specialised skills in community development. In addition, the patience to wait for the outcome of the process is essential. GTZ has a long-term engagement with the Ahka villages of Muang Sing, meaning that there was established trust between the villagers and the agency from the very beginning of this project. GTZ was able to build on the existing relationship and

use it to introduce the tour company as a new but trustworthy partner to the villagers. A key factor in this was the fact that the local Exotissimo manager is a native of Muang Sing who proved to be very committed to the project, working closely with the villagers and GTZ. The communities quickly displayed great trust in this manager, who is based at the local office and is available to the villagers at all times.

Formalisation of Cooperation

To establish the clear roles and responsibilities of each partner, crucial to preventing misunderstandings between the partners, cooperation must be formalised. A cooperation agreement was thus drafted between all the stakeholders – the tour operator Exotissimo, the villagers, the Provincial Tourism Office (at the time this was arranged there was no District Tourism Office) and GTZ. This document defined the objectives of the project and the rights and responsibilities of each partner.

*There was initially a perception
that a private company may try to
exploit the villagers*

The Abka Experience was the first community-private partnership project in tourism in Laos, and there was some understandable unease among provincial officials regarding the involvement of the private sector at village level. Government regulations have no objection to this kinds of partnerships, all necessary approvals were present and the Lao government encourages more private investment. Nevertheless, this new form of cooperation caused many misunderstandings and there was a perception that a private company may try to exploit the villagers. Extensive discussion with government officials concerned about the contents of the agreement document resolved these problems and created a stable foundation for the organisation of the project.

Formalising the business partnership between communities and the company is also essential in empowering the villagers. The contract between the tour operator and the eight villages means

the villagers are registered as business partners of equal rights. The contract provides a legal basis for monitoring the operation of the programme, ensuring that villagers cannot be exploited by a private company and that the company's investment is secure. The 15-year exclusive contract given to Exotissimo as the sole sales agent of *the Ahka Experience* was one of the biggest sources of concern for the local authorities. It seems that this misgiving has its roots in general distrust of private sector business, representing a belief that a company will not do anything good for the villagers. However, the literature on community-private partnerships suggests that a long-term exclusive contract contributes to success in this kind of project by providing adequate security for the company's investment (see Roe et al, 2001 and Heher, 2003).

The Exclusive Contract

Village communities do not normally have all the necessary capacity and skills to run their own tourism business, but a partnership with a private company can bring that expertise to work for the villagers until they learn how to organise visits by themselves. To sell the product to tourists, the private company must set and keep a certain standard of quality. A company with long-term exclusive rights to a product will be motivated to maintain the quality through ongoing investment in training and infrastructure. In this way the villagers will be helped to gain skills and knowledge. If more than one company is permitted to sell the tour, no one firm will feel responsible for working closely with the villagers. It was felt that granting Exotissimo a 15-year working period would give the Ahka communities enough time to learn all necessary skills to run a tourism operation on their own. The long-term exclusivity ensures that the company is able to earn back its monetary investment and make profit from the operation.

In the future *the Ahka Experience* should be formally turned into a legally recognised business. This would involve a business license being issued to the villagers. At present the villagers run the tour as an informal business while the company pays the taxes due and deals with other administration issues. Thus while the villagers may 'own' the project, they have no formal legal basis for this ownership. Ideally the full responsibility for owning and operating the business will be handed over to the villagers, but at the moment they do not have the skills to manage complex accounting and administration issues by themselves.

To ensure that the business partners are not tied to each other if, at a later stage, any party is unable to fulfil its obligations, there should be an escape clause in the contract. Both the villagers and the tour operator should have the right to end the partnership before the natural end of the contract (Roe et al, 2001). In the case of *the Ahka Experience* some extra flexibility is also built into the contract, which stipulates that the tour price paid to the villages be renegotiated yearly. This gives the villagers, who will have been improving their business skills, the opportunity to ask for a higher price. If the two partners cannot come to an agreement concerning the price, the villagers can terminate the contract. According to the contract, the tour operator is also obliged to offer this product to any customers who walk into its office in Muang Sing. This means that anyone, including other tour operators, can book the tour and assures that the villagers are not solely dependant on Exotissimo package tours.

Impacts and Challenges

One of the major concerns of community-based tourism is the environmental, cultural and social impact that its products have on an area. Since *the Ahka Experience* only began operations in October 2005, it is still rather early to assess the effect of its activities. There are, however, a few points which can be noted already. Due to the fact that the villagers operate the tour and make all decisions themselves, and through the regular management meetings with all stakeholders, it is hoped that negative social impacts can be avoided or at least noticed at a very early stage and then mitigated. The fact that only Ahka from the eight villages are involved in the tour eliminates the frictions which sometimes arise between guides and villagers of different ethnicities on other tours.

Regarding the broadly held opinion that tourism changes the culture of the visited or involved people, it should be stated that Ahka culture is currently experiencing a tremendous period of change which stems from forces that are much stronger and further reaching than tourism. The political and economic influences of other Lao and of Chinese people are especially notable. Ahka villagers, especially the young, want to modernise but feel it is hard for them to keep up with the change happening around them: it is difficult for

them to be proactive rather than being the passive recipients of the impacts of change. Tourism is proactive and can serve as a means of preserving culture by helping community members define their own identity. Tourists visit Ahka people to learn about their culture and experience some of the traditions. The communities in return understand that their culture is valued and respected by people outside. This is something they can take pride in, and can encourage them to pass their knowledge of culture and traditions on to the next generation. The Ahka guides, all young men, have revealed that when tourists ask questions about their culture which they cannot adequately answer, they go to their village elders to learn more about their customary beliefs. In this way, tourism is stimulating interest in the preservation of traditional knowledge.

*Tourism is proactive and can serve as a
means of preserving culture by helping
the community define their own identity*

The biggest challenge facing the sustainability of this type of tourism is the environmental issue. The tour does not have negative impacts on the environment since it brings no more than eight people per visit, uses solar power, and generates almost no rubbish. The challenge, however, lies in the attempt to preserve the forest. All over Muang Sing forest is being cut down very rapidly, chiefly to make way for rubber plantations (Schipani, 2007). In addition to all the other reasons why forest cover is necessary (e.g. preservation of watersheds, biodiversity, and livelihood systems) forest is a prerequisite for trekking tours as tourists are not interested in walking through degraded areas or commercial plantations. A forest protection fee is thus built into the price of the tour: for every tourist who makes the tour, each village receives 10,000 kip. This money goes to a forest conservation fund which is used for trail maintenance and conservation activities. The tour project can thus bring substantial benefits to the villagers through intact forest, thereby increasing their interest in protecting it. However, it is very difficult to compete with the benefits being promised by advocates of rubber plantations.

Conclusion

The involvement of private tour operators in community-based tourism enterprises has great potential for bringing social, economic and even environmental benefits to local communities in a sustainable manner. Partnerships between communities, private companies and the public sector can attract investment in authentic community-based activities. The public sector can provide incentives for tour operators by helping to minimise risks and by providing technical advice. It also functions as a mediator and advocate for the weaker partner, generally the community.

It is too early to evaluate the success of *the Ahka Experience*, but this project has been set up after careful research of comparable projects in other countries. Community ownership is formalised through a contract and the villagers have a voice and decision-making power in all stages of the project. There is a clear structure and clear responsibilities, while constant communication is easy and institutionalised. The company is represented at the village level by a committed local manager. The business relationship is long-term and exclusive, and so the company has an interest in helping the villagers to improve their skills and services.

The project gives the Ahka villagers positive value for their ethnic identity and a powerful voice in how they adapt to the modern world

The Ahka Experience opens up opportunities for local villagers to actively participate in and benefit economically from tourism. It also offers tourists the chance of authentic and meaningful interaction with upland people in northern Laos. The project presents a new model of how tour operators can cooperate with villagers in a business environment that benefits both parties. Most of all, it gives the Ahka villagers positive value for their ethnic identity and a powerful voice in how they adapt to the modern world.

About the Authors

Meike Mirete Mumm (meike@gtzrural.org) is a German geographer with a focus on development studies. She wrote her thesis about the socio-economic impact of opium in Ahka society in Muang Sing district and has been a GTZ eco-tourism advisor for two years, living and working in Muang Sing.

William Tuffin (wbtuffin@yahoo.com) has been living in Laos since 1990. He has worked on development projects with Save the Children France and Norwegian Church Aid in Ahka villages since 1992. Together with a local family he started the Boat Landing Guest House eco-lodge to help local people benefit from tourism and to make tourism a positive experience for all.

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Glossary

Article I (Clean Development Mechanisms)

fossil fuels hydrocarbons, formed from the remains of dead plants and animals, and converted to crude oil, coal, natural gas, or heavy oils by exposure to heat and pressure in the earth's crust over hundreds of millions of years. See http://en.wikipedia.org/wiki/Fossil_fuel

Global Environment Facility the GEF is an independent financial organisation that provides grants to developing countries for projects that benefit the environment and promote sustainable livelihoods in local communities. See <http://www.gefweb.org/>

Global warming potential GWP is a measure of how much a given mass of greenhouse gas is estimated to contribute to global warming. It is a relative scale which compares the gas in question to the same mass of carbon dioxide, whose GWP is defined as 1. GWP is calculated over a specific time interval, the value of which must be stated. http://en.wikipedia.org/wiki/Global_warming_potential

solar from the sun.

Article I (Wildlife and Nutrition)

connote to associate; to link ideas together.

contiguous touching, adjoining.

dairy products the dairy is the area of a farm where cows are milked. Dairy products are thus milk-based foods such as milk itself, cream, cheese, butter and yoghurt.

food security food security exists when all people, at all times, have access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life (FAO definition).

pulses the seeds of leguminous plants, used as human food and often rich in protein, e.g. lentils, soybeans, peas.

rodents	the family of small gnawing mammals that have in both jaws a single pair of incisor teeth with a chisel-shaped edge. Examples include mouse, rat and squirrel.
stunting	when children do not grow as tall as they should do because of chronic poor nutrition (long-term effect).
vegan	a person who eats no animal products: no meat, fish etc. Unlike vegetarians, vegans also do not eat dairy products, eggs or honey.
wasting	when children are underweight for their height due to acute poor nutrition or disease (short-term effect).

Article 3 (Foreign Currency)

bank run	a financial crisis caused by panic, when a large number of customers of a bank fear it is insolvent and withdraw their deposits. This action can destabilise the bank to the point where it may in fact become insolvent: banks only retain a fraction of their deposits as cash while the remainder is issued as loans. As a result, no bank has enough reserves on hand to cope with everyone taking their savings out at once.
broad money	one measure of the money supply within a country. It is also called M2, meaning a measurement system that includes all cash held by the public, traveller's checks, bank account balances (including sight and savings deposits). All the components of M2 are highly liquid, and the non-cash components can be converted into cash very easily.
capital flight	the movement of money from one investment to another in search of greater stability or increased returns. Sometimes specifically refers to the movement of money from one country to another in order to avoid country-specific risk such as high inflation or political turmoil. Capital flight is seen most commonly in massive foreign capital outflows from a specific country, often at times of currency instability. The outflows can be large enough to affect a country's entire financial system. http://www.investorwords.com/
de facto	Latin phrase (adjective) that means being such in effect though not formally recognised.

default	to default on a loan is to not meet the repayment schedule.
endogenous	endogenous means 'arising from within'. In an economic model, an endogenous change is one that comes from inside the model and is explained by the model itself.
financial deepening	this term is used by economic development experts to refer to increased provision of financial services with a wider choice of services geared to all levels of society. It also refers to the macro effects of financial deepening on the larger economy. More financial deepening generally means an increased liquid money supply. The more liquid money is available in an economy, the more opportunities exist for continued growth. It can also play an important role in reducing risk and vulnerability for disadvantaged groups, and increasing the ability of individuals and households to access basic services like health and education, thus having a direct impact on poverty reduction. http://en.wikipedia.org/wiki/Financial_deepening
Gross Domestic Product	GDP is the total market value of the goods and services produced within a nation's economy, inside that country, during a specific period of time (usually a year). GDP is a convenient indicator of the level of a nation's economic activity. If the income accruing to a nation's residents from investments abroad is added to GDP, and the income earned in the domestic economy accruing to nonnationals from abroad is subtracted, the figure is known as Gross National Product (or GNP).
lender of last resort	an institution willing to extend credit when no one else will. Originally the term referred to a reserve financial institution that secured other banks or eligible institutions, as a last resort; most often the central bank of a country. The purpose of this loan and lender is to prevent the collapse of institutions that are experiencing financial difficulty, most often near collapse. http://en.wikipedia.org/wiki/Lender_of_last_resort
liquidity	the ability of an asset to be converted into cash quickly without any price discount.

macroeconomics the study of the behaviour of an economy at the aggregate level, as opposed to the level of specific subgroups or individuals (which is called microeconomics). For example, a macroeconomist might consider the industrial sector, the services sector or the farm sector, but he/she will not consider specific parts of any of these sectors. Factors studies include inflation, unemployment, and industrial production, often with the aim of studying the effect of government policy on these factors. <http://www.investorwords.com/>

New Economic Mechanism the NEM was initiated by the late president Kaysone Phomvihane and later adopted at the fourth party congress of the Lao People's Revolutionary Party in the second half of 1980s. In Lao, it is widely known as the chintanakhanmai policy.

reintermediation this term stems from financial intermediation, which is when a lender provides funds to an intermediary institution (such as a bank), which in turn lends those funds to borrowers. In this way banks can mobilise the savings of their customers to help finance investment. When this function disappears it is known as financial disintermediation. Re-intermediation is then re-establishing the previous position.

seigniorage the profit that results from the difference in the cost of printing money and the face value of that money. This is an important source of revenue for national banks.

Article 4 (Community-Based Tourism)

bona fide adjective meaning 'in good faith' in Latin: sincere, genuine, or authentic.

Public-Private Partnerships PPPs, also known as development partnerships with the private sector, as envisaged by GTZ are explained on their website: <http://www.gtz.de/en/aktuell/2362.htm>

Juth Pakai

Contributions Welcomed

The UN Country Team in the Lao PDR supports the production of a development journal called *Juth Pakai*, Perspectives on Lao Development. *Juth Pakai* ('new thinking' in Lao) aims to stimulate dialogue on all issues related to development in Laos. The journal disseminates knowledge and serves as a forum where debate and analytical thinking can be shared, while also promoting the goals and commitments embodied in the Millennium Declaration.

The journal, published around three times a year, seeks voluntary written contributions from the development community, including national and international development practitioners, government officials, staff from bilateral and multilateral agencies and NGOs, journalists, academics, researchers or anyone with a keen interest in Laos. The journal is printed in English and Lao and is also available on the web at: www.undplao.org and www.unlao.org.

The UN in Laos sees this as an exciting opportunity for development practitioners and organisations to disseminate reports, studies and opinions on any aspect of the state of the development agenda in this country. All material submitted for the consideration of the Editorial Board should be in English or in Lao. Articles should be no longer than ten pages of A4. Brief opinion pieces and letters to the editor are also welcomed. Manuscripts should include a short summary (100-120 words) of the issues addressed and the most important findings, and a list of references where appropriate.

For full guidelines on writing for *Juth Pakai*, see www.undplao.org or e-mail laodevelopment.journal@undp.org, or write to:

The Secretariat, Juth Pakai, c/o UNDP, PO BOX 345, Vientiane, Lao PDR.

The Editorial Board accepts manuscripts on the understanding that they are subject to revision. Contributors should indicate if the material provided has previously been published or submitted for publication elsewhere.

The Secretariat
Juth Pakai, c/o UNDP
PO Box 345
Vientiane
Lao PDR
Tel. +(856 21) 213390-97
e-mail: laodevelopment.journal@undp.org