



MINISTRY OF INDUSTRY AND COMMERCE, LAO PDR

DEPARTMENT OF PLANNING AND COOPERATION

DIAGNOSTIC TRADE INTEGRATION STUDY

2022

Trade and Private Sector Development Roadmap



SUPPORTED BY:



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**Department of Planning and Cooperation
Ministry of Industry and Commerce, Lao PDR**

DIAGNOSTIC TRADE INTEGRATION STUDY

Updated Trade and Private Sector Development Roadmap 2022

Final Report

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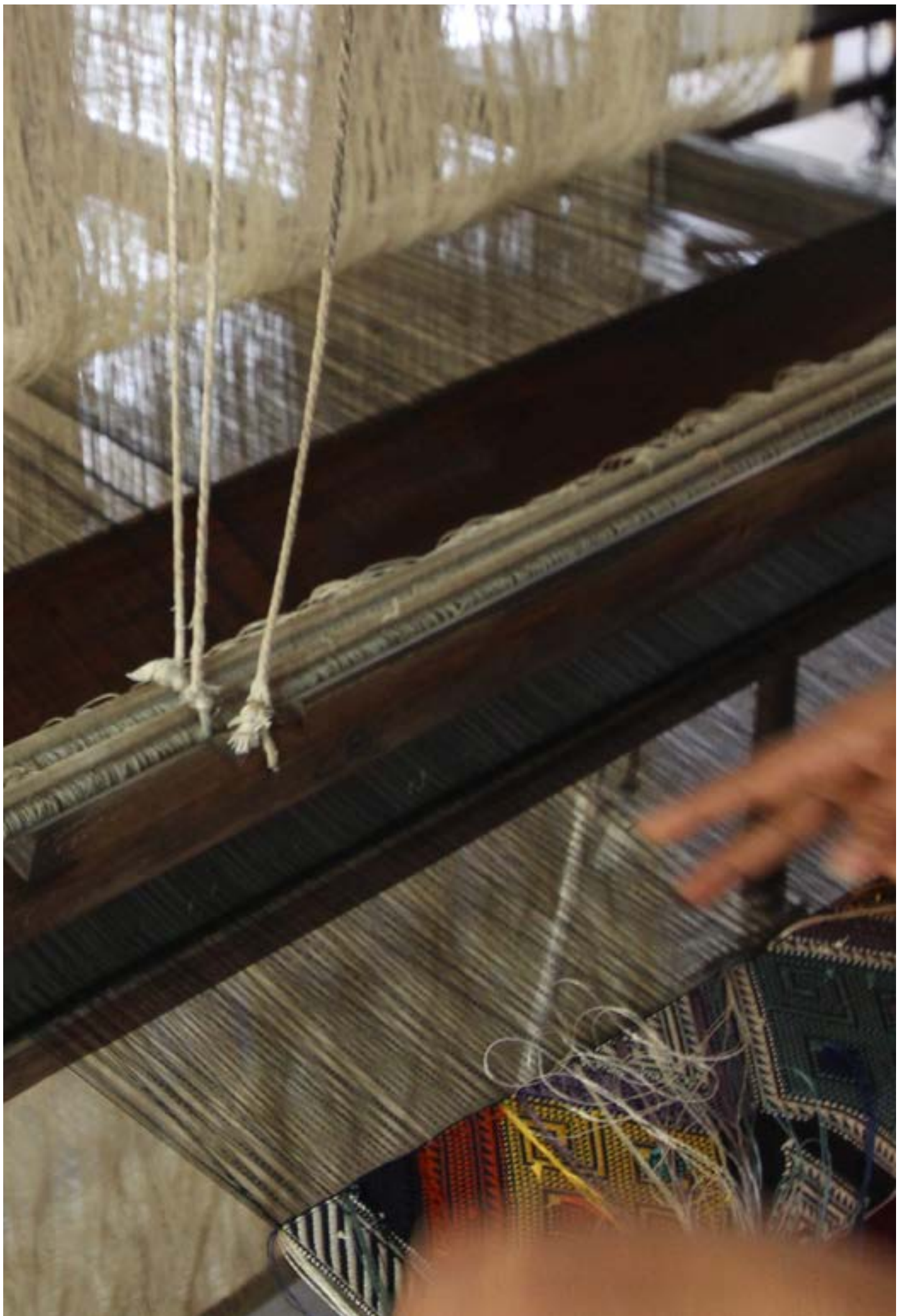


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List of Abbreviations

A4T	Aid For Trade
ACTS	ASEAN Customs Transit System
ADB	Asian Development Bank
AEO	Authorized Economic Operator
AFAFGIT	ASEAN Framework Agreement on Facilitation of Goods in Transit
AM	Aide-Memoire
BOL	Bank of Lao PDR
COVID-19	Coronavirus disease 2019
CTP	Competitiveness and Trade Project
D&I	Diversity and Inclusion in the workplace
DERM	Department of Enterprise Registration Management
DFAT	Department of Foreign Aid and Trade, Australia
DIH	Department of Industry and Handicraft
DIMEX	Department of Import and Export
DFTP	Department of Foreign Trade Policy
DOA	Department of Agriculture
DOLF	Department of Livestock and Fisheries
DOSM	Department of Standardization and Metrology
DPC	Department of Planning and Cooperation
DTIS	Diagnostic Trade Integration Study
EIF	Enhanced Integration Framework
FDD	Food and Drug Department
FDI	Foreign Direct Investment
FY	Financial Year
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOL	Government of Lao PDR
HACCP	Hazard Analysis Critical Control Point
IA	Implementing Agency
ICSID	International Centre for Settlement of Investment Disputes
IPD	Investment Promotion Department
IMF	International Monetary Fund
JRMF	Joint Integrated Risk Management Framework
JIRM	Joint Inter-Agency Risk Management Team
LBF	Lao Business Forum
LCCI	Lao Chamber of Commerce and Industry
LCD	Lao Customs Department
LCTP	Lao PDR Competitiveness and Trade Project
LDC	Least Developed Country
LIFFA	Lao PDR International Freight Forwarders Association
LNCCI	Lao National Chamber of Commerce and Industries
LNSW	Lao National Single Window
MFN	Most Favored Nation
MOAF	Ministry of Agriculture and Forestry
MOICT	Ministry of Information, Culture and Tourism
MOIC	Ministry of Industry and Commerce
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MOST	Ministry of Science and Technology
MPI	Ministry of Planning and Investment
NAP	National Action Plan on Responsible Business Practice

NIU	National Implementation Unit
NSEDP	National Socio-Economic Development Plan
NTB	Non-Tariff Barrier
NTFC	National Trade Facilitation Committee
NTFS	National Trade Facilitation Secretariat
OGA	Other Government Agency
OL	Operating License
PCA	Post-Clearance Audit
RCEP	Regional Comprehensive Economic Partnership
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary Measures
SSCBT	Small-Scale Cross Border Traders
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TPSWG	Trade and Private Sector Working Group
TRS	Time Release Study
UN	United Nations
UNGPUN	Guiding Principles on Business and Human Rights
VCAFD	Vientiane Capital Agriculture and Forestry Division
VCLFD	Vientiane Capital Livestock and Fishery Division
WB	World Bank
WCO	World Customs Organization
WDR	World Development Report
WTO	World Trade Organization

Foreword



I am pleased to launch the Lao PDR DTIS Update (2022) and the updated Roadmap for Trade and Private Sector Development. The report recognizes Lao PDR's commitment to ensuring a more favorable investment and trade environment to delivering more and better jobs for the growing labor force and building a more resilient and diversified economy in line with the National Strategy on Socio-Economic Development 2025 and Vision 2030. The updated Roadmap represents the priority actions required for realizing the investment and trade related targets in the 9th National Socio-Economic Development Plan (2021-2025).

I would like to thank the members of the Trade and Private Sector Working Group, including our Development Partners, the private sector, and Government Agencies. This group include a high level of oversight provided by the vice-Minister from Ministry of Industry and Commerce (MOIC) as well as the Co-chairs from development partners. Furthermore, the technical DTIS Task Team comprising representative from key Departments and Development Partner representatives, provide ongoing planning and review of this report. I would like to congratulate the Department of Planning and Cooperation in the MOIC, its National Implementation Unit and the team of consultants recruited, for the high quality of the diagnostic work, and practical recommendation that have been developed following extensive discussions with a wide range of stakeholders. The Updated Roadmap priority actions reflect the vision set out in NSEDP IX to become a modern and diversified economy, preparing for, and meeting, the trade related requirements for LDC graduation.

In the spirit of collaboration and the Vientiane Declaration on Aid Effectiveness we also welcome the ongoing expertise and support of our valued Development Partners and know that together we can ensure the updated Roadmap is effectively implemented. The Enhanced Integrated Framework (EIF), housed within the WTO has played a key role in the mainstreaming of trade and Aid for Trade in Lao PDR. I would like to thank the EIF for the support and financing made available to Lao PDR to manage and implement this process.

I urge all related departments, both in the Ministry of Industry and Commerce, as well as in the other Ministries, Agencies, and the private sector, all vital to the development of trade, to work diligently in implementing the priority actions for the success of Lao PDR.



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Executive Summary

The Lao PDR Diagnostic Trade Integration Study (DTIS) 2022 identifies priority actions in support of the country's strategy of diversifying the economy, rebuilding from COVID-19, and graduating from Least Developed Country (LDC) status by 2026, through accelerating trade integration. The study seeks to (a) take stock of the progress in implementing the Trade and Private Sector Roadmap adopted in the DTIS 2012, (b) provide an in-depth focus on agribusiness, tourism, and manufacturing, and (c) prepare an updated Trade and Private Sector Roadmap. While the report focuses on agribusiness, tourism, and manufacturing, it more broadly addresses the business enabling environment, trade costs, small-scale trade, and gender. The report identifies a priority list of measures that will support Lao PDR to realize more inclusive, diversified, and resilient growth.

1. Further business and trade reforms are required for inclusiveness, diversification, widespread job creation, and poverty reduction.

a. Rapid growth over the past decade was primarily driven by infrastructure investment and the exploitation of natural resources, with limited job creation.

In the period 2000-2019 Lao PDR's annual growth rate averaged 7.2 percent. The key drivers were infrastructure investment financed by foreign loans and natural resource extraction financed by foreign direct investment. In 2019, GDP grew by 5.5 percent and then dropped to 0.4 percent in the 2020 COVID-19 related economic downturn. Prior to the shock of COVID-19, Lao PDR's macroeconomic framework was unsustainable with large debt levels, diminishing foreign currency reserves and a weakened financial system. Key immediate priorities include restoring macroeconomic stability and containing the COVID-19 pandemic. The World Bank has identified three focal areas for restoring macroeconomic stability. These comprise strengthening debt management and transparency, enhancing financial sector stability through improved regulation and bank restructuring, and increasing fiscal sustainability through mobilizing more domestic revenue and more efficient expenditure.

The reliance on natural resources extraction from capital-intensive mining and other capital-intensive infrastructure investments propelled the growth rate over the past two decades. However, this resulted in modest job creation, limited poverty reduction, and, in cases of irresponsible business practices, adverse environmental and social risks.

b. Trade potential remains underutilized.

Over the five years ending in 2019 Lao PDR goods exports grew annually by 10 percent, while imports grew by 1 percent. Lao's export growth during this period compares favorably with its regional comparators. However, in 2019, Lao PDR was a less open economy than its ASEAN neighbors Thailand, Cambodia, and Vietnam. Lao's openness to trade lies below the potential level indicated by its per capita income for both goods and services. Since 2015, merchandise exports have increased towards China, Vietnam, and Thailand. Imports continue to be primarily sourced from Thailand, Vietnam, and China. Trade in services is concentrated in transport and travel rather than in the modern services that drive competitiveness.

In 2017, total exports surged by almost 90 percent as Lao PDR began exporting electrical power from the new hydropower plant. Minerals and precious metal exports continue to be significant exports although, over the period 2013-2019, their share of total exports declined, and the value of copper exports fluctuated widely with the changes in commodity prices. Agricultural and manufacturing exports declined in relative importance; however, both remain significant and registered high growth rates. From a relatively small base in 2012-2013, exports of vegetables, fruit and nuts, electrical assembly, rubber, and plastics all experienced rapid growth. Another notable change over the period 2013-2019 was the rapid growth in pulpwood exports from less than \$1 million to \$286 million. The earlier labor-intensive apparel sector, exporting mainly to the region and the European Union, remained broadly constant.

Since the last DTIS (2012), Lao PDR has exported an increased range of products. In 2012 Lao PDR exported 550 products out of a total product set of 5205 (the maximum number of Harmonized System codes at the 6-digit level). By 2019 this had doubled to 1,082 products. The increased range of products was reflected in their trade with neighboring countries.

Many Lao PDR companies are unaware of the mandatory environmental and social due diligence criteria required by major importing economies, including the USA, the EU and Australia. Increasing awareness of the importance of due diligence on social and environmental concerns is essential for Lao PDR to advance its competitiveness in international markets.

c. Increase economic diversification through leveraging natural assets, land-linked geographical location, and improved transport infrastructure.

Agriculture provides the main source of income for approximately 70 percent of the population. Investment and growth in this strategic sector, which is key for reducing rural poverty, remains constrained by unnecessary regulations. Notwithstanding the commitment to improving agriculture, outdated and cumbersome regulations and administrative procedures increase the costs of doing business, impede farmers' access to new and improved inputs and hold back smallholder productivity. Most of the regulatory agencies, at both the Central and Provincial levels, target 100 percent physical inspection, testing, and certification, rather than adopting a risk-based approach. Farmers are also vulnerable to unexpected policy changes, including price setting, which serve to discourage the transition from subsistence agriculture to commercial farming.

Tourism experienced rapid growth prior to the onset of the COVID-19 pandemic; despite the current setbacks, the medium and long-term future for the tourist sector remains positive.

2. Reduce trade costs to increase competitiveness.

Lowering trade costs is essential for advancing international competitiveness and export diversification. Reduction of Lao PDR's trade costs requires three key steps aimed at expanding competitiveness across the economy and increasing trade in both goods and services.

- i. Simplifying and reducing import tariffs and reforming regulations and administrative practices that increase the price of imported inputs. Lowering barriers to imports will disproportionately benefit the poor.
- ii. Improving the quality and transparency of all trade related regulations by eliminating redundant regulations that are not required for public safety, welfare, environmental and social risks, and streamlining the regulatory framework and procedures in compliance with the international standards for responsible business practices and Lao PDR's international commitments, and improving administrative efficiency through strengthening capacity and targeting scarce resources through adopting a comprehensive risk management strategy.
- iii. Strengthening the business enabling environment through simplifying and automating the requirement for business registration, and reducing transport and logistics costs to enable increased participation in regional and global value chains.

Nontariff barriers imposed at the border and “behind the border” contribute towards Lao PDR's high trade costs. These include technical barriers to trade, sanitary and phytosanitary requirements, customs procedures, trade and transport regulations. Regulations are justified to ensure legitimate public policy objectives (health, safety, and security) are met. Outdated controls and cumbersome procedures, including a suspicion against private traders, all contribute to increased trade costs.

Increasing coordination, including information sharing between all the government agencies involved in border clearances, will reduce border trade costs. It is essential that all stakeholders have easy access to accurate information on the regulations and administrative procedures required

for importing, exporting and transit through the Lao Trade Portal (LTP). Upgrading the LTP, to reflect current leading practices and to ensure that is kept up to date, is a priority.

Simplifying and streamlining border and regulatory border policies will increase revenue and reduce trade costs. Lao PDR should continue to modernize customs clearance procedures through implementing the national electronic single window and establishing the Joint Inter-agency Risk Management Team (JIRM) to implement an integrated risk management framework (IRMF). Implementing a comprehensive approach to risk management is an effective approach for reducing the regulatory burden while enhancing enforcement of essential health, safety, and security norms. Risk management permits the most efficient use of scarce technical personnel and infrastructure and permits safer trade. Poor targeting of regulatory resources is costly and less effective. Subjecting already tested and authenticated products to retesting simply uses resources that could be directed to identifying more risky consignments. The World Customs Organization's Revised Kyoto Convention Agreement (RKC), the World Trade Organization's Trade Facilitation Agreement, and the ASEAN Economic Community (AEC) 2025 Trade Facilitation Strategic Action Plan all require members to adopt effective risk management schemes.

Lao PDR faces higher logistics costs and more time-consuming processes relative to most of its regional neighbors. This relates to the efficiency and reliability of transport infrastructure, border agencies, transport regulators and services providers. In 2020 Lao PDR was ranked 154 out of 190 countries for the ease of doing business. This placed it significantly behind its neighbors and many comparators at similar levels of development, both globally and in the Asia-Pacific region. For the ease of trade across borders in 2020, while the number of documents required had been reduced, documentary compliance costs of Lao PDR exports were more than twice the level in Cambodia, three time higher than China and 69 percent higher than Vietnam. In 2020, Lao PDR was ranked 78 out of 190 countries for trading across borders and remained 20 percentage points away from the frontier (best global performer).

3. Sector Recommendations

In agriculture the priority is to encourage the commercialization of smallholder farms. This is the precursor to increasing productivity and selling more into neighboring markets. Specific recommendations include simplifying the regulations for agricultural inputs, abolishing the list of minimum and maximum prices, enabling widespread price discovery through supporting the establishment of a mobile-friendly online information platform targeting farmers (with price data, productivity advice, etc.), encouraging the development of a cold chain for vegetables, and supporting cross-cutting reform of doing business regulations, investment regulations and incentives. Cross-cutting reforms will encourage private investment in transportation, logistics, storage, and cold chain.

The collapse in tourism demand resulting from the COVID-19 pandemic reinforces the necessity for Lao PDR to address the supply side constraints to enable a rapid recovery once the pandemic wanes. Specific recommendations targeting tourism include establishing a Tourism Marketing Board which builds on the lessons learned from Thailand and Vietnam. This will enable Lao PDR to be more effectively marketed as a tourist destination. Other recommendations include simplifying the tourism regulatory framework, arranging for training to address human resources shortfalls, and implementing strengthened environmental protection measures to increase the demand for Nature Based Tourism. The tourism sector would also benefit from cross-cutting improvement in the business enabling environment, and a more effective dialogue between the public and private sectors.

Increasing investment in manufacturing requires improvements in the business enabling environment. The nascent manufacturing sector consists primarily of small and medium scale labor-intensive, low productivity firms producing for the domestic market. Only 5 percent of the total labor force works in manufacturing. In 2018, Lao PDR's MVA per capita was estimated at \$200 (in constant 2010 \$). This is significantly below the regional average of \$1000 MVA per capita. Over half of manufactured exports were basic metals, camera parts and recording-related parts,

food and beverages, apparel, and wood products. The 2017 Industrial Development Report (DIH/MOIC) noted that the manufacturing sector lacks access to credit, has poor infrastructure in terms of logistics, limited policy support, and weak enforcement of existing legislation.

A small number of manufacturing firms account for virtually all the manufacturing exports. Only 5 percent of all firms employed more than 200 persons; however, these accounted for almost all the exporting firms. Specific recommendations for increasing manufacturing include strengthening the business enabling environment, improving the efficiency and quality of services (as inputs to manufacturing), fast tracking regulatory reform to promote competition and efficiency in transport and logistics services, reviewing and reforming the incentives to attract “efficiency” seeking investments which will advance diversification.

To date, the Special Economic Zones have created few jobs and make a modest economic contribution to government revenue. There is now a wealth of country experiences on the establishment and operation of SEZs. It is time to evaluate Lao’s experience to date against comparator experiences and leading practices. It is recommended that Lao PDR reviews existing policies and administrative procedures for the SEZs.

4. Lessons learned from the 2012 Trade and Private Sector Roadmap and the dissemination of the new 2022 Roadmap:

Despite significant progress, many regulatory and policy issues identified in the 2012 Roadmap remain valid. The DTIS Update reviews the progress on implementing the 2102 Roadmap and seeks to build on the lessons learned. Principal lessons from the implementation of the 2012 Roadmap include:

- **Numerous priorities listed did not address coordination challenges and sequencing.** With over 100 interventions organized across three pillars and 12 broad areas covering multiple government ministries and regulatory agencies, little attention was given to the challenges of coordination, capacity, and the need for sequencing activities.
- **The DTIS prioritized increasing public-private dialogue including engagement with civil society on the importance of mainstreaming trade, reducing trade costs, and increasing regional and global trade.** The Enhanced Integrated Framework (EIF) process facilitated setting up the National Trade Facilitation Committee (NTFC) and was instrumental in leveraging funding to support the TPSWG and the NTFC. The multi-donor participation in the TPSWG allows for the transparent exchange of information and applied research, enhances donor coordination, and enables more efficient programing and advances effectiveness.
- **Many of the activities listed in the 2012 DTIS are complex and require high levels of technical skill and experience to implement successfully.** It is important to recognize implementation will be a multi-year process requiring inter-agency collaboration.
- **Many of the key stakeholders faced technical challenges in implementing the recommendations.** Effective public-private collaboration on trade facilitation issues requires an understanding of leading practices and a belief that government acts as a “facilitator” to assist private sector growth. The sector working groups were characterized by limited capacity, weak inter-ministerial coordination, and a lack of commitment by line ministries to resolve private sector issues.
- **Limited inter-agency coordination and absence of monitoring system.** The adverse economic impact of COVID-19 reinforced the high level political will to improve the business environment; however, implementing reforms remains difficult owing to limited inter-agency coordination and the absence of a monitoring system.

The Lao PDR DTIS Update (2022) provides an opportunity for the government and the private sector to update the Trade and Private Sector Roadmap. The Update identifies trade related priorities

with the potential to maximize poverty reduction, promote sustainable growth, and build resilience to grow back post COVID-19.

This Update provides an opportunity for the GOL to better align its trade policy and strategies with its commitment to economic diversification and poverty reduction as it rebuilds post COVID-19 and moves towards graduating from Least Developed Country (LDC) status in 2026, listing time-bound activities, ensuring routine monitoring, and reporting on progress to all stakeholders.

The DTIS presents an updated Trade and Private Sector Roadmap that summarizes the recommended policy reforms. The Draft Roadmap will be discussed by a wide variety of stakeholders from the government, the private sector, and civil society at validation workshops in Vientiane and throughout the country. Following these discussions, The Roadmap will be finalized. In summary, all the action items will contribute to reducing trade costs, thereby enabling Laotian businesses and farmers to compete more successfully in regional and global markets and realize Lao PDR's goals of diversifying growth, expanding exports, creating jobs, reducing poverty, and transitioning to a middle-income economy.

Roadmap for Trade and Private Sector Development

Implementation Arrangements

Lao PDR's first DTIS, in 2006, was implemented by the World Bank, which in partnership with the Government set up a project implementation unit (PIU) to manage the process and implement the Action Matrix. Following the approval of the Action Matrix at the validation workshop, the PIU transitioned into the National Implementation Unit (NIU), located in the Department of Planning and Cooperation (DPC) in the MOIC, and became the de facto Aid for Trade (AfT) coordination and supervision unit of the Government.¹ Initially the NIU assumed responsibility for the first Multi-Donor Trust Fund Trade Development Facility. In 2009 the GOL approved the NIU as the MOIC Official Development Assistance (ODA) Division, headed by a permanent government official, staffed by officials, an international advisor, and consultants.

The NIU has de facto responsibility for implementing the Trade Development Agenda and acts as secretariat to the National Steering Committee for Economic Integration (NSCEI), and the Lao PDR EIF Secretariat. The NSCEI provides policy guidance to the Trade and Private Sector Working Group (TPSWG) for the technical development of trade activities. The TPSWG provides input to the GOL/Development Partner dialogue which is managed through a Round Table process.

The TPSWG provides an institutional linkage to ongoing dialogues taking place in other fora. This includes the Macroeconomic Sector Working Group, the Trade for Development (T4D) Secretariat, National Trade Facilitation Committee, and Public-Private Dialogues (Lao Business Forum, Provincial Public Private Dialogues). The TPSWG integrates strategic discussion and consultation on Trade and Private Sector Development policy and the National Socio-Economic Development Plan implementation within the Sector Working Group mechanism.

In 2011 the NIU assumed responsibility for updating and managing the DTIS process, including monitoring the implementation of the Action Matrix. Following the DTIS validation workshop in 2012 the Action Matrix was incorporated into the Roadmap for Trade and Private Sector Development for Lao PDR. The 2012 DTIS process resulted in the upgrading of the TPSWG as the main institutional vehicle for ensuring effective stakeholder dialogue and coordination between the GOL, and Development Partners (DPs) and other stakeholders on trade and private sector development. The TPSWG ensures government ownership and leadership over strategic issues by integrating and harmonizing the trade and private sector agenda with the MOIC Five-Year-Plan.

The TPSWG promotes internal coherence and works to strengthen the linkages between trade and private sector development through inclusive stakeholder engagement aimed at building consensus

1. Diagnostic Trade Integration Study, 2012, p. 93.

for The Roadmap. The TPSWG ensures that mobilized resources are allocated to sector priorities, monitored, and reported on in a transparent manner in coordination with core ministries (MPI, MOF, MAF, and MOFA) and DPs in line with the Paris principles and the Vientiane Declarations on Aid Effectiveness.

The EIF Steering Committee for the DTIS process was embedded in TPSWG and the NIU was tasked with acting as the technical secretariat for the augmented TPSWG (see Table 1 for membership) and ensuring integration within existing institutional structures. The NIU continued to operate as a unit within the Department of Planning and Cooperation (DPC) in the MOIC.

Table 1 Membership of the TPSWG

Minister of Industry of Commerce	Co-Chair
Ambassador (lead donor on trade)	Co-Chair
NIU/DPC	Technical Secretariat
Officials from Line Ministries	Member
Technical Staff from International Cooperating Partners	Member
Embassy Officials	Member
Project Director/Technical Advisors from relevant Donor Projects	Member
Private Sector/Civil Society including Representatives from Lao National Chamber of Commerce and Industries (LNCCI) and Lao Women's Union (LWU) and others	Member
Academic Researchers	Member
Others by Invitation	Member

The objective of the TPSWG is to promote trade and private sector development through providing a forum for dialogue and coordination between the GOL and Development Partners and other stakeholders on sectoral or thematic or cross-cutting issues. The TPSWG supports policy and priority setting, domestic and external resources' mobilization, within a results-oriented framework, and monitors progress and achievements. High level participation from GOL, development partners and other stakeholders ensures activities are integrated into GOL priorities and promotes effective coordination. The DTIS Update process is owned and managed by the NIU. The EIF structure is integrated into the TPSWG where the open dialogue encourages the development buy-in across government ministries and agencies.

The NIU has identified three key lessons from their experience implementing the 2012 Trade and Private Sector Roadmap. Firstly, ensuring a technical capable secretariat is important for building support across government, the private sectors, civil society, and the international cooperating partners. Secondly, it is vital to have high profile champions for reform within the private sector, actively engaging with the TPSWG and on a day-to-day basis with the NIU and other government counterparts. Thirdly, strong political commitment to the high-level development objectives at the highest levels of government is central to ensuring effective implementation.

The capacity of the MOIC to support policy, regulatory and institutional reforms has been enhanced by the commitment of the international cooperating partners to participate in the Lao PDR multi donor trust fund (MTDF). This was established in 2008 and continues to function as the leading vehicle for financing business and trade related reforms. The text box below summarizes the three MDTFs. The institutional governance structure for the investment and trade reform agenda supported by the MTDF has remained unchanged since 2008. This governance structure has enabled the GOL to mobilize increasing funding from multiple donors.

Text Box 1 Multi Donor Trust Fund (MDTF): 2008 - 2022

MDTF I established in 2008 to implement the first DTIS Action Matrix with initial funding of \$6.8 million from the World Bank, Australia and the European Union. Following the mid-term review, Germany also participated with and an additional \$0.8 million. MDTF I was implemented through 2008-2012

MDTF II included initial funding of \$14 million from the World Bank, EU, Australia, Irish Aid, Germany, and USAID initially. Following the mid-term review, Australia allocated an additional \$2 million. MDTF II was implemented through 2013-2018.

MDTF III commenced in 2019 with an initial funding of \$13 million from the World Bank, Australia, EU, Irish Aid, Germany, and USAID. In 2021, following the mid-term review, the project was extended through to 2024 with an additional \$6.5 million.

The TPSWG established the Program Executive Committee (PEC) to facilitate the design, and implementation of trade related programs and projects in Lao PDR. The PEC also serves as a transparent forum for the exchange of information on the development and implementation of Aft. PEC members include representatives from all the agencies engaged in the Trade for Development Secretariat, representatives for each donor providing financing to programs supervised by the PEC, a representative from LNCCI and other private sector association, and civil society representatives. The PEC aims to make decisions by consensus², meets annually (essentially this is a special meeting of the TPSWG) and allows for the NIU to submit documents to the Chair, as required, for virtual approval. In between meetings the Chair will seek views from relevant donors prior to a ruling. To avoid lengthy delays in obtaining approvals the Chair operates on the principle of “silence is consent.” All PEC decision and meeting minutes are published on the T4DLaos.org website. The NIU provides administrative and secretarial support to the PEC.

Text Box 2 Functions of the Program Executive Committee (PEC)

- Ensure transparency and coordination of Trade for Development (T4D) activity in Lao PDR
- Serve as the central supervisory body for all T4D projects.
- Function as a super-steering committee for key T4D projects and project steering committees
- Provide a framework for joint programmatic reporting and steering committee mechanism to relevant groups
- Establish and monitor a joint T4D Program with a clear Results Framework
- Review and Update the Action Matrix of priority projects
- Discuss program requirements and priorities concerning, inter alia: program/project management, including consistent and common approach to program/project costing and implementation modalities; monitoring, evaluation, and impact assessment of supported activities; and information management including raise the project’s profile.

Monitoring and Evaluation Mechanism

The DTIS Update (2022) contains the Updated Roadmap for Trade and Private Sector Development for Lao PDR for consideration by the TPSWG under the Round Table process. The findings from the DTIS Update (2022) build on the existing roadmap. The Trade and Private Sector Roadmap links priority action items to results and is designed to be continually updated.

The Roadmap identifies Action items, the identified constraints, institutional and stakeholder responsibility for implementation, the difficulty, expected payoff, and timeframe for implementation,

2. However, the rules provide for voting should a consensus not be reached. Each contributing donor has one vote, with an equal number of votes from the GOL. A simple majority is required for a decision. In the event of a tie the PEC chair will cast the deciding vote. The PEC will be chaired by the Minister of Industry and Commerce.

and linkages (if any) to existing roadmap initiatives. The Roadmap is organized in two broad outcome areas: improving the trade and business enabling environment, and increasing sector and firm level competitiveness in agriculture, tourism, and manufacturing. These outcome areas, referred to as Programmatic Pillars, follow the same structure as the existing Roadmap which is organized on five levels: (i) development goal; (ii) strategic outcome; (iii) outcome areas (programmatic pillars); intervention areas; and interventions (action items/activities).

The first three levels concern the effect of the overall programmatic approach; indicators on these levels are measured annually for the development goal, and twice yearly for the strategic outcome and pillar level. As these are determined by the GOL, these are considered exogenous to the DTIS process and use Third Party Data. The indicators for these levels are shown in Table 2 below.

Table 2 Overall Programmatic Approach: Trade and Private Sector Development Roadmap (Results Framework)

Level	Result	Indicators
Development Goal	Broad-Based, sustainable, and resilient growth	<ul style="list-style-type: none"> • GDP growth rate • Wealth distribution • Percentage of people living below the poverty line • Regional distribution of poverty • Gender inequality index • Development Index or Inequality adjusted Human Development Index • Unemployment rate • Growth in employment in key manufacturing, and services sectors (electronics, apparel, agribusiness, tourism)
	LDC graduation	<ul style="list-style-type: none"> • Per Capita Income (GNI per capita) • Reduction in economic vulnerability (Economic Vulnerability Index)
Strategic Outcome	Sustainable trade and business development for poverty reduction and LDC graduation with a modern, diversified economy	<ul style="list-style-type: none"> • Export Concentration Index • Annual growth rate in value of non-resource exports • Real growth in total trade of goods and services • Value of non-natural resource exports • Value of trade in services • Average annual growth rate in the number of new enterprises registered in key sectors, disaggregated by gender and province • Increase in investment administered by MOIC (national investment and foreign direct investment (FDI))

Pillars (Outcome Areas)	1. Trade & investment environment strengthened through: trade policy, trade facilitation, regulatory impact assessments.	<ul style="list-style-type: none"> • Openness ratio (trade share in GDP percent) • Increase in new businesses • Reduction in business regulatory compliance • Reduction in time and cost to start a business • Reduction in time and costs for cross border trade • Reduction in average time to import, export, and transit (TRS) • Reduction in senior management's time spent addressing government regulations • Percentage of trade taking place under preferential agreements • Women's participation in the economy
	2. Competitiveness Improved in agriculture, tourism, and manufacturing	<ul style="list-style-type: none"> • Increased number and average spend of international tourists • Real annual productivity growth • Growth in investment in selected sectors • Real annual employment growth • Increased survival rates for existing and new product-destination-market-combinations

The fourth and fifth levels address the broad areas and specific activity interventions under each of the respective Outcome Areas and are shown in Tables 3 and 4 respectively. Specific activities generally refer to specific projects that will be developed by the GOL and potential international development partners (DPs). The indicators at the intervention level will be project specific and will be developed during the project design. Activity or project indicators will measure resource mobilization and utilization, and milestones will be developed to monitor progress towards implementation.

Table 3 M&E Framework Pillar 1: Trade and Investment Environment Strengthened

#	Proposed Interventions/Activities	Agency	Existing/Proposed Project
Improving the Business Enabling Environment			
1	Streamline Business and Investment Licensing Procedures-Implement online platform for business registration	MIC, MOIC Other relevant Agencies	Lao PDR Competitiveness and Trade Project (CTP)
2	Improve Capacity of Business Associations	MOIC and MHA	
3	Review Investment Incentives Instruments to ensure alignment with GOL investment goals (increasing diversification and greater linkages within the economy)	MIC	IFC Investment Climate Project
4	Reform the Investment Promotion Law (2016)	MPI	
5	Join the International Center for the Settlement of Investment Disputes (ICSID)	GOL/MPI	
6	Eliminate entry restriction for key service sectors (logistics, transport) to promote competition and efficiency	MOIC/MPI/Line Ministries	Arise Plus Lao Project, Lao Business Environment Project (LBE)
7	Increase Communication and Outreach, strengthen availability of business and trade policies and regulations	MOIC and relevant line Ministries	Lao PDR Competitiveness and Trade Project (CTP), Lao Business Environment Project (LBE), Arise Plus Lao Project
Trade Policies and Trade Facilitation			

8	Liberalize Trade Policy	MOF/MOIC/MIC	Lao PDR Competitiveness and Trade Project (CTP), Lao Business Environment Project (LBE), Arise Plus Lao Project
9	Implement National Trade Facilitation Roadmap	MOIC/Customs/ relevant line Ministries	Lao PDR Competitiveness and Trade Project (CTP)
10	Review Non-Tariff Measures (NTM) -Regulatory Impact Assessments	Multiple Min- istries led by NTFC	Lao PDR Competitiveness and Trade Project (CTP)

Table 4 M&E Framework Pillar 2: Competitiveness Improved in agriculture, tourism, & manufacturing

#	Proposed Interventions/Activities	Agency	Existing/Proposed Project
Sector Specific: Agriculture			
1	Simplify regulations for agricultural inputs	MAFF/DOLF	Lao PDR: Agriculture competitiveness (LACP) - Agriculture Value Chain Facility (AVCF)
2	Abolish list of minimum and maximum prices for agricultural products	MOF/MOIC/ MAFF/DOLF	
3	Establish mobile-friendly online information platform	MAFF	Climate-Friendly Agribusiness Value Chains Sector Project
4	Encourage the development of cold chain for vegetables	MAFF	Lao PDR: Agriculture competitiveness (LACP) - Agriculture Value Chain Facility (AVCF), Climate-Friendly Agribusiness Value Chains Sector Project
Sector Specific: Tourism			
5	Establish a Tourism Marketing Board	MOICT/MOIC	Lao Business Environment Project (LBE),
6	Simplify the tourism regulatory framework	MOICT	
7	Implement policy measures for environment protection to promote Nature Based Tourism	MOICT/MOE	
8	Increased Training for Hospitality and Tourism	MOICT/MOE	
Sector Specific: Manufacturing			
9	Improve Business Enabling Environment (#1.1)	See 1.1	Lao PDR Competitiveness and Trade Project (CTP)
10	Special Economic Zones -simplify procedures-learn from leading global practices	MIC/MOIC	
Firm Level Competitiveness			

11	Strengthen SME Capabilities and Know-How	MOIC/NIU	Lao PDR Competitiveness and Trade Project (CTP), Micro, Small, and Medium Enterprise Access to Finance Emergency Support and Recovery Project, Promoting export and employment in home textile and apparel factories.
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Updated Trade and Private Sector Development Roadmap

Table 5 presents the Updated Trade and Private Sector Development Roadmap. The table is organized by broad intervention areas and lists the specific proposed specific activities to address the identified constraints. Table 5 also identifies the government agencies responsible for implementation and contains a qualitative estimate of the expected implementation difficulty, the potential benefits and likely timeframe. Many of the recommendations are challenging to implement as they require extensive inter-agency cooperation and pose technical challenges. The final column links the recommendations to existing international cooperating partner initiatives.

Table 5 DTIS Updated Trade and Private Sector Development Roadmap, 2022

No.	Action	Identified Constraint(s)	Responsibility	Difficulty, payoff, and priority timeframe	Existing Initiatives
Improving the Business Enabling Environment					
1	Streamline Business and Investment Licensing Procedures -implement online platform for business registration	Multiple processes, duplicative information requirements across multiple agencies. Lack of clarity on documentary requirements.	MIC, MOIC and line agencies	M/H/M	Lao PDR Competitiveness and Trade Project (CTP), Pillar A
2	Improve Capacity of Business Associations	Foreigners are restricted from representing their firms/organizations in Business Associations	MOIC and MHA	M/M/S	LBF July 2021 Priority Issue
3	Review Investment Incentives Instruments to ensure alignment with GOL investment goals (increasing diversification and greater linkages within the economy)	Dependence on Tax Holidays and tax/duty exemptions is problematic.	MIC	M/H/M	
4	Reform the Investment Promotion Law (2016)	Lack of transparency, predictability, lengthy approval process	MIC	L/H/S	

5	Join the International Centre for the Settlement of Investment Disputes (ICSID)	Slow and uncertain legal process	GOL/MIC	L/M/S	
6	Eliminate entry restrictions for key service sectors (logistics, transport) to promote competition and efficiency	Limited range of support services available, adversely impacts aggregate competitiveness	MOIC/MIC	H/H/M	
7	Increase Communication and Outreach, strengthen availability of business and trade policies and regulations	Limited awareness of business and trade policies across the private sector and with provincial and district level implementing agencies	MOIC and line Ministries	H/H/M	TIC, Support for the National Trade Portal, and other online Portals

Trade and Trade Facilitation

8	Liberalize Trade Policy	Complex tariff schedule with multiple bands, low “nuisance tariffs” and tariff peaks	MOF/ MOIC/MIC	H/M/M	
9	Implement National Trade Facilitation Roadmap for 2023-2027 and continue to upgrade the Lao Trade Portal	Multiple trade facilitation measures including AEO, PCA, Joint Risk Management Framework (JRMF), Advance Clearance and Transit, and National Single Window, are not operational resulting in increased trade costs	MOIC/Customs/	H/M/M	TIC,
10	Review Non-Tariff Measures (NTM)- Regulatory Impact Assessments	Multiple NTM increase trade costs	Multiple Ministries	H/M/L	TIC

Sector and Firm Specific: Agriculture

11	Simplify regulations for agricultural inputs	Lack of transparency, harmonization with major trade partners	MAFF/ DOLF	H/H/M	
12	Abolish list of minimum and maximum prices for agricultural products	Price restrictions constrain investment in downstream processing	MOF/ MOIC/ MAFF/ DOLF	M/M/M	
13	Establish mobile-friendly online information platform	Need for readily available price information	MAFF	L/H/M	

14	Encourage the development of cold chain for vegetables	Restricts market size and constrains investment	MAFF	L/H/M	
Sector Specific: Tourism					
15	Establish a Tourism Promotion Board	Lack of high-profile marketing materials	MOICT/ MOIC	M/H/M	USAID Lao Business Environment Project
16	Simplify the tourism regulatory framework	Cumbersome and time-consuming license requirements	MOICT	M/H/M	
17	Implement policy measures for environment protection to promote Nature Based Tourism	Most tourism concentrated in Luang Prabang and Vientiane	MOICT/ MOF	M/H/L	Lao Business Environment Project (Green Travel Zone)
18	Increase Training for Hospitality and Tourism Sectors	Growth is constrained by human resource shortages	MOICT/ MOE	L/H/L	
Sector Specific: Manufacturing					
19	Improve Business Enabling Environment (see Action Item #1)	Difficult business environment	See 1		
20	Special Economic Zones -simplify procedures -learn from leading global practices	Existing procedures are complex, lack transparency. Existing incentives -tax holidays encourage highly mobile investments.	MIC/MOIC	M/M/M	
Firm Level Competitiveness					
21	Strengthen SME Capabilities and Know-How	Knowledge gaps in production, branding and marketing, ICT, and management	MOIC/NIU	L/H/M	Continue and expand matching grant scheme under Business Assistance Facility

Note: Difficulty and payoff, High (H), Medium (M), Low (L). Timeframe Long term (L), Medium (M), Short (S). S = 1 year, M = up to 5 years, L = over five years.



Chapter 1 Introduction

1. The Diagnostic Trade Integration Study (DTIS) Update focuses on the trade related constraints slowing down Lao PDR's growth, holding back economic diversification, and limiting regional and global trade. The main objectives of the DTIS Update are to: (i) take stock of progress in implementing the recommendations from the 2012 Diagnostic Trade Integration Study (referred to as the 2012 Roadmap for Trade and Private Sector Development); (ii) complement and deepen the analysis in selected areas, taking into account recent developments, with a specific focus on agribusiness, tourism, and general manufacturing; and (iii) in light of (i) and (ii) develop and present a streamlined and updated Roadmap for Trade and Private Sector Development.

2. The DTIS Final Report and validated Roadmap for Trade and Private Sector Development were submitted in July 2012 following approval at a National Validation workshop. The 2012 DTIS report assessed both domestic and external constraints to Lao PDR's integration into the world economy with a detailed review of trade policies and trade performance, trade related institutions, the state of trade facilitation, and transport and the business environment, identification of the issues and opportunities in agribusiness, non-resource exports, tourism, and the opportunities to leverage the resources export boom. The 2012 DTIS report mainstreamed poverty alleviation, gender, environment, and private sector development. The 2022 DTIS Update will also ensure these are mainstreamed.

3. Following the 2012 DTIS the GOL supported implementation of The Roadmap through launching the Second Trade Development Facility (TDF-2) project in 2013 and the Lao Competitiveness and Trade Project (LCT) in 2019. These two projects were funded by IDA and through the Multi-Donor Trust Fund (MTDF) with participation from the EU, GIZ, Australian Aid, Irish Aid and USAID. Implementation of the Roadmap was also supported through multiple technical assistance projects supported or delivered by USAID, GIZ, ITC, IFC, EIF, World Bank, Asia Development Bank, and others. The Roadmap reflected the vision set out in the National Social Economic Development Plan 7 (NSEDP 7) and NSDEP 8 for Lao PDR to become a modern and diversified economy on the path to graduate from Least Developed Country status.

4. The NIU in the Department of Planning and Cooperation at the MOIC coordinated the 2012 DTIS Update, TDF-2, and is now coordinating implementation of LCT Project, the 2022 DTIS Update, and multiple Trade Related Technical Activities, including the GIZ implemented Regional Economic Integration of Laos in ASEAN, Trade and entrepreneurship Development-RELATED, ITC implemented ARISE Plus Project, EIF funded Export Promotion in Northern Region, USAID funded Lao Business Environment Project and others. The NIU serves as the Secretariat to both policy level coordination mechanism under the Trade and Private Sector Working Group (TPSWG) as well as program implementation governance framework under Program Executive Committee which has strong participation from key stakeholders in government, the private sector, and development partners.

5. Recent rapid growth has been driven by capital intensive investments with modest job creation. Expanding income in the rural areas highlights the importance of increasing agricultural productivity, advancing regional trade, and increasing value chain linkages to agricultural processing. Construction and infrastructure investments boosted the growth rate through most of the past decade, however, with the completion of several major projects the growth rate declined. The tourism sectors also grew relatively rapidly during the past decade, however, with the onset of the COVID-19 pandemic in the first quarter of 2020 the demand for tourism and ancillary services dried up resulting in significant job losses, especially for women.

6. The economic shock from the COVID-19 pandemic has highlighted Lao PDR's pre-existing macroeconomic weaknesses. With high levels of public debt, a sizeable trade deficit, and a dependence on resource-based exports, Lao PDR is vulnerable to economy shocks. Enabling private

sector investment and growth in agribusiness, service sectors and labor-intensive manufacturing will promote economic diversification and build economic resilience.

7. The commitment to restoring macroeconomic stability and improving the business enabling environment are prerequisites for benefiting from a trade-led growth strategy. Increasing investment in internationally competitive value-added activities also requires a reduction in trade costs. The DTIS Update identifies specific trade costs that determine the availability and price of inputs and the ability of producers to compete in regional and international markets. The report focuses on trade policies, including the regulatory issues impacting trade, trade facilitation and transport, and policies affecting agriculture, mining and extractives, and tourism services.

8. While infrastructure constraints remain and investment is required, it is also necessary to focus on the ‘soft infrastructure’. It is important to note at the outset that the earlier DTIS prioritized numerous policy and regulatory reforms to encourage private sector investment in non-resource sectors. The DTIS Update focuses on specific trade related policy and regulatory issues, many of which are in the mandate of the Ministry of Industry and Commerce (MOIC); however, many trade costs stem from ‘behind the border’ regulatory structures and processes in line Ministries (agriculture, energy etc.).

Outline of the Report

9. Chapter 1 provides a short introductory overview of the key themes contained in the main report.

10. Chapter 2 summarizes the current macroeconomic situation and the status of the business enabling environment. The chapter also includes a political economy assessment of the progress made in implementing the 2012 Roadmap for Trade and Private Sector Development.

11. Chapter 3 describes Lao PDR’s trade performance, highlighting the narrow commodity composition and relatively modest change in the share of intra-ASEAN trade.

12. Chapter 4 reviews existing trade policies. A review of the existing tariff schedules notes the high levels of protection on a small number of sensitive products including sugar, rice and textiles. The chapter also presents evidence from the new database on trade costs.

13. Chapter 5 focuses on trade procedures, border clearances, and trade logistics. Ensuring efficient and predictable border clearances is essential for delivering regional and global competitiveness. The Customs Services has made significant progress since the earlier 2012 DTIS in modernizing customs procedures; however, serious challenges remain. The high rate of physical inspections should be a source of concern. The long-standing commitment to streamline border agencies and establish a Single Window has yet to be fully implemented.

14. Chapter 6 takes a more in-depth look at recent performance in the agricultural sector, which accounts for 16.2 percent of GDP and is the main source of income for 61 percent of the population (7.2 million people). The chapter looks at agriculture through a trade lens.

15. Chapter 7 takes a more detailed view of the tourism industry in Lao PDR. Lao PDR is well placed to benefit from tourism given the scenic beauty of Luang Prabang, a rich cultural heritage, the majesty of the Mekong River, and borders with China, Cambodia, Vietnam, and Thailand. Despite these natural assets Lao PDR is performing below its potential. The chapter focuses on the constraints to further growth and increasing the linkages to other sectors of the economy, as well as the business-enabling environment and the policy and regulatory framework governing the tourist sector. This work represents an input to the ongoing review of Tourism Policy and the updating of the National Tourism Strategy.

16. Finally, Chapter 8 focuses on Light Manufacturing and looks in-depth at the opportunities for expanding the linkages from the key sectors of agriculture and tourism.

Chapter 2 Macroeconomic Overview, Business Enabling Environment and the 2012 DTIS

17. **This chapter provides a brief macroeconomic summary of recent trends and the medium-term outlook, followed by a summary of the business-enabling environment.** It draws on the World Bank Doing Business Indicators, which allow countries to be ranked relative to each other and relative to global best practice. This chapter includes a review of Lao PDR's experience in implementing the recommendations validated in the 2012 DTIS. It also summarizes the key lessons learned from the 2012 DTIS, noting how this DTIS Update will assist the graduation from LDC status and implementation of the 8th NSDEP. Finally, the chapter concludes with a summary of the DTIS focus areas.

2.1 Macroeconomic Overview

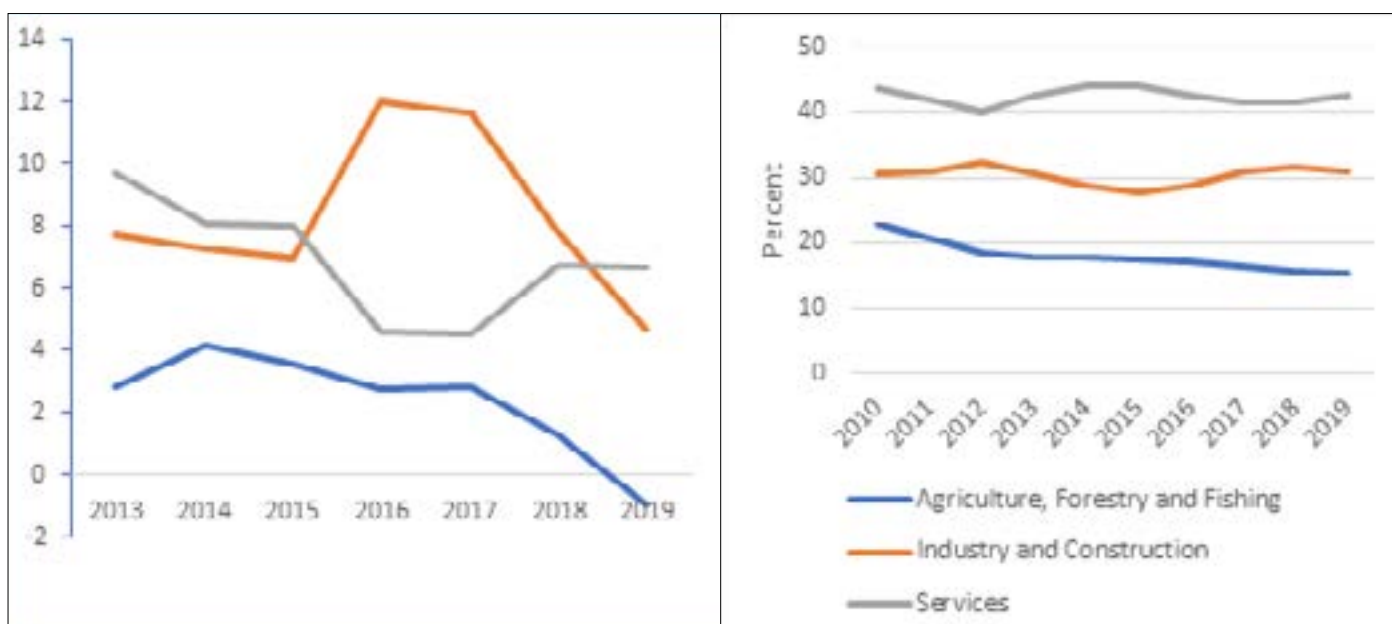
18. **Over the past 25 years Lao PDR averaged an annual (real) rate of growth of 6.9 percent.** The structure of the economy has changed substantially over the past 25 years as large natural resource-based industries have been the primary drivers of GDP growth. The natural resource-based industries, primarily mining and hydropower, recorded a real annual growth rate of 18 percent in the 12 years ending in 2015. Agriculture has declined from 42.2 percent of GDP in 1995 to 15.3 percent in 2019, while industry has increased from 18.7 to 30.9 percent over the same period. Services, primarily non-traded, were the largest single sector at 40.8 percent in 1995 and 42.6 percent in 2019. Despite Lao PDR's impressive growth record, it has been narrowly based, created relatively few jobs, contributed to environment degradation and related social development implications, and exports have remained concentrated.

19. **The Seventh NSDEP (2011-2015) aimed for 8 percent annual growth and focused on investing in basic infrastructure and increasing connectivity to integrate the economy with the region and the world.** The plan also stressed the importance of more efficient public services delivery. During this period industry and services grew annually by 12 and 7.5 percent respectively while agriculture averaged 3.7 percent. This large-scale public investment was initially driven by expansionary fiscal and monetary policies; however, in 2013 a significant increase in the fiscal deficit resulted in the GOL delaying several public investments, and canceling cost of living increases for public sector staff. Foreign exchange restrictions and increased inflation eroded export competitiveness while import prices increased which worsened the trade deficit.

20. **GDP growth through 2013-2019 was driven by construction of large-scale infrastructure.** The hydropower, large-scale transport infrastructure, and construction projects are now coming on stream. Since 2012, manufacturing (primarily agribusiness such as food, beverages, and tobacco), basic metal industries (construction materials), and retail trade have experienced more rapid growth (see Figure 1 below). Agriculture has continued to grow but at a much slower pace, declining slightly in 2019.

21. **Agriculture continues to provide a livelihood for approximately two thirds of households while accounting for 15.3 percent of GDP in 2019.** Around 2 million adults work in the agricultural sector. Rice accounts for more than 70 percent of cultivated area. Productivity remains low and most of the production is sold domestically, with exports averaging around 5 percent. Despite the importance of the sector for reducing poverty and promoting growth, the agricultural sector has consistently underperformed in comparison with the growth in the industrial and service sectors.

Figure 2.1 Growth Contribution and Share by Major Sector



Source: Lao PDR National Bureau of Statistics.

22. Services contribute more than 40 percent of GDP. Most services in Lao PDR are non-tradable services and thus services exports only contributed 5 percent of GDP in 2018, notwithstanding their relatively high contribution to value added.

23. With the COVID-19 pandemic, 2020 has thrown Lao PDR's GDP into reverse. The COVID-19 pandemic began impacting Lao PDR in the second quarter of 2020 and is resulting in a rapidly deteriorating economic situation. The pandemic has halted economic growth and GDP is now expected to decline. The IMF has estimated a reduction in the range of -0.6 to -2.4 percent of GDP for 2020 which contrasts with the earlier GOL estimate of 3.3 percent real growth in GDP. Travel and Tourism, a key service sector, has witnessed a collapse in international demand resulting from the multiple lockdowns and ongoing border restrictions, including suspension of the visa on arrival service at all international entry points. Furthermore, as migrant workers have returned, remittances have shrunk. In May 2020, the unemployment rate increased to 25 percent from 16 percent in December 2019. COVID-19 has worsened Lao PDR's existing structural weaknesses resulting in a ballooning fiscal deficit, increasing government debt, the erosion of foreign currency reserves, and an increased risk of debt default.

24. Rate of GDP growth declined in 2019 and dropped below 1 percent in 2020. After two decades of high growth rates, driven by large scale infrastructure construction and mining developments, economic growth slipped below 6 percent in 2019 and then dropped to 0.4 percent in 2020 due to the COVID-19 related global economic downturn. Prior to this economic shock Lao PDR had multiple structural vulnerabilities including increasing sovereign debt and worsening financial sector vulnerabilities.

25. Lack of export diversification and dependency on few markets leaves Lao PDR vulnerable to external demand shocks. Exports are concentrated on resource-based products to the three neighboring economies of Peoples' Republic of China, Thailand, and Vietnam. Large scale infrastructure investment and an increase in domestic consumption fueled import growth resulting in a growing current account deficit. Since 2015, gross international reserves have been low, averaging just over 2 months. This is below the threshold recommended for maintaining macroeconomic stability³. Foreign reserve buffers remain low, resulting in a shortage of foreign currency in the official

3. For economies with less open capital account traditionally 3 months import cover is deemed the minimum precautionary reserve, for those with a less restrictive capital accounts, other measures such as the ratio of reserves to short-term debt ("Greenspan-Guidotti" rule of 100 percent cover for ST debt are used). For a detailed discussion on approaches to reserve adequacy see Assessing Reserve Adequacy-Specific Proposals, IMF (2015)

market, with the gap between the official and parallel markets almost doubling from 8 percent at the beginning of 2021 to 15.8 percent at the beginning of July 2021. As the world's leading economies continue to adopt legislation requiring mandatory environment and social due diligence for goods imported into their markets, the absence of national regulation of business practices further constrains Lao PDR business from accessing potential new markets.

26. Public Sector debt reached 64.5 percent of GDP in 2020. This was a 10.2 percent increase from the previous year. In the medium-term, Lao PDR has external debt service obligations of \$1.1 billion a year. In 2019 Laos' total external debt reached \$16.9 billion, with public and publicly guaranteed debt accounting for \$10.3 billion. Fitch Ratings estimated that, in 2020, Public and Publicly Guaranteed external debt (PPG) was equivalent to 590 percent of total government revenue. Investment in the power sector accounts for almost half of the accumulated public debt. In mid-2020, China accounted for almost half (47 percent) of Laos' total external public debt, with the remainder being split between multilateral concessional and commercial loans. Credit rating downgrades, deteriorating fiscal imbalance and limited opportunities to mobilize domestic financing have resulted in increased borrowing costs.

27. The rapid increase in public debt severely limits the GOL's fiscal space. With over 80 percent of public and publicly guaranteed debt denominated in foreign currency, a depreciation in the exchange rate will adversely impact the government's balance sheet.

28. Lao PDR's macroeconomic framework was unsustainable prior to the COVID-19 pandemic owing to large increases in debt, depleted foreign currency reserves, and a weakened financial system. The lack of foreign currency reserves and sizeable budget deficits prior to the pandemic have limited the Government's capacity to implement stimulus packages. In the interim this has worsened the economic downturn and exposed Lao PDR's structural vulnerabilities. In September 2020, Moody's downgraded the economy's credit rating to indicate a "material probability of default in the near term."⁴

29. Restoring macroeconomic stability and containing the COVID-19 pandemic are key immediate priorities. The World Bank has identified three focal areas as necessary for restoring macroeconomic stability: (i) strengthening debt management and transparency; (ii) increasing fiscal sustainability through mobilizing more domestic revenue and improving spending efficiency; and (iii) improving financial sector stability through better regulation and bank restructuring. The continued roll out of the mass vaccination program is essential for containing the pandemic. Currently 52 percent of the population are fully vaccinated, and 63 percent have received have one dose. Lao PDR has secured enough doses to vaccinate it's population by mid-2022. is on schedule to reach 96 percent of the population by June 2022. Currently 52 percent of the population are fully vaccinated. Reopening the international borders will assist in mitigating the economic impact of COVID-19 .

30. The COVID-19 pandemic began to adversely impact Lao PDR's economy in March 2020. Containment measures restricted cross border movement, resulted in a catastrophic decline in demand for tourism and hospitality services and reduced remittances as migrant workers returned home. While government mitigation measures have been successful in containing the pandemic, by January 25, 2022, there had been 130,293 confirmed cases and 527 deaths⁵. The reduction in trade and the collapse of the tourism sector eliminated thousands of jobs resulting in an increase in the poverty rate.

31. Between 2012/13 and 2018/19 the national poverty rate declined from 23.4 to 18 percent, but inequality increased⁶. The Poverty Report for the Lao PDR Expenditure and Consumption Survey 2018-2019 identified rising farm incomes from increasing commercialization, the main driver

4. Data on Vaccination rates from the Multilateral Leaders Task Force on COVID-19 <https://data.covid19taskforce.com/data/countries/Lao%20PDR> (accessed January 25, 2022)

5. WHO COVID-19 Global Tracker <https://covid19.who.int/region/wpro/country/la> (accessed January 25, 2022)

6. World Bank Poverty Assessment <https://www.worldbank.org/en/country/lao/publication/lao-pdr-poverty-profile-and-poverty-assessment-2020#:~:text=Poverty%20in%20Lao%20PDR%20has,percent%20during%20the%20same%20period>

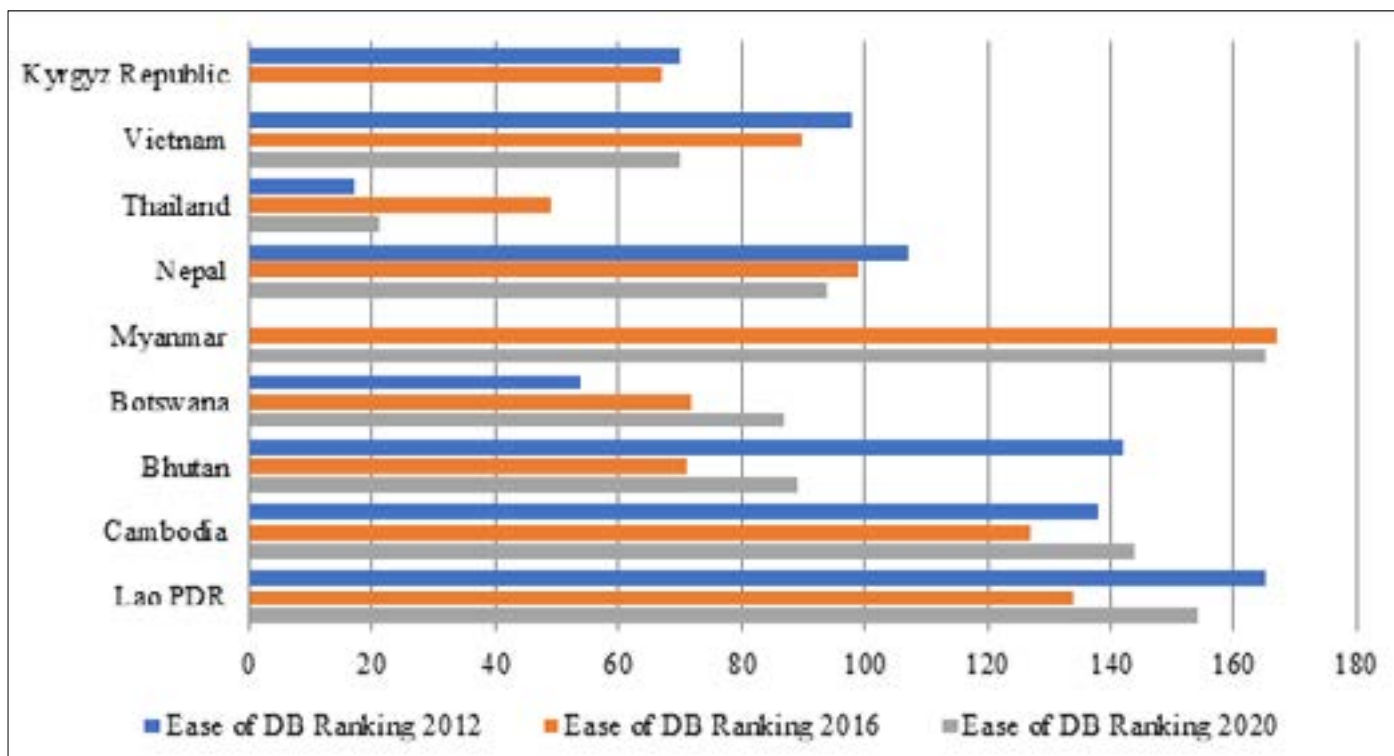
of poverty reduction. Since 2013, many agricultural households transitioned from subsistence rice cultivation towards the commercial production of cash crops. In the north, Bokeo Province more than halved poverty incidence from 51.4 to 19.4 percent from 2013 to 2019 respectively. Migrants' remittances which increased to 15 percent of household income over the same period also drove poverty reduction. Poverty rates have decreased more in the southern and northern provinces where rural farmers have benefited from increasing commercialization and growing cross-border trade. The Gini coefficient increased over the past decade which indicates increasing inequality. The GOL commitment to reducing trade costs and improving the business enabling environment seeks to promote more inclusive broad based economic growth.

32. Poverty rates declined faster in farming households close to the border. Provinces in proximity to the borders with Cambodia and Vietnam experienced poverty reductions of 15.5 and 11.6 respectively over the 6-year period ending 2019. The relatively higher rate of poverty reduction in the northern and southern provinces next to the borders highlight the importance of agricultural commercialization and expanding cross-border trade as drivers of poverty reduction.

2.2 Business Enabling Environment

33. The business environment in Lao PDR remains challenging. The World Bank's 2020 Doing Business (DB) report ranks Lao PDR at 154 out of 190 countries (see Figure 2.2). This places it significantly behind several of its neighbors and competitors such as Cambodia (144), Bhutan (89), Nepal (94), Vietnam (70), Thailand (21), Botswana (87), and Kyrgyz Republic (80). The exception was Myanmar, which ranked 165.

Figure 2.2 Doing Business 2012, 2016 and 2020: Ease of Doing Business Ranking



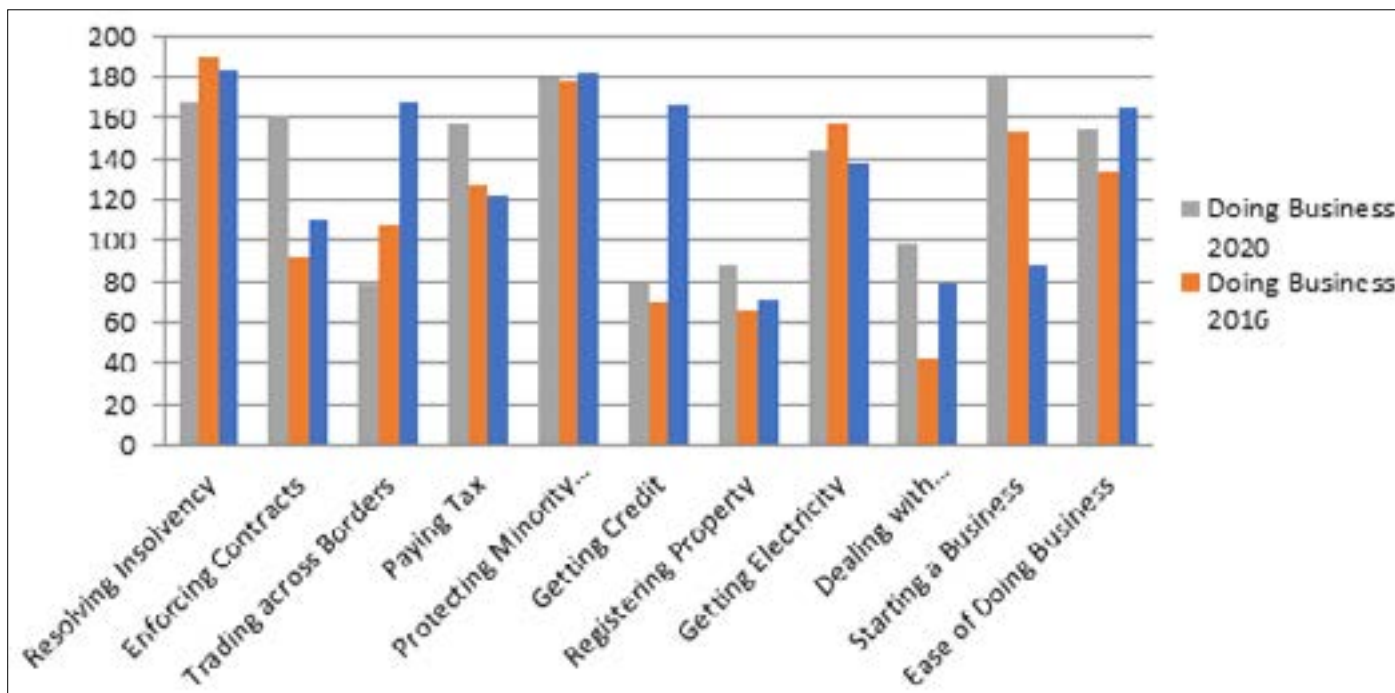
Source: *Doing Business, 2020, World Bank*

34. Lao PDR the costs of doing business remain high. Relative to comparator countries at similar levels of development, both globally and in the Asia-Pacific region, Lao PDR has a more challenging business environment. Significant aspects of the investment climate remain characterized by a lack of transparency and predictability for investors. Much of the reform agenda has been driven by efforts to improve investment facilitation for natural resource sector investments, primarily mining and hydropower projects, with more limited focus on diversified sectors that create more jobs. Similarly, natural resource investors have so far been more able to absorb high investment transactions costs given larger resource rents and economies of scale. The high costs of “doing business”, as a share

of business investment costs, have acted as a disincentive for small investors in diversified sectors of the economy. Even in areas where Lao PDR has implemented investment climate reforms, the gap with comparator countries has not been closed as reforms have been implemented elsewhere in the region.

35. **Lao PDR’s performance across the Doing Business indicators is uneven.** The highest ranking is for trading across border where Lao PDR is ranked 78 out of 190. Its lowest ranking of 181 is for starting a business. This is followed by 179 for investor protections and ‘no practice’ classification in resolving insolvency (168).

Figure 2.3 Doing Business Ranking for Lao PDR

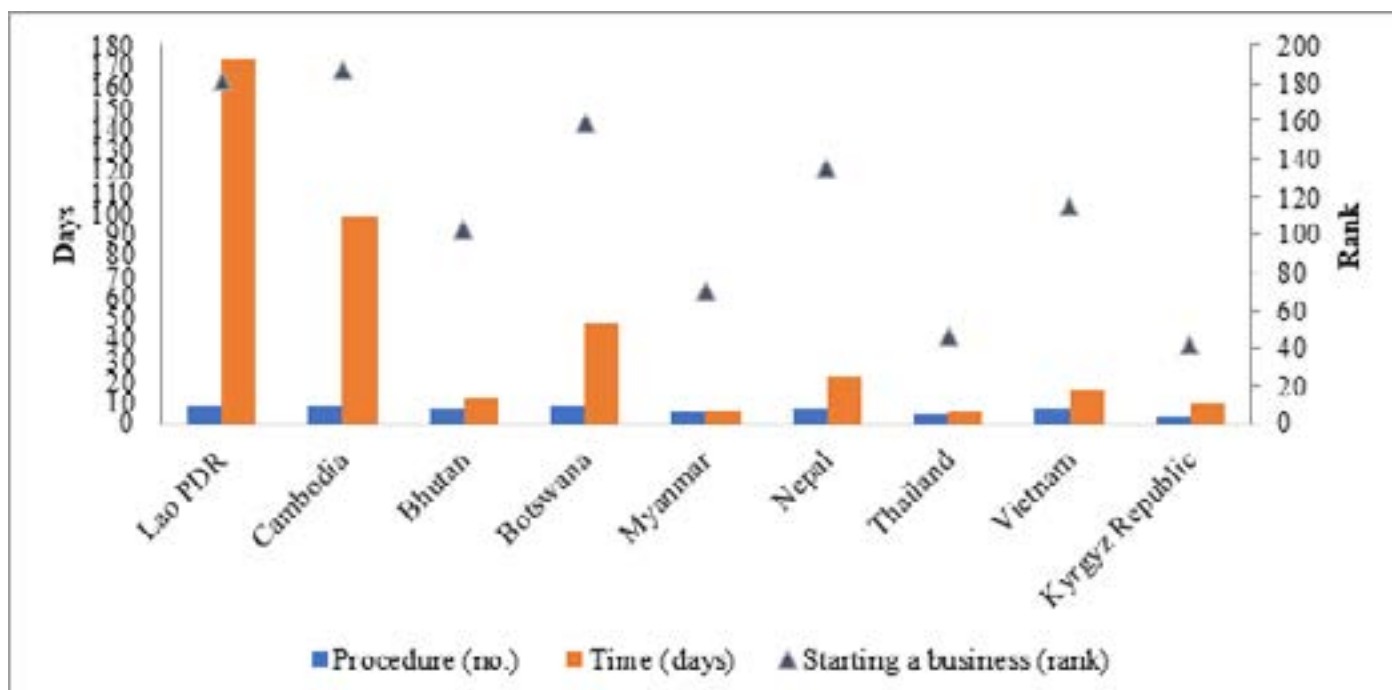


Source: *Doing Business, 2020, World Bank*

36. **Starting a business takes 6 months.** According to the **Doing Business 2020 Report**, it takes **173 days to complete the required 9 procedures to start a business in Lao PDR.** However, with strong support from the highest level of the Government, ongoing business reform measures implemented during 2020 are expected to result in improvements in the following categories: starting a business, paying taxes, trading across border, and resolving insolvency.

37. **The GOL is committed to improving the business environment.** As part of broader business environment reform, significant and continuous efforts have been made over the past year. This has resulted in significant reduction in number of procedures to only 3 procedures from previous 9 procedures and legal time limit to 17 working days, including 10 days for enterprise registration, 5 days for seal making and approval, and 2 days for social security registration. If new reform measures are fully implemented at the local level, Lao PDR’s ranking in Doing Business should improve.

Figure 2.4 Starting a Business from Doing Business 2020 Report



Source: *Doing Business, 2020, World Bank*

38. GOL is prioritizing specific Doing Business Indicators. To improve the business environment, the GOL has prioritized several indicators as high priority areas, expected to generate tangible reform outcomes: examples are starting a business, dealing with construction permits, trading across borders, paying taxes, and getting electricity. Indicators would likely be achieved in the medium-term for the areas of registering property, getting credit, and protecting minority investors. Reforms in the areas of enforcing contract and resolving insolvency are likely more long-term and will require strong high-level political leadership.

39. Importance of taking advantage of opportunities for reform. There are several opportunities for reform. The Draft Trade and Private Sector Roadmap summarizes the reform recommendations taking into consideration the ease of implementation and the extent of reforms already underway. The proposed reforms aim to strengthen the business environment and be more conducive to economic growth and private sector development.

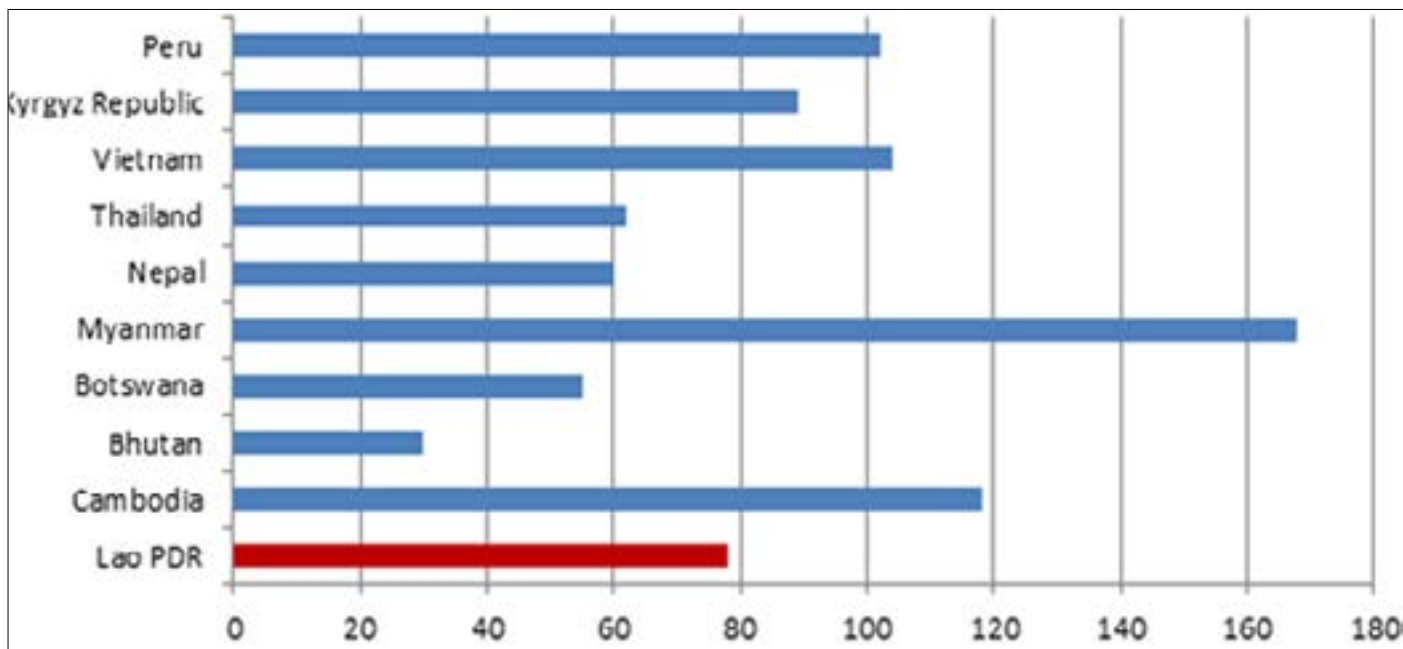
40. Lessons learned from improving the business environment. Governments that succeed in sustaining reform programs, as measured by Doing Business and other global indexes, tend to have common features. Firstly, they take a comprehensive approach that targets improvements across multiple areas of the economy; they use existing indicators to identify opportunities for improvement, learn from other countries and measure reform progress. These countries see improvements to the investment climate as essential for maintaining competitiveness in tough economic times.

41. Business reforms also include strengthening human capital, utilizing new technologies and administrative/procedural simplification. Improving performance in public sector services is not solely restricted to regulatory changes. Much can be achieved by investing more in human capital and by introducing modern, electronic solutions for an efficient, performance-based delivery of public services. Governments frequently use reforms to improve the performance in the areas covered by Doing Business and other high profile Global Indexes (e.g., World Economic Forum) as an opportunity to reform and modernize systems and procedures which are no longer up to date with modern technologies. Training public servants to be competitive with private sector employees helps to reduce any social gaps between the two sectors. Electronic and online solutions replace the paper-based system, providing efficient, transparent, and faster delivery of public service.

Trading Across Borders

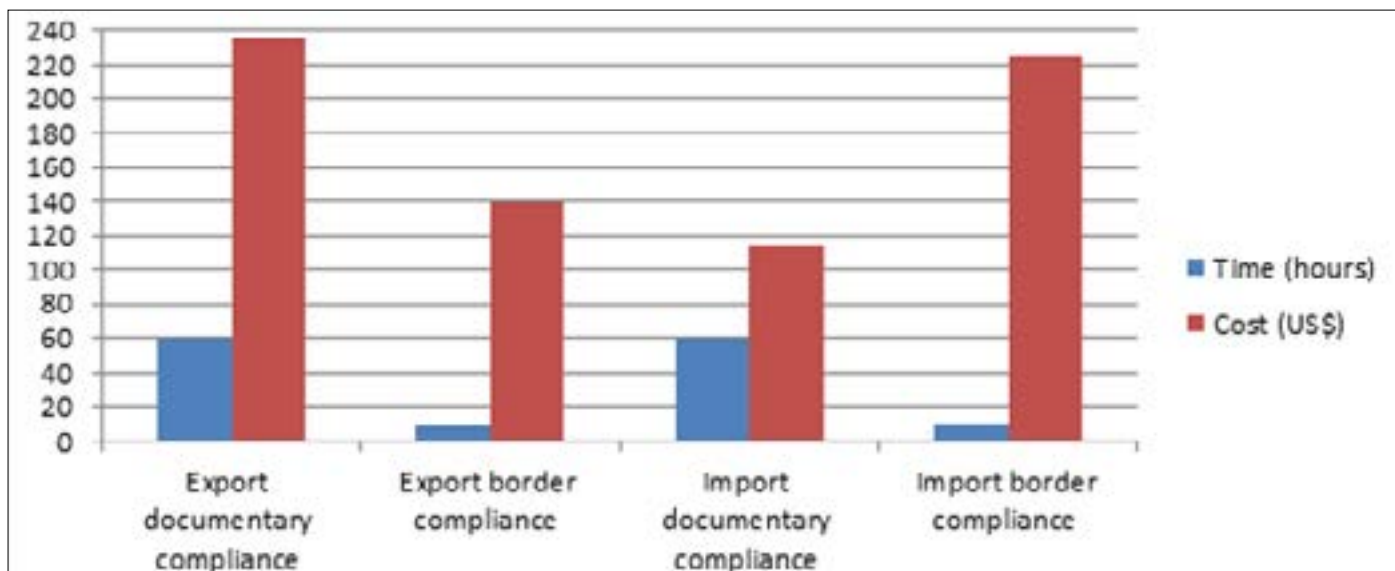
42. Lao PDR reduced document requirements, but the cost of exporting remains higher than regional comparators. Figures 2.5 and 2.6 show how Lao PDR compares with comparator economies globally and regionally in the time and cost of trading across borders. Lao PDR has streamlined requirements by reducing the number of required document submissions for exporting and importing (currently 9 and 10, respectively) as well as reducing the time to pass through customs.

Figure 2.5 Trading across Borders in Lao PDR and comparator economies- Ranking



Source: *Doing Business, 2020, World Bank*

Figure 2.6 Trading across Borders in Lao PDR 2020- Time and Cost

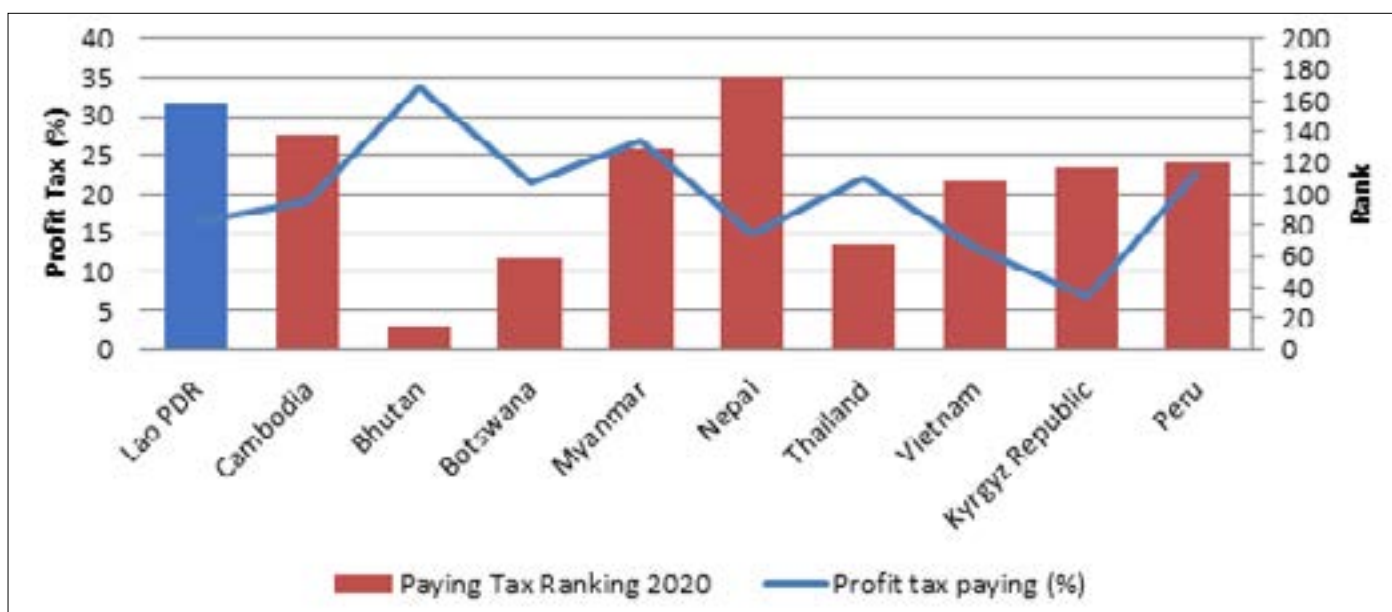


Source: *Doing Business, 2020, World Bank*

Tax regime

43. Business tax regime ranked relatively positively. Compared to other indicators of doing business, the tax regime in Lao PDR is relatively favorable to enterprise. Since 2018, the Government of Laos issued Order No. 02/PM to improve regulations and the coordination mechanism for easing doing business in Laos, incorporating indicators related to financial sector. Following the Order, the Ministry of Finance developed and improved legislation related to the financial sector, including laws on VAT, tax administration, excise tax, income tax, and other secondary legislations.

Figure 2.7 Paying Tax Ranking and Profit Tax (percent) in Doing Business 2020



Source: *Doing Business, 2020, World Bank*

2.3 Implementation of the DTIS Update 2012

44. **The previous DTIS Update was published in July 2012.** Following the approval of the DTIS Concept Note in February 2011, the Main Report was prepared over the ensuing 16 months. This lengthy interval enabled a series of stakeholder consultations in Vientiane Capital and Luang Prabang Province, with participation from the government, the private sector, civil society, and international cooperating partners. The Trade and Private Sector Roadmap was presented and endorsed at the National Validation Workshop in Vientiane in May 2012.

45. **DTIS 2012 identified pathways for promoting economic diversification and job creation.** Lao PDR's dependence on natural resource exports was identified as a constraint to increasing economic diversification, job creation, and transitioning to more equitable and sustainable growth. The large capital inflows to the mining and energy sectors boosted GDP growth, underpinned a strong exchange rate, but created relatively few jobs. The DTIS recommendations identified three broad goals required for reducing poverty and delivering most broad-based economic growth: (i) Improving the business and trade environment. (ii) Increasing productivity and competitiveness in agribusiness, manufacturing, and services (prioritizing tourism). (iii) Mainstreaming trade and private sector development through strengthening the Aid for Trade (A4T) governance framework.

46. **Lao PDR received support from multiple donors for implementing many of the recommendations in the 2012 DTIS.** This included technical support to the Ministry of Industry and Commerce (MOIC) to support a wide range of activities aimed at reducing trade costs through improving transparency and predictability, and for simplifying and harmonizing trade procedures. The National Trade Facilitation Committee (NTFC) was established in 2018 and the World Bank Second Trade Development Facility Project (TDP) supported the Trade Facilitation Secretariat. Transparency and access to information was realized through the establishment of the Lao Trade Portal (LTP), the preparation of the Trade Facilitation Roadmap (2017-2022), and the mapping and publication of all Non-Tariff Measures (NTMs). However, there was limited progress in re-engineering regulations and procedures to eliminate redundancies, and onerous compliance costs.

47. **Multi-donor support delivered technical assistance and capacity building but modest reforms.** Significant donor support to the MOIC and the National Implementation Unit built capacity through training courses, prepared numerous high quality technical reports with detailed action plans and implementation strategies, and prepared draft legislation. The commitment to transparency and increasing engagement and dialogue with the private sector was advanced with the re-launch of a

more inclusive Lao Business Forum in 2017 and 2018. This was facilitated by the formalization of the Trade and Private Sector Working Group (TPSWG), co-chaired by the Minister of Trade and the Ambassador from the Donor Coordinator, with the NIU serving as the Secretariat. However, over the period 2013-2019, while the economy was experiencing rapid economic growth, reforms requiring legislative changes and new regulations largely stalled.

48. Ongoing Multi-donor Lao PDR Competitiveness and Trade Project (LCTP) to “simplify business regulations, facilitate trade and improve firm-level competitiveness”. With funding from the World Bank, Australian Aid, Irish Aid and USAID, the LCTP was launched in December 2018 and scheduled to run for 4 years with the MOIC as the lead implementing ministry. The LCTP has been extended and is now scheduled to run through to December 2024. It is organized around four components: Pillar A Improving the Business Environment, Pillar B Facilitating Trade and Connecting to Markets, Pillar C Improving Firm-Level Competitiveness, and Pillar D Supporting Better and More Inclusive Policies.

49. Decline in economic growth began before the COVID-19 pandemic. From 2019, with the completion of several large construction projects, inward investment and the value of imports declined which led to a reduction in the trend rate of economic growth slowed.

50. The COVID-19 pandemic began to adversely impact Lao PDR’s economy in March 2020. Containment measures restricted cross border movement, resulting in a catastrophic decline in demand for tourism and hospitality services as well as reduced remittances as migrant workers returned home. Initially the main impact was on the economy as the number of reported cases were extremely low; however, with low vaccination rates, Lao remained vulnerable. In April 2021, following large public gatherings for the Pi Mai Lao (Lao New Year), Lao began to experience a second wave of infections and the government, imposed lockdown restrictions through to August 18, 2021. By mid-August 2021, Lao PDR had reported just over 10,000 confirmed cases and 10 deaths. By mid-January 2022, as the Omicron variant spread, the cumulative number of cases exceeded 100,000 with over 500 deaths. The reduction in trade and the collapse of the tourism sector eliminated thousands of jobs resulting in an increase in the poverty rate. Extended lockdown restrictions through June-August 2021 slowed down government service delivery.

51. The 2012 DTIS Trade and Private Sector Development Roadmap listed 109 interventions organized across three pillars and 12 broad areas. The Roadmap also developed a Monitoring and Evaluation framework with indicators for the goals and outcomes. The twin development goals included equitable growth and graduating from LDC status with reduced poverty and a modern diversified economy. Roadmap actions were organized into three pillars:

- (i) Conducive Trade and Investment Environment Established
- (ii) Improved competitiveness, quality and value of agribusiness, manufacturing, and services
- (iii) Improved aid for trade governance framework for mainstreaming trade and private sector development.

52. The 109 interventions with many actions were further sub-divided into multiple tasks. The Roadmap identified the agency or agencies responsible for implementation with a significant number of the interventions were included in proposed projects. In addition to the logistical challenges in implementing such a large and diverse group of policy and regulatory reforms, the government was constrained through a series of natural disasters, fiscal tightening, and slow credit growth. Further, the interventions were not prioritized and there was little consideration accorded to the path-dependent nature of many of the activities.

53. Lao PDR has partially implemented many of the recommendations from the 2012 DTIS; however, progress has been slow and many of the constraints identified earlier remain. The earlier DTIS adopted an economy wide approach while also examining selected sub-sectors

in more detail (DTIS, 2012). The sector studies included agribusiness, tourism, export-oriented manufacturing, the promotion of non-resource exports and natural resource exports. A detailed report on the status of each of the 109 interventions and a summary of the monitoring and evaluation indicators is provided in Annex A.

Table 2.1 Trade and Private Sector Roadmap Framework DTIS (2012)

	Pillar/ Intervention Area	Outcome level change	Actions	Project Funding
1	Conducive trade & investment environment established			
1.1	Trade Policy: Implementation of the AEC and beyond WTO Accession	Legal and other commitments to international agreements, such as WTO and ASEAN implemented, with enhanced support systems in place, including monitoring, communication, and capacity building	8	6
1.2	Business Environment	Enhanced business environment with equal opportunities for all businesses and improved consumer protection.	16	11
1.3	Trade Facilitation	System of more simple, transparent, and cheaper import, export and transit procedures and processes developed and implemented with involvement of the private sector.	9	7
1.4	National Quality Infrastructure	Quality Infrastructure capacities in place for enhanced application of SPS and TBT standards including legal requirements and regulatory bodies, resulting in enhanced quality of products in line with international standards.	10	9
2	Competitiveness			
2.1	Firm Level Competitiveness	SME firm level quality and productivity support measures leading to enhanced competitiveness of the business sector and particularly SMEs in domestic and international markets enhanced.	1	1
2.2	Sector Specific Interventions*	Enhanced sector support and PPD leading to increased employment and incomes of the poor in key agricultural, manufacturing and service sectors	24	14
3	A4T governance and implementation framework			
3.1	Sustainable Trade	Trade growth benefits the poor through better integration into production processes with gender, poverty and environmental considerations systematically included and addressed in the sector	5	3
3.2	Capacity Development	Sufficient institutional and management capacity built to formulate and implement trade-related strategies and Implementation plan.	6	6
3.3	Trade Mainstreaming	Mainstreamed trade through improved national trade-related planning and coordinated consultation and implementation structures	4	6

3.4	A4T governance framework	Functioning governance framework for trade development that is well resourced and utilizes a programmatic approach based on the principles of the Vientiane Declaration and a shared vision across public and private sector stakeholders.	5	2
3.5	Monitoring & Evaluation	A functional Monitoring and evaluation system that serves the need for information on project and program levels and enhances results-based management.	15	5

Note: * Sectors with number of actions in brackets: Agribusiness (6), Tourism (4),

Textile Handicrafts (4), Garment Sector (4), Wood Processing (6)

2.4 Lessons from the 2012 DTIS

54. The long list of priorities neither addressed coordination challenges nor the importance of sequencing the interventions aimed at economy-wide and sector specific constraints. The DTIS identified multiple limitations, including infrastructure (access to electricity), lack of access to finance, high rates of taxation, regulatory uncertainty, shortage of management skills, and weak public administration. International cooperating partners agreed to support project activities across the three pillars in the Roadmap, namely improving the business and investment environment, promoting firm level competitiveness, and supporting capacity building in both the public administration and the private sector.

55. The DTIS prioritized increasing public-private dialogue including engagement with civil society on the importance of mainstreaming trade, reducing trade costs, and increasing regional and global trade. The relaunching of the Trade and Private Sector Working Group provides a valuable platform for advancing the reform agenda, outlined in the earlier DTIS. The DTIS process, with its emphasis on improving coordination and promoting dialogue, also enabled the establishment of the National Trade Facilitation Committee (NTFC). The EIF process was instrumental in leveraging funding to support the TPSWG and the NTFC. The multi-donor participation in the TPSWG allows for the transparent exchange of information and applied research. This improves donor coordination, enables more efficient programming and advances effectiveness. The Lao Business Forum provides for an annual high-profile public-private dialogue to review progress on improving the business enabling environment. More than 400 participants from government, the private sector, and international cooperating partners attended the 2021 Forum. In opening the Lao Business Forum, the Prime Minister, H.E. Mr. Phankham Viphavanh outlined the government's commitment to promote private investment in general manufacturing, tourism and agro-based industry, and assured investors of the GOLs determination to address constraints to doing business.

56. Many of the activities listed in the 2012 DTIS are complex and required high levels of technical skill and experience to implement successfully. Implementing the Integrated Risk Management Framework (IRMF) is a multi-year process and requires a culture of inter-agency collaboration.

57. Importance of recognizing technical challenge faced by key private sector participants. The LNCCI is constrained from collaborating on trade facilitation issues by the limited capacity of its sector working groups, weaknesses in inter-ministerial coordination, and a lack of commitment by line ministries to resolve private sector issues. Improving the capacity of the private sector in developing strong technical arguments for policy and regulatory reforms relating to their concerns, will strengthen the quality of the public-private dialogue and increase the likelihood of timely implementation.

58. Limited inter-agency coordination and absence of monitoring system. The adverse economic impact of COVID-19 reinforced the high level political will improve the business environment; however, implementing reforms remain difficult owing to limited inter-agency coordination and the absence of a monitoring system. It is recommended that the lead agencies (MOIC) develop clear action plans listing time-bound activities, ensure routine monitoring and reporting on progress to all stakeholders. Strengthening communications and information outreach will: (i) enhance the ability of the private sector to advocate for reforms more effectively; and (ii) increase the incentives for improved public service delivery.

59. The Lao PDR DTIS Update seeks to identify the trade related priorities that have the potential to maximize poverty reduction, promote sustainable growth and build resilience to grow back post COVID-19, through reducing trade costs and improved regulatory practices. Since the last DTIS (2012) there have been significant developments nationally, regionally and at the global level, including the current COVID-19 pandemic. The Update provides an opportunity for the GOL to better align its trade policy and strategies with its commitment to economic diversification and poverty reduction as it rebuilds post COVID-19 and moves towards graduating from Least Developed Country (LDC) status in 2026.



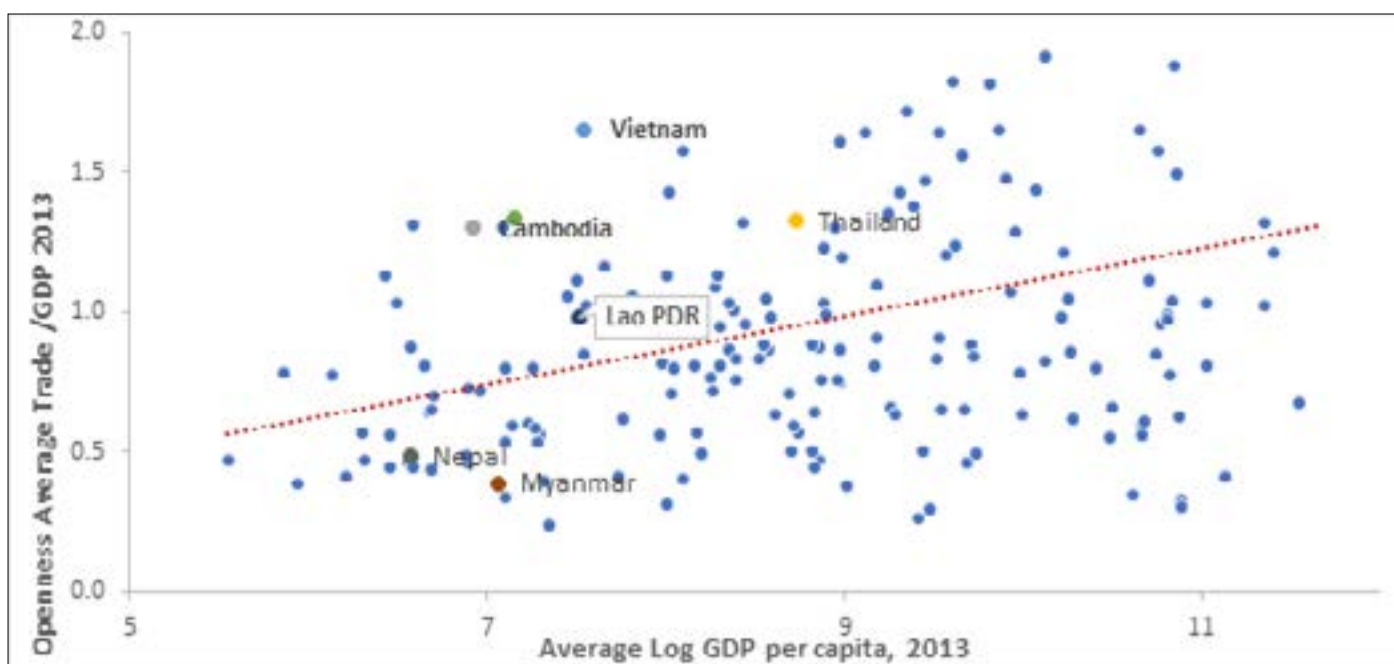
Chapter 3 Trade Performance

3.1 Overview of Lao PDR's recent trade performance

60. This chapter documents the changes in both the commodity composition and the geographical direction of imports and exports. This section provides an overview of Lao PDR's recent trade performance beginning with a summary of its trade openness in comparison with regional partners. It progresses to a discussion of the evolving geographical direction of imports and exports and the changing commodity composition of trade since 2012. The review of trade performance over the past decade is based on the commodity composition of trade and Harmonized System (HS) 6-digit level from the United Nations Comtrade Database. The overview of Lao PDR's trade performance is based on the United Nations (UN) Comtrade data.

61. Trade openness in Lao PDR is slightly below the level expected of a country at its per capita income. Lao PDR is a less open economy than its ASEAN neighbors, Thailand, Cambodia, and Vietnam. Lao PDR's total trade openness has declined slightly over the period 2013-2018, from an average of 0.91 over that period to an average of 0.75 in 2016. In 2013, Lao PDR lies above the trend line suggesting that its openness to trade is above the level suggested by its per capita income (figures 3.1 and 3.2) and by 2018 Lao has dropped below the line.

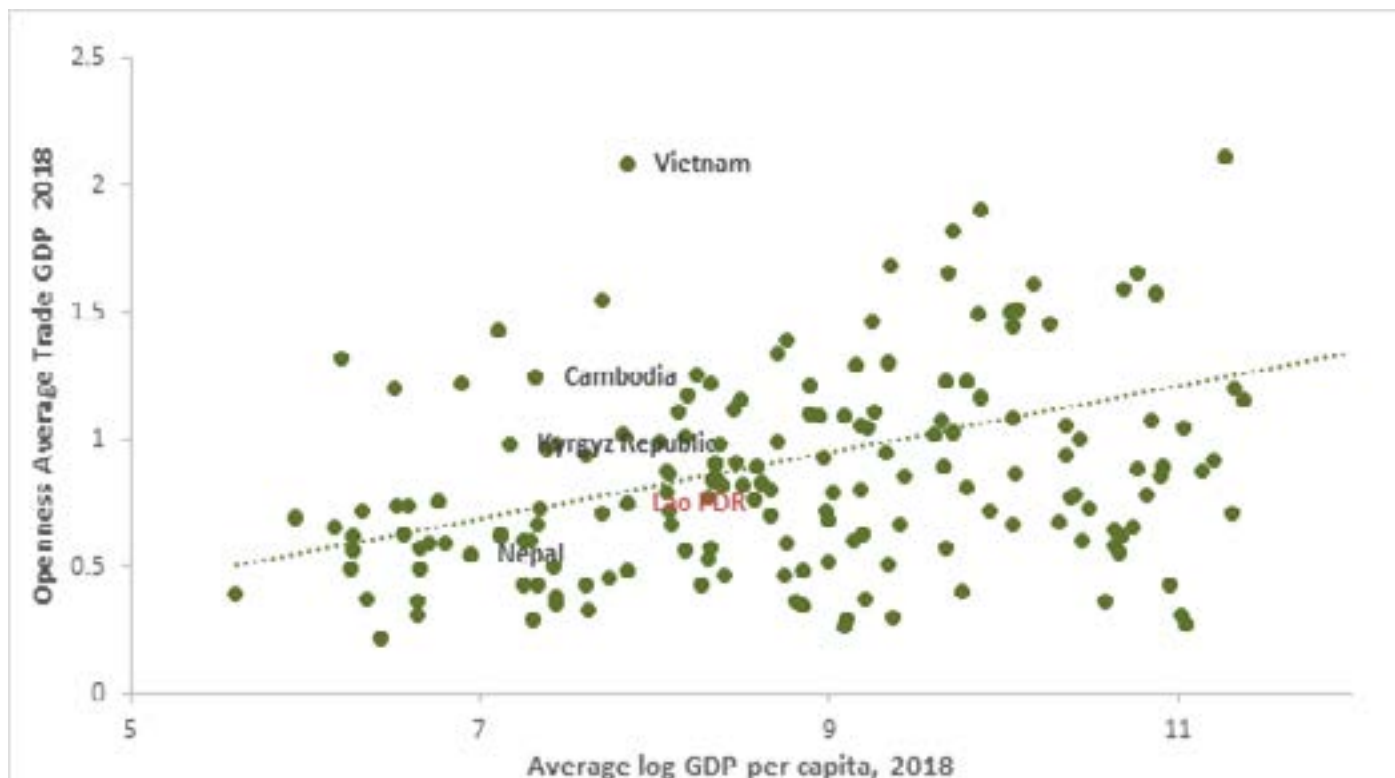
Figure 3.1 Average Trade Openness, 2013



Note: see note for Figure 3.2.

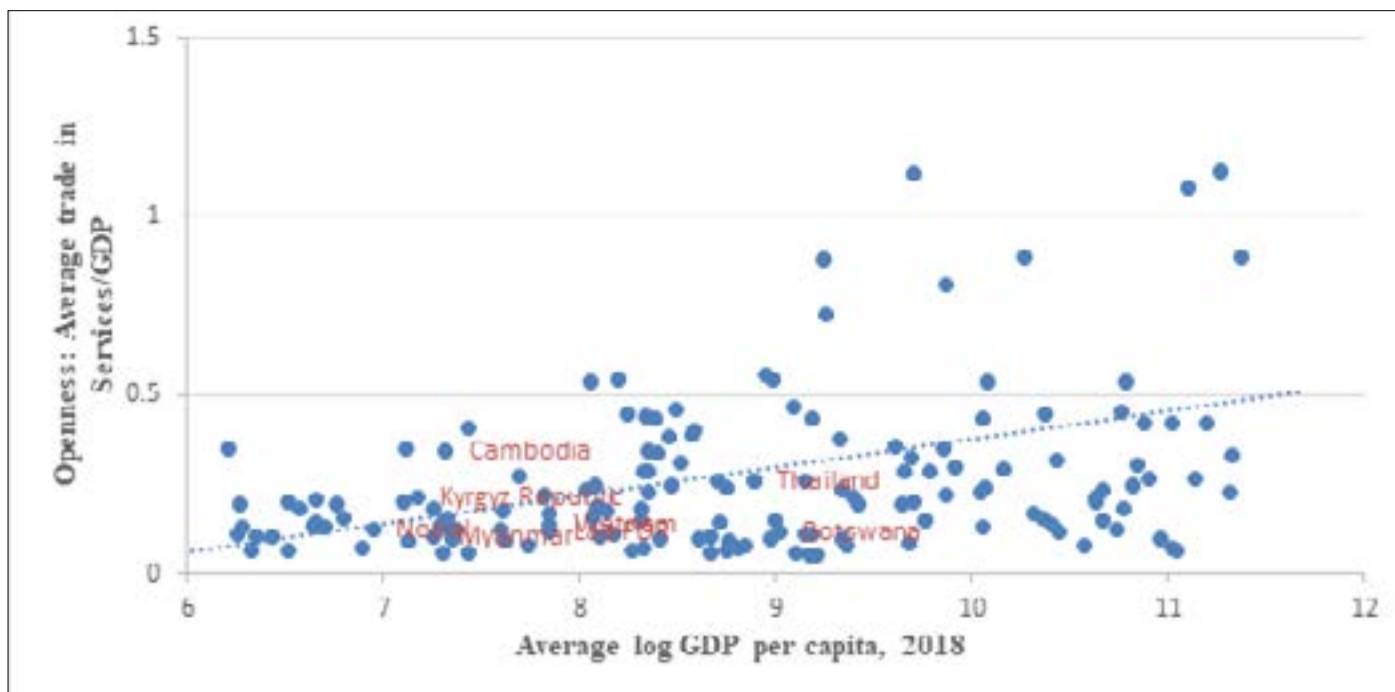
Source: Derived from World Development Indicators (WDI)

Figure 3.2 Average Trade Openness, 2018



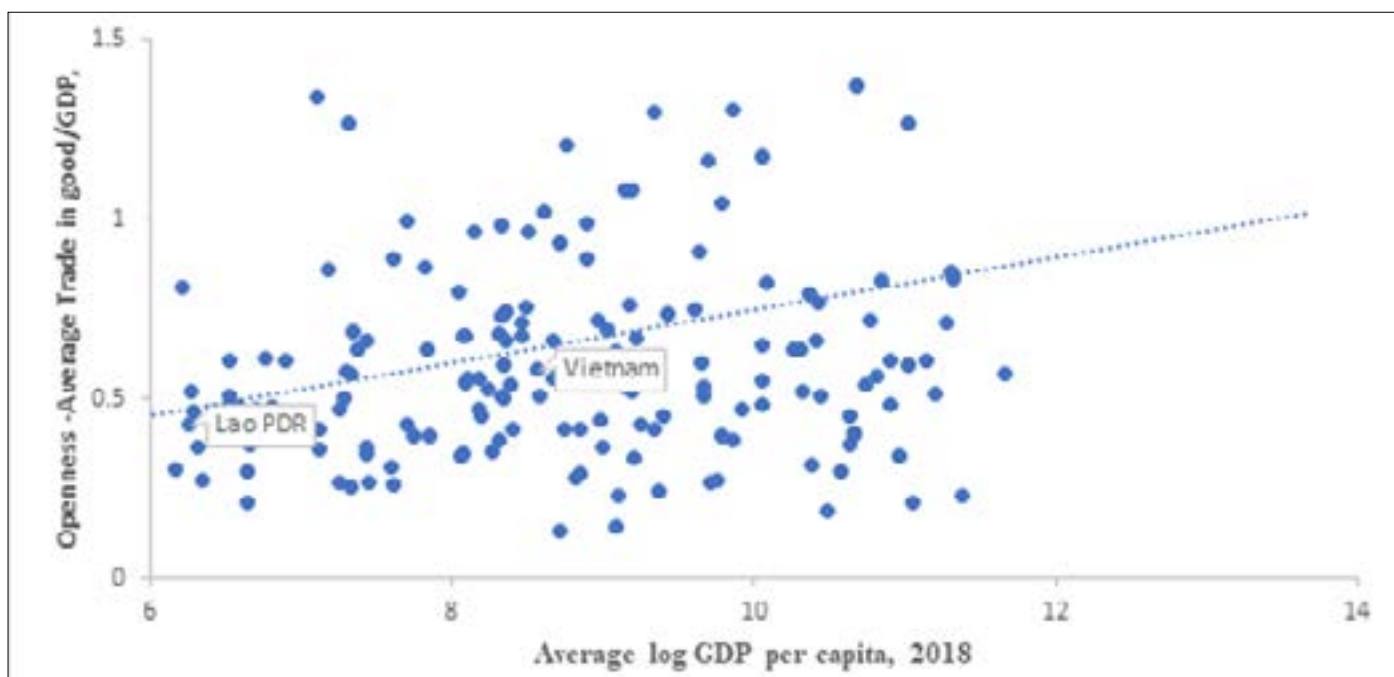
Note: Openness in total trade (export of goods and services plus imports as a share of GDP) is plotted against the natural log of income per capita in US Dollars. The placement of the country below the fitted line indicates that the country's openness is below the average level indicated by its per capita income. Source: WDI.

Figure 3.3 Openness to trade in Services 2018



Source: Derived from World Development Indicators

Figure 3.4 Openness to trade in goods: 2018



Source: Derived from World Development Indicators

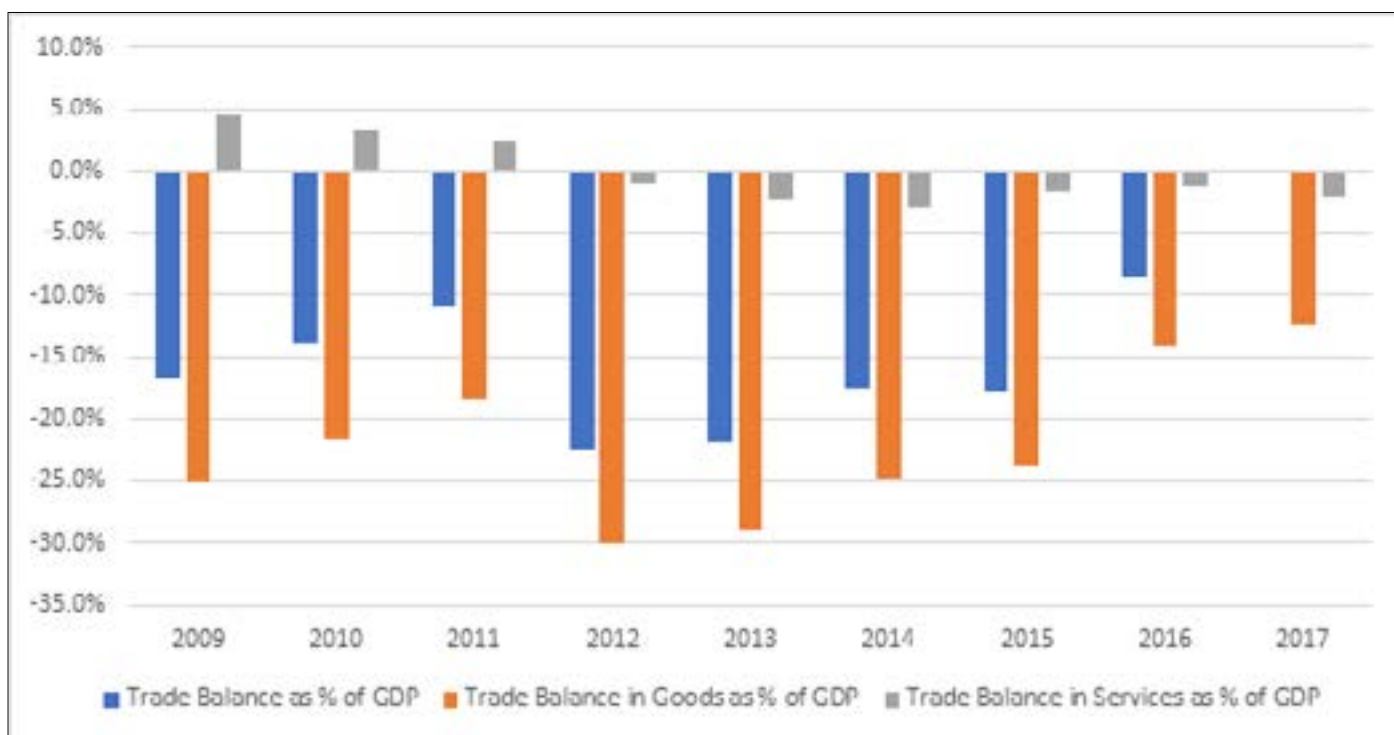
62. Lao PDR's openness remains below the potential level indicated by its per capita income for both goods as well as the services. Lao PDR lies below the fitted line, for both trade in goods and services, which indicates the potential for increasing trade (Figures 3.3 and 3.4).

63. Since 2013, Lao PDR merchandise exports have increased towards China, Vietnam, and Thailand, and away from the EU-28 and Australia. Over the same period, imports continued to be primarily sourced from Thailand, Vietnam, and China with limited change in their relative shares. The geographical reorientation of exports during this period largely results from sale of the largest mining company to Chinese investors.

64. Lao PDR runs a trade deficit on both the goods and services accounts. On the combined goods and services, Lao PDR ran a large trade deficit during the construction of the hydroelectric plant which increased to more than 20 percent of GDP in 2012 and 2013 before declining to 8.7 percent in 2016. See Figure 3.5 which shows that Lao PDR has moved from a surplus on the services account, in 2009 to 2011, to a consistent deficit since 2012.

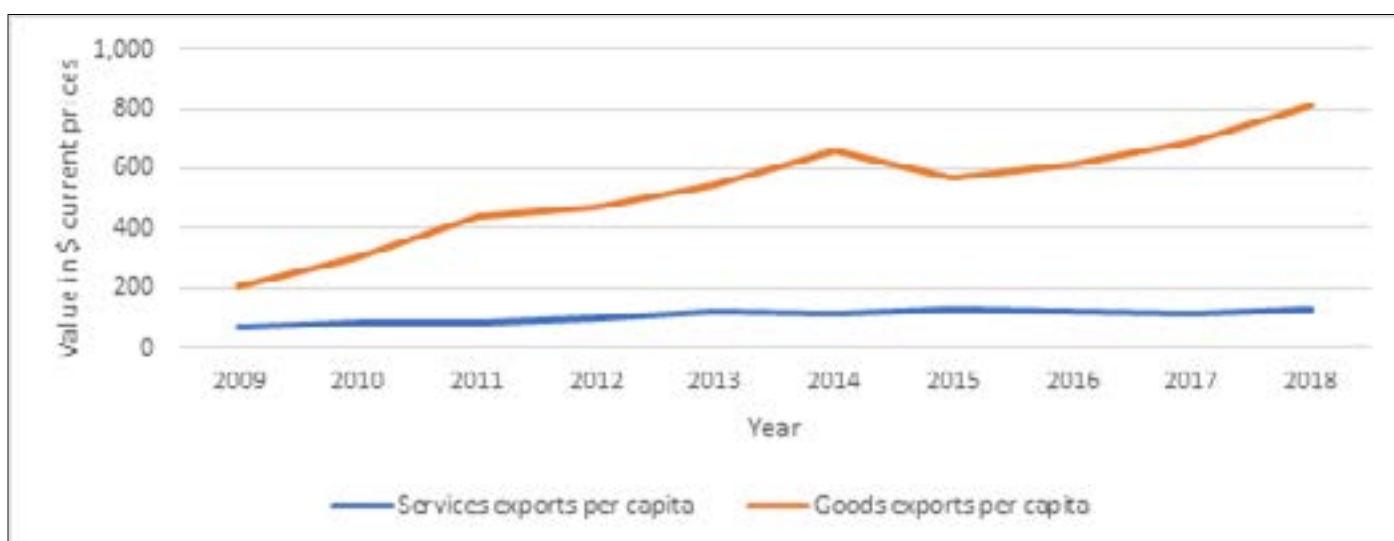
65. Trade in services in Lao PDR is concentrated in transport and travel rather than modern services that drive competitiveness. Transport and distribution accounts for almost 90 percent of services inputs in manufacturing. Modern services, including finance, insurance and ICT, are key drivers of international competitiveness. These sectors are much smaller in Lao PDR than in neighboring economies. Lao PDR's value of per capita services exports has increased by 60 percent since 2010, while per capita goods exports tripled in value largely reflecting increased mining and the export of power. Figure 3.6 shows both the per capita exports of services as well as that in the goods sector. During the period 2010-2018, growth in service exports per capita more than doubled for the neighboring countries of Thailand, Cambodia and Vietnam.

Figure 3.5 Lao PDR Trade Balance in goods and services and in aggregate, 2009-2017



Source: Derived from World Development Indicators

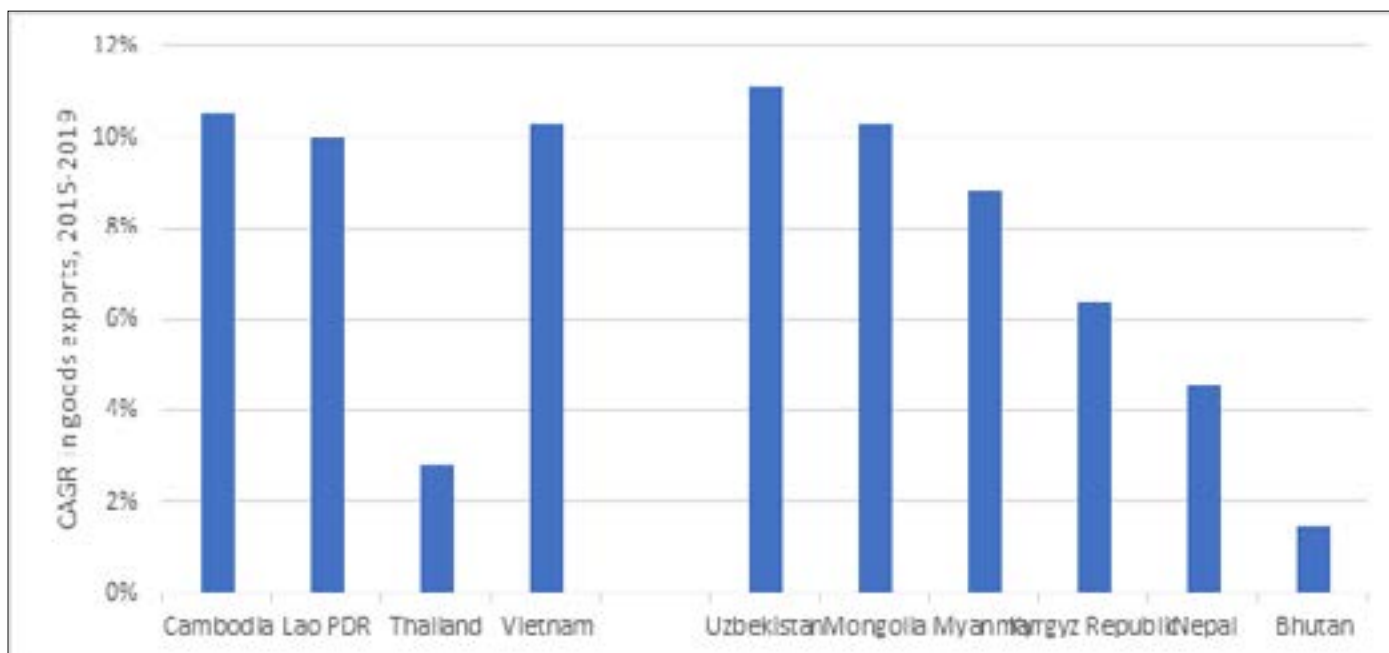
Figure 3.6 Lao PDR Goods and Services Exports Per Capita in Current Prices



Source: Derived from World Development Indicators

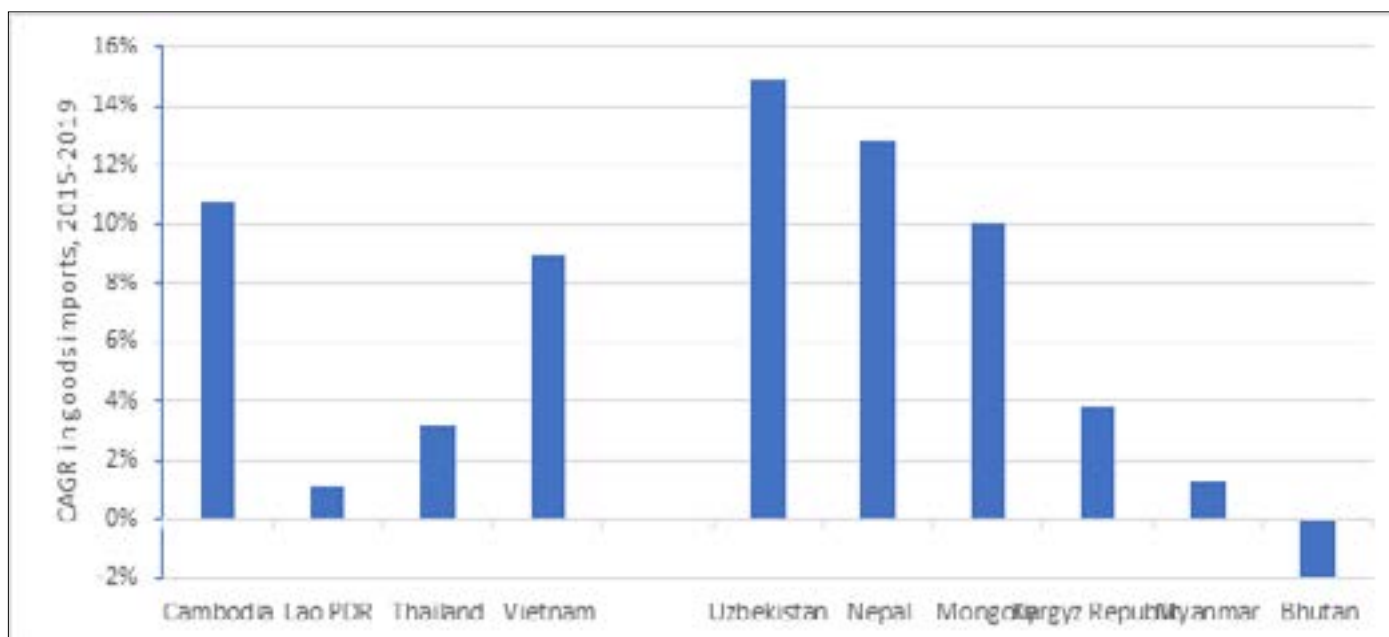
66. Lao PDR’s compound annual growth rates in goods and services exports over the period, 2010-2014 and 2015-2019 were 15.7 percent and 1.1 percent respectively. Figures 3.7 and 3.8 show the compound annual growth rate in the goods sector exports and imports during the period 2015 to 2019. Among the regional comparator countries, Lao PDR’s export growth in the goods sector compares favorably with Cambodia, Vietnam, and other international comparators. Over the period 2015- 2019, since the earlier DTIS, its exports in the goods sector grew by an average of 10 percent annually while its imports grew by an average of 1 percent. The decline in the rate of growth of imports reflects the completion of the several mega construction projects.

Figure 3.7 Compound annual growth rate in goods exports, 2015-2019



Source: Derived from World Development Indicators

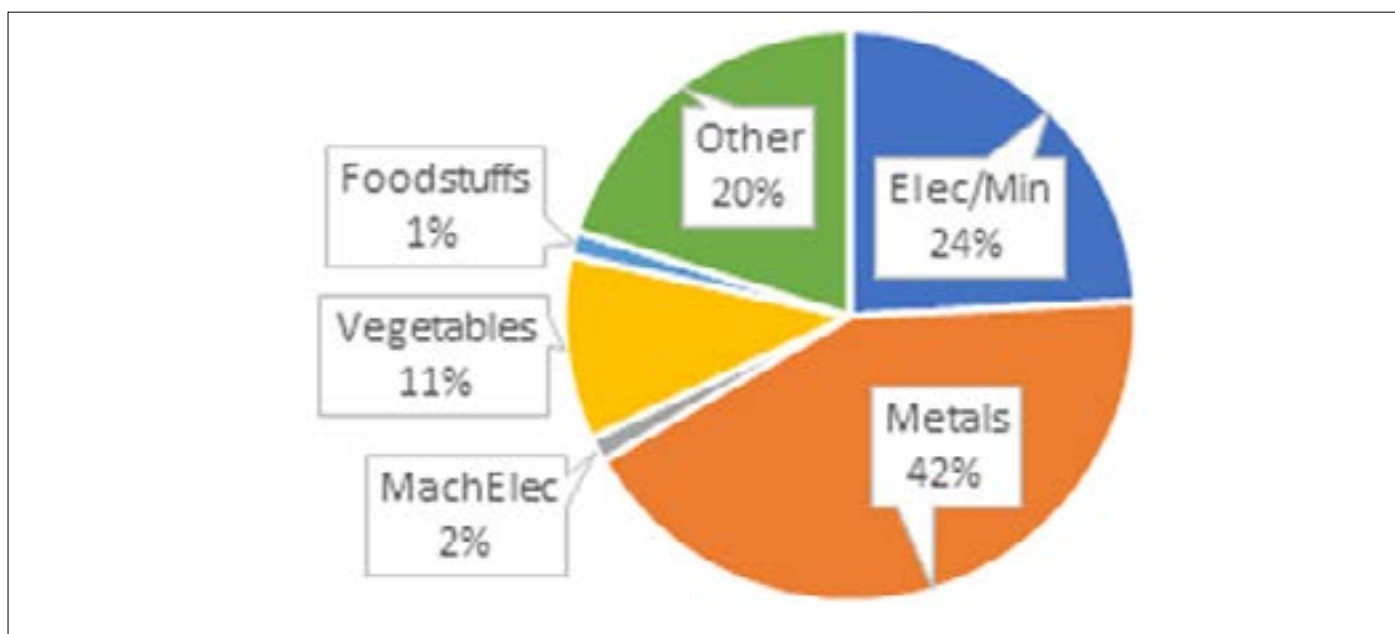
Figure 3.8 Compound annual growth rate (CAGR) in goods imports, 2015-2019



Source: Derived from World Development Indicators

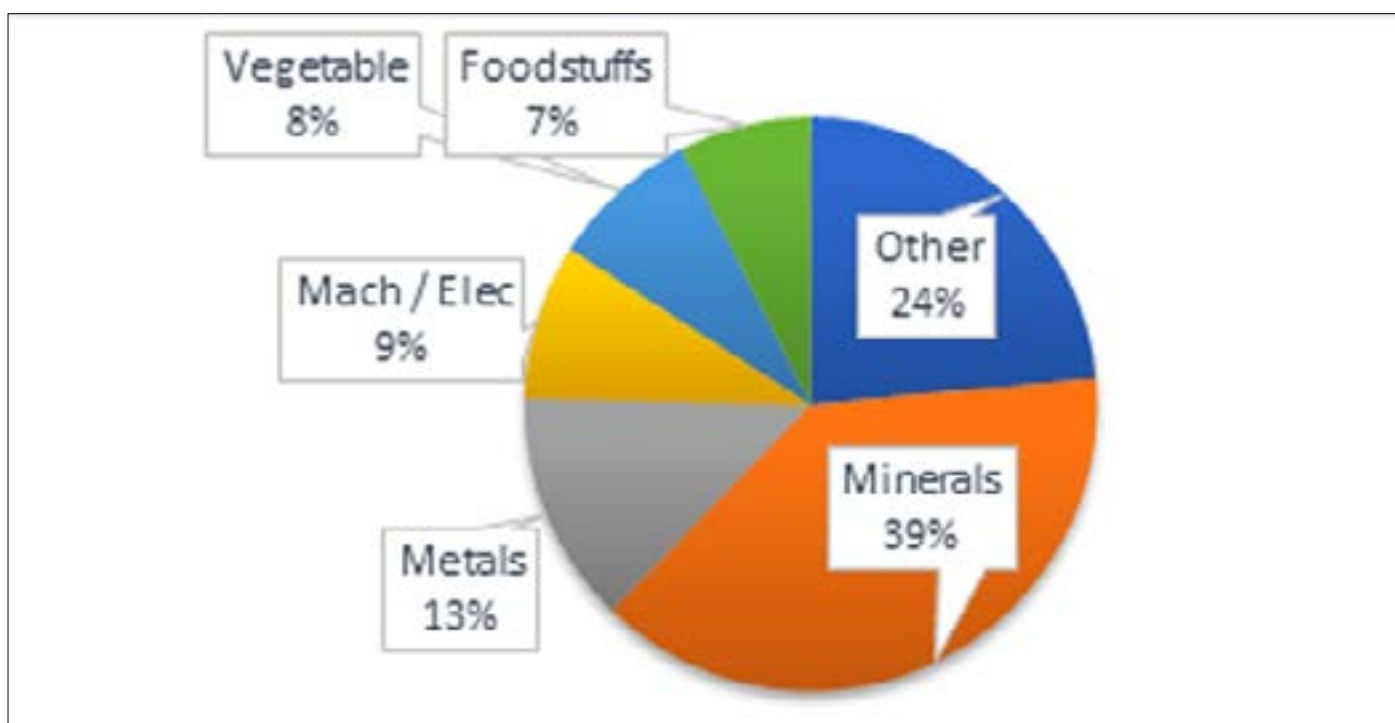
67. Exports more than doubled between 2012 and 2019. Mineral exports increased threefold to almost \$700 million in 2013 as mining production expanded. In 2017, total exports surged by almost 90 percent as Lao PDR began exporting electrical power from the new hydropower plant. Minerals and precious metal exports remained significant throughout, although their relative share declined owing to the scale of electricity exports from 2017. The value of copper exports fluctuated widely with the changes in commodity prices. Agricultural and manufacturing exports also saw their relative share decline (see Figures 3.9 and 3.10); however, this masked a significant increase in absolute export values. From a relatively small base in 2012-2013, exports of vegetables, fruit and nuts, electrical assembly, rubber, and plastics all experienced rapid growth. Another notable change over the period 2013-2019 was the rapid growth in pulpwood exports from less than \$1 million in 2013 to \$286 million in 2019. The labor-intensive apparel sector, exporting regionally and to the European Union, remained broadly constant throughout this period.

Figure 3.9 Lao PDR Exports 2013



Source: Derived from World Integrated Trade Solutions

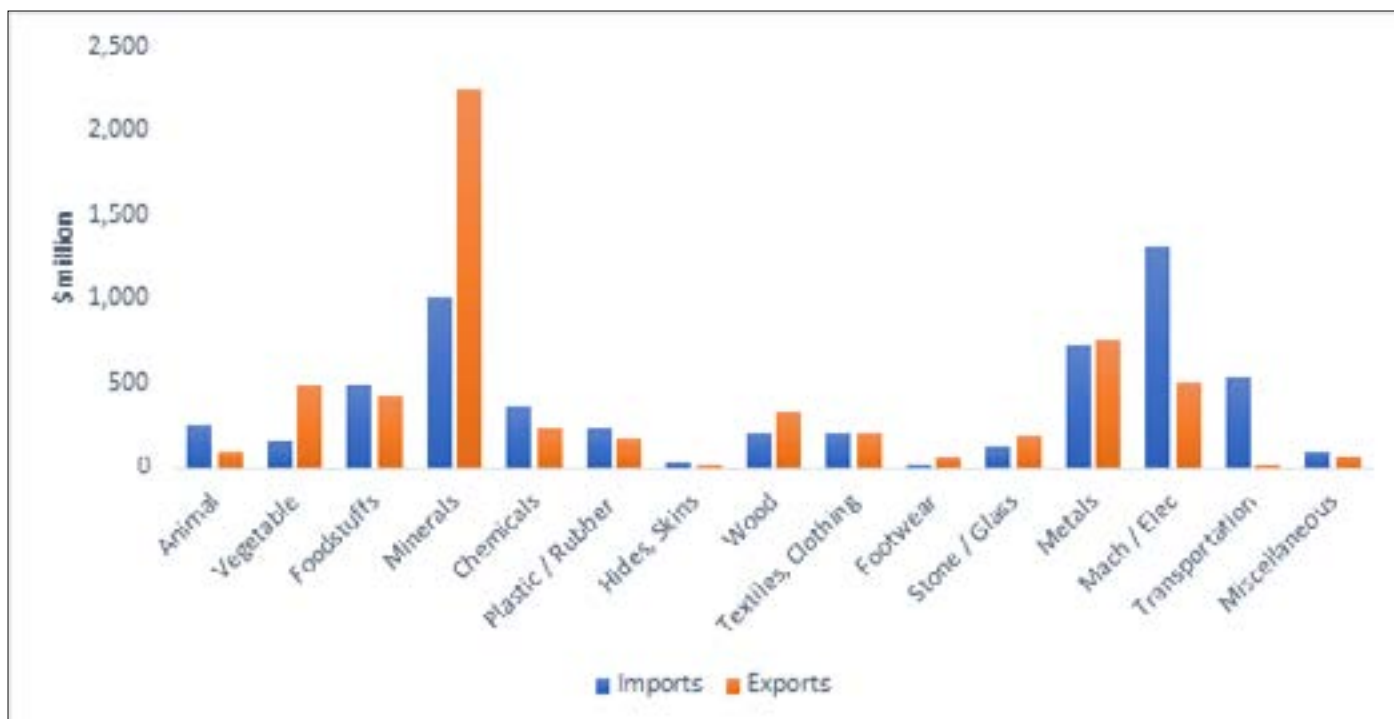
Figure 3.10 Lao PDR Exports 2019



Source: Derived from World Integrated Trade Solutions

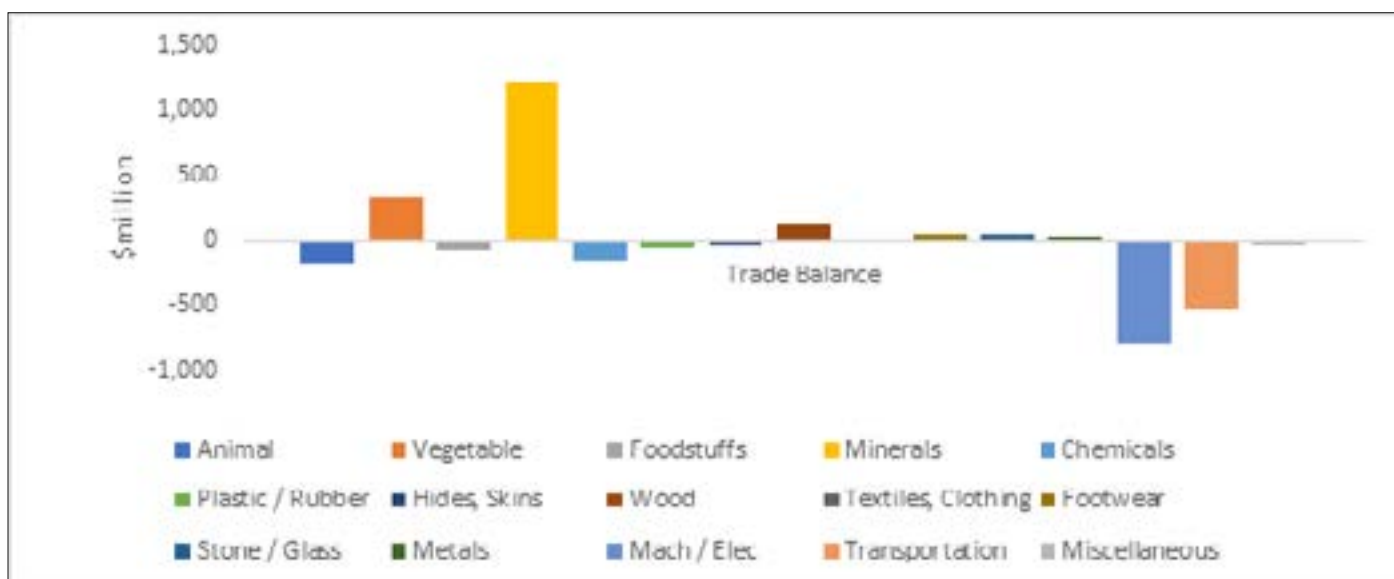
68. **The number of products exported increased. Since the last DTIS (2012) Lao PDR has increased the range of products exported.** In 2012 Lao PDR exported 550 products out of a total product set of 5205 (the maximum number of Harmonized System codes at the 6-digit level). By 2019 this had doubled to 1,082 products. The increased range of products was reflected in their trade with neighboring countries. Figure 3.11 shows the value of imports and exports by sector for 2019 and Figure 3.12 shows the balance of trade by sector for 2019.

Figure 3.11 Lao PDR Imports and Exports by Sector 2019



Source: Derived from World Integrated Trade Solutions

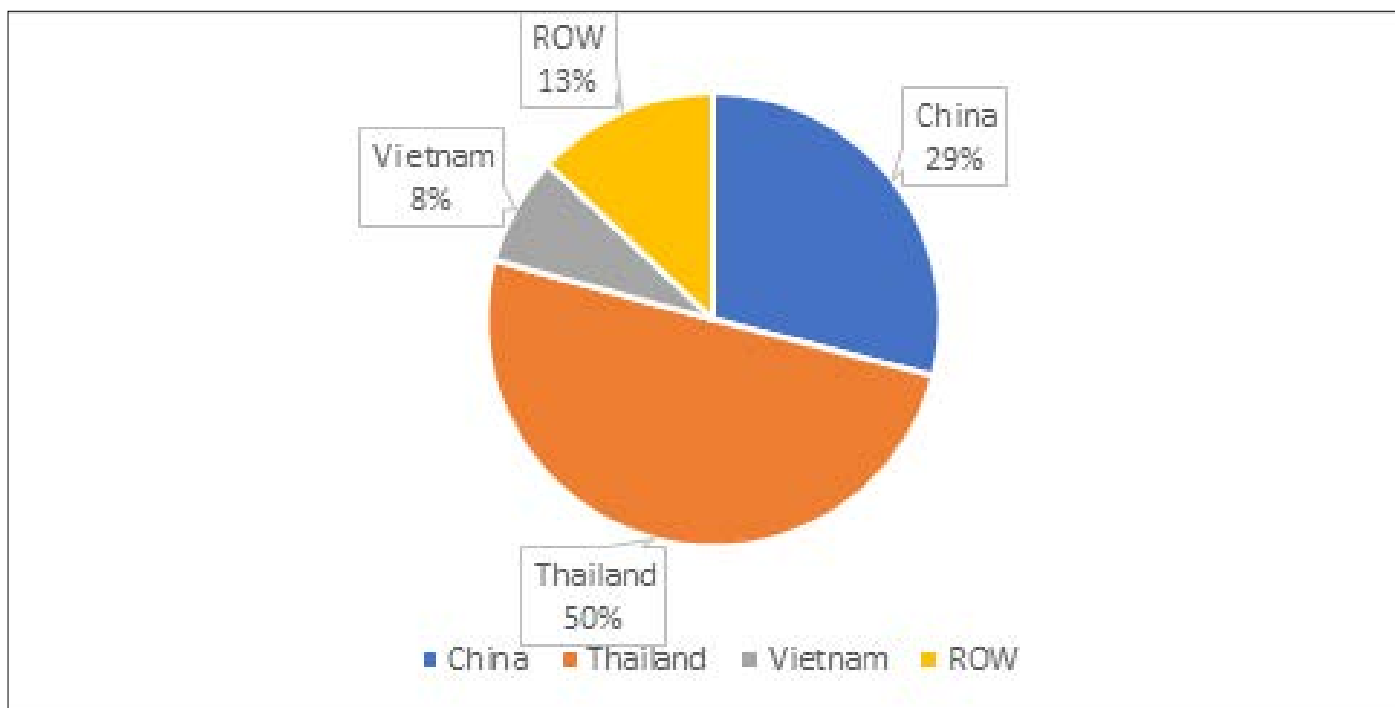
Figure 3.12 Lao PDR Merchandise Balance of Trade by Sector, 2019



Source: Derived from World Integrated Trade Solutions

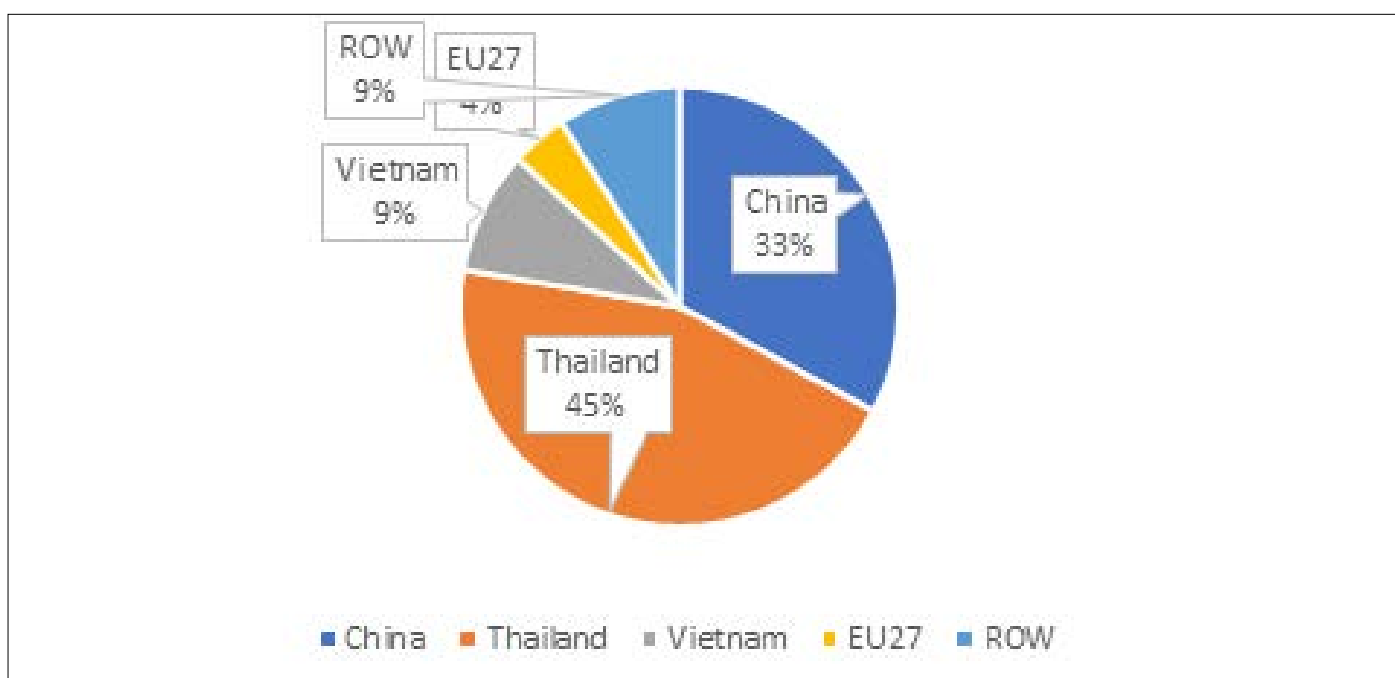
79. **Lao PDR primarily trades within Asia.** In 2019 Lao PDR sourced over 85 percent of total imports from three countries: Thailand, Vietnam, and China. These three neighboring economies also accounted for over 85 percent of exports.

Figure 3.13 Lao PDR Direction of Trade: Imports 2019 (value \$000s)



Source: Derived from WITS database <https://wits.worldbank.org/>

Figure 3.14 Lao PDR Direction of Trade: Exports 2019 (value \$000s)



Source: Derived from WITS database <https://wits.worldbank.org/>

70. Lao PDR is expected to graduate from least development country (LDC) status in 2026. As an LDC, Lao PDR qualifies for the Generalized System of Preferences (GSP) scheme in 24 markets. Under the GSP, economies offer unilateral preferential tariffs to eligible countries. Under the WTO, the legal basis for this non-reciprocal preferential treatment of either reduced or zero tariffs is provided by the Enabling Clause. In 2020, the ITC estimated that the potential loss of preferences in 2024 could impact slightly less than 1.2 per cent of total exports⁷. The ITC analysis used a partial equilibrium model based on the projected level of trade in 2024; this accounts for the ongoing shift

7. Decreuz Yvan and Julia Spies (2019), Trade Implications of Lao PDR's graduation from LDC status, ITC

in Lao PDR's exports towards faster growing markets that are not based on the GSP. The analysis also estimated the unrealized trade potential for Lao PDR's exports based on existing revealed comparative advantage⁸. In estimating the impact it is also important to measure the difference in preferential access that will result from graduation. In many of the markets granting GSP, Lao PDR benefits from existing free trade agreements (FTAs) or may revert to other non-reciprocal preferential tariff schemes available to developing countries. The country and regions granting LDC preferences are shown below in Table 3.1.

Table 3.1 Alternative tariff schemes for Lao PDR following LDC graduation

Country/Region granting LDC preferences	Alternative Scheme following graduation
EU 27, United Kingdom	GSP/ GSP + (for the EU 2029, following a three-year transition period as the Everything But Arms (EBA) with Duty Free Quota Free access) For the UK 2026 GSP General Framework
Armenia, Belarus, Canada, Kazakhstan, Kyrgyzstan, Norway, Russian Federation, Switzerland, Turkey	GSP
Chile, Chinese Taipei, Iceland, Montenegro, Tajikistan	MFN
Australia*, China*, India, Japan*, New Zealand*, Republic of Korea, Sri Lanka, Thailand.	Regional Trade Agreement * and GSP

Source, Adapted from Decreux and Spies (2019)

71. Lao PDR eligible for developing country GSP following graduation in EU and UK. The 27 countries of the European Union (EU) under the Everything But Arms (EBA) scheme offered to LDCs allow for a three-year duty-free quota-free (DFDQ) transition to either GSP + or GSP. GSP + is available to developing countries that commit to sustainable development and good governance. Since Brexit, the United Kingdom has continued to provide duty-free access to LDCs under the Least Developed Countries Framework (equivalent to EBA). During the Brexit negotiations, the UK published guidelines indicating that it will replicate the EUs market access condition. However, it is not clear if the UK allows for a transition period following graduation. It appears that in 2026, Lao PDR would fall under their GSP General Framework⁹ whereas access to the EU market would continue to be DFQF until 2029.

72. Recent Free Trade Agreements are also available and are an important source of market access. Nine countries currently granting LDC preferences also have a GSP scheme in place offering tariff reductions to developing countries. As a member of ASEAN and the RCEP, Lao PDR can also trade under existing Free Trade Agreements. The Australia and New Zealand FTA with ASEAN dates from 2010. Lao PDR is a signatory to the RCEP which entered into force in 2022 provides for free trade and includes Australia, China, Japan, Republic of Korea and New Zealand. In addition, Lao PDR has agreed bilateral preferential trade agreements with China.

73. Transition to MFN only applies to five countries accounting for limited trade. There are only five economies (Chile, Chinese Taipei, Iceland, Montenegro, and Tajikistan) which, upon graduating do not offer a GSP for developing countries. For these countries, following graduation Lao PDR would trade under the WTO Most Favored Nation (MFN) tariffs. However, Lao PDR has virtually no trade with these five economies.

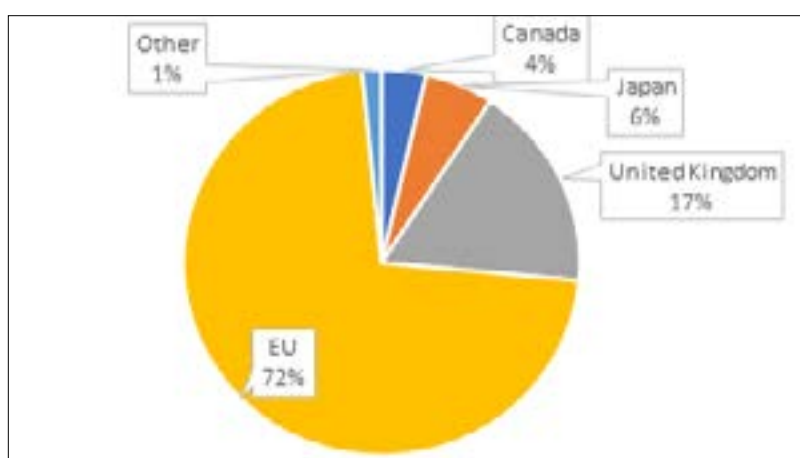
8. The methodology is outlined in Decreux Yvan and Julia Spies (2016), Export Potential Assessments. https://umbraco.exportpotential.intracen.org/media/1089/epa-methodology_141216.pdf

9. <https://www.gov.uk/government/publications/trading-with-developing-nations> The preference table makes no reference to a transition period once a country graduates as an LDC. It is therefore assumed Lao PDR exports will be eligible for tariffs under the GSP General Framework in 2026.

74. Trade losses from Lao PDR graduation estimated at less than 1.2 percent of projected exports. Lao PDR’s potential alternative trade preferences following graduation, coupled with the expected higher export growth rates in the Asia-Pacific region, serve to reduce the adverse impact from graduation. Using trade data from 2014-2018 and projecting through to 2024, the ITC estimated the trade loss at less than 1.2 percent of Lao PDR’s projected exports. Now that Lao PDR is scheduled to graduate in 2026, the higher export growth rates in non LDC countries, and continued market access improvements under existing FTAs are expected to further reduce trade losses. Figure 3.15 shows the country breakdown of the estimate trade losses from graduation.

75. Expected market losses are concentrated in the EU, UK, Japan, and Canada. The ITC analysis estimates insignificant or zero losses in the key markets of China, Thailand, and Vietnam. Almost three-quarters of the expected trade reduction, based on graduating in 2024, is forecast to be concentrated in the EU (\$73 million). Within the EU, Germany is the largest market accounting for approximately \$27 million. The potential trade losses to the UK and Canada account for just over 10 percent of total sales to those markets.

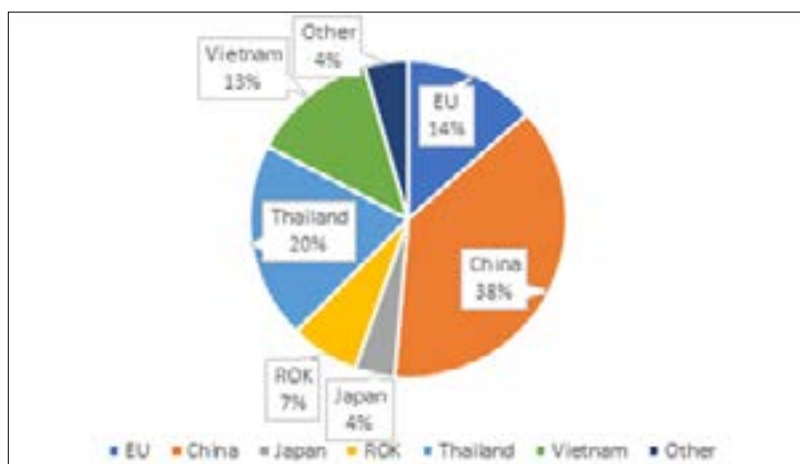
Figure 3.15 Lao PDR Share of Estimated Trade Losses by LDC Preference Market



Source: Derived from Decreux and Spies (2020)

76. Potential trade losses concentrated in apparel/garments, sugar, footwear, and rice. The potential trade losses are concentrated on a small number of products. Only 21 HS 6-digit products are estimated to reduce exports by more than \$1 million. Apparel exports account for almost two-thirds of the estimated trade loss, followed by sugar exports to the EU and UK (\$15.3 million). The ITC estimates that the footwear and rice sectors could lose approximately \$4 million and \$2 million respectively. The apparel and footwear sectors could potentially benefit from GSP +, providing they meet the double transformation rule of origin.

Figure 3.16 Export Potential by Country for products benefiting from LDC preferences.



Note: ROK = Republic of Korea. Source: Derived from Decreux and Spies (2020)

77. Lao PDR has significant opportunities for increasing exports through more targeted trade promotion to both existing and new markets. The ITC analysis of export potential identified opportunities for increasing exports to markets outside of those offering LDC preferences. The analysis also highlighted how more targeted trade promotion could assist in mitigating the impact of reduced or eliminated tariff preferences. The ITC reports considered this most likely for footwear, rice, chemicals, vegetable, and food exports to the EU, for footwear exports to Canada, and food products to Japan and the United Kingdom. The relatively narrow range of apparel products exported under the LDC preferences will experience the largest potential losses; however, international demand continues to expand and there is potential for additional exports. The ITC report identified market opportunities for the major products exported under existing LDC preferences. It is apparent from Figure 3.16 that there is significant potential for growth in the neighboring economies of China, Thailand, and Vietnam. Agricultural products, namely vegetables, fruit, rice, and coffee, accounted for more than 75 percent of the total.

78. Potential trade losses from LDC graduation will be offset through reducing trade costs, leading increased product and market diversification and export growth. Where possible Lao PDR should continue to take advantage of the opportunities to transition to developing country preferences. Currently this will apply to trade with the EU and the UK. Lao PDR will also benefit from improved market access as the ASEAN FTA with Australia and New Zealand and the RCEP is implemented. However, Lao PDR stands to realize more significant export opportunities through reducing trade costs. Reducing the costs of importing and exporting through improved transportation, streamlining trade procedures, and simplifying customs clearance will enable Lao PDR to realize export opportunities in the Asia-Pacific region and the rest of the world.

3.2 Trade in Services

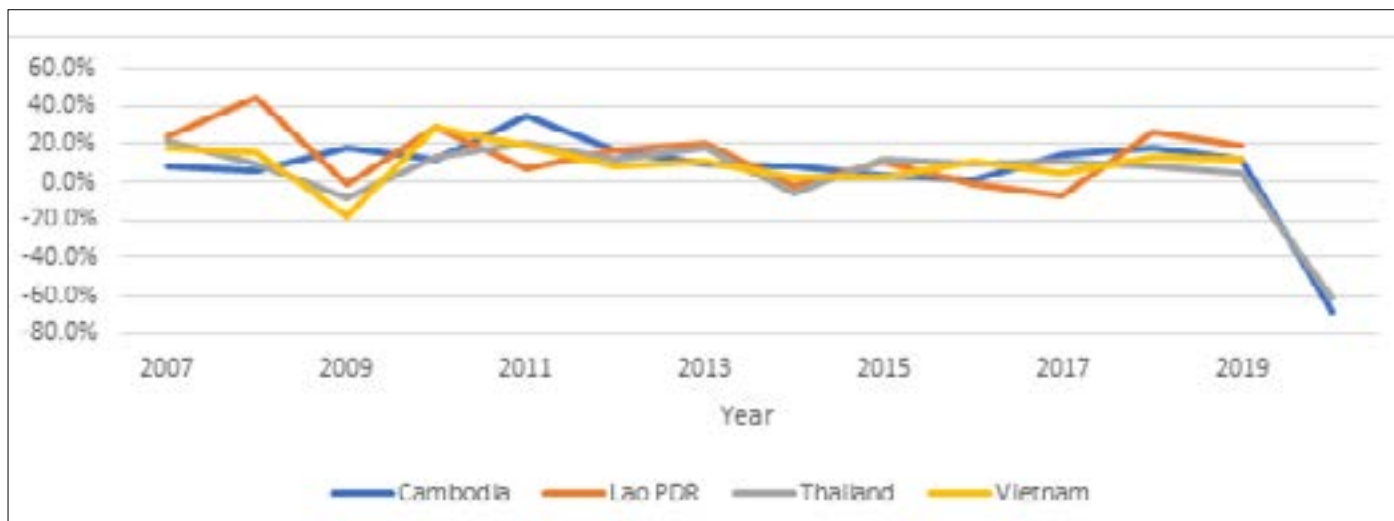
79. Services are critical determinants of factor productivity. Services play a key role in the physical movement of goods and people and the exchange of information through transport, logistics and communication. Businesses utilize legal services, book-keeping and accounting, insurance, and management consulting. The efficiency of the services sector plays a key role in determining the pace of economic development.

80. Lao PDR firm level productivity constrained by a weak services sector. Services are important for their both their direct contribution to growth (e.g., tourism), and as an input to advancing the competitiveness of other economic sectors, including agriculture and manufacturing. Transport, logistics, professional, and support services are all enablers for realizing increased productivity. There is a close relationship between the quality of backbone services (transport and electricity) and firm, level productivity. Services are a key enabler in assisting firms to create more value added.

81. Lao PDR services sector is small relative to the level of economic development. The Lao PDR services sector has grown over the past two decades in absolute terms and is now the largest sector accounting for 41.7 percent of GDP. Lao PDR's services accounted for 40.6 percent of GDP in 2020. This is slightly higher than Cambodia (36.2 percent), virtually the same as Vietnam (41.6 percent), and significantly less than Thailand (58.2 percent). The services sector, as a share of the economy, generally increases in line with per capita income levels. Globally, Lao PDR and other economies in the region have small service sectors relative to their level of economic development.

82. Recent growth in export of services concentrated on “traditional” services, namely transport and travel. ‘Traditional’ services require physical presence and face-face interaction with the buyer and seller and are much more dependent on physical infrastructure. Transport services are important for connectivity; however, Lao PDR transport services as a share of total service exports averaged 10.6 percent over the period 2015-2019, which is relatively low. During the same period tourism services averaged 83.2 percent.

Figure 3.17 Service Exports Annual Growth Rates, 2007-2020



Source: Derived from World Development Indicators

83. Transport and travel account for more than 90 percent of services exports. Figure 3.15 shows the comparative annual growth rates of services exports over the period 2007-2020. Lao PDR’s services exports grew more than 3-fold in the period 2010-2019; however, their share of total exports declined from 22.6 percent to 16.9 percent over the same period. Services exports from Lao PDR grew rapidly in 2012-2013, declined in 2014 and 2016-2017, and then experienced rapid growth in 2018-2019. While Lao PDR data is not available for 2020, given the more than 60 percent decline in services exports in neighboring Cambodia and Thailand, it is reasonable to assume Lao PDR also experienced a substantial decline owing to pandemic travel restrictions.

84. ‘Modern services’ are traded across borders without face-to-face contact. The buyer and seller can be in separate locations. These include telecommunications and the wide range of professional services: insurance, banking, business, remote access consulting. Modern services require reliable electricity, good telecommunications and, increasingly, broadband internet. These services provide high paying jobs and have much higher productivity, although they create relatively few direct jobs. Modern services are also essential inputs to developing a competitive manufacturing industry.

3.3 E-Trade

85. The COVID-19 pandemic accelerated the global growth of e-trade: the buying and selling of goods and services using the internet. E-trade has the potential to reduce trade costs for Lao PDR exporters and lower prices for consumers. ICT services have been growing in importance in the Lao PDR economy; however, the take up of e-commerce by both firms and consumers remains modest owing to the underdevelopment of the telecommunications infrastructure and the low rate of formal banking and credit card use. Major institutional constraints include the absence of an independent regulator, lack of a licensing framework and lack of a level playing field by telecoms operators.

86. Legal and regulatory framework for e-trade needs strengthening. The GOL passed the Law on Consumer Protection in 2010, the Law on Telecommunications in 2011, a law on electronic transactions in 2012, the Law on Prevention and Combating of Cyber Crime in 2016, in 2018 approved legislation creating a National Payment System for digital financial services, and in 2021 passed decrees on E-Commerce (no.296/GOV) and electronic signatures (no. 1101/MPT). However, legislation and regulations are also required for protecting consumers engaged in digital trade, ensuring the protection of personal data.

Table 3.2 Lao PDR Share of Telecommunications and Internet Coverage, 2018

Fixed Telephone Subscriptions	21.0
Mobile Cellular Subscriptions	51.9
Percentage of households with a computer	13.2
Percentage of households with internet	24.5
Fixed broadband subscriptions	0.6

Source: Derived from ITU www.itu.int/net4

87. Broadband costs remain expensive. In Lao PDR, the average cost of a fixed line broadband package is \$47.24 per month, and the average cost per Megabyte is \$4.33. The Lao PDR monthly broadband price is comparable to Singapore and South Africa, economies with much higher incomes, but significantly more expensive when compared to the neighboring economies of Cambodia (\$32.63), Thailand (\$23.82) and Vietnam (\$11.23). In 2020, a high consumption package of mobile and voice data cost 9.4 percent of gross national income (GNI).

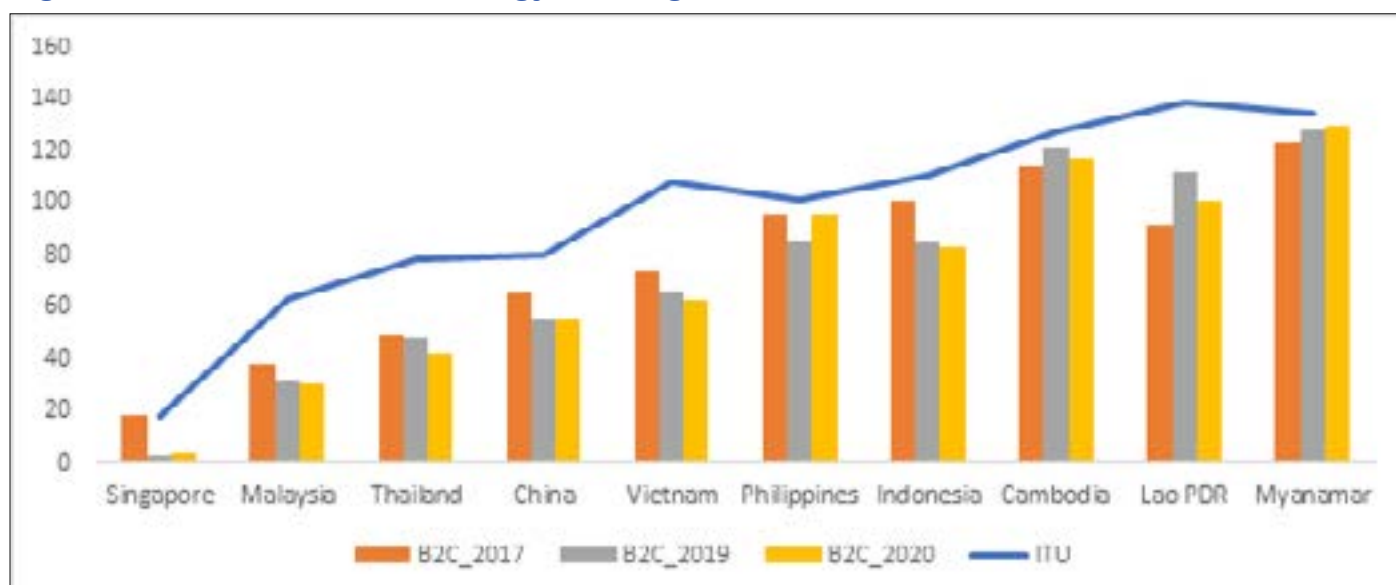
88. Lao PDR has a low information technology ranking. Lao PDR has a significantly lower score for Business to Commerce using digital media and has fallen behind over the period 2017 to 2020 relative to Thailand, Vietnam, China, and Indonesia (see Figure 3.17).

- E-commerce readiness assessment and strategy formulation
- ICT Infrastructure and Services
- Trade logistics and trade facilitation
- Payment solutions
- Legal and regulatory frameworks
- E-commerce skills development
- Access to financing

89. The UNCTAD e-Trade Readiness Assessment is organized across seven policy areas (see text box). The 2018 UNCTAD Rapid e-Trade Readiness Assessment identified priority recommendations. These include payment solutions, creating awareness on e-commerce, developing a shared national vision, and coordinating framework for e-trade, adopting less restrictive regulation in the banking and telecom sector to offer better and more affordable e-commerce services. Other constraints

include the lack of ICT infrastructure in many of the rural areas, absence of a delivery service for last mile delivery, shortage of ICT and other digital skills, and requirements for most e-trade payments to be cash on delivery.

Figure 3.18 Information Technology Ranking in Selected Asian Countries, 2017 -2020



Source: Derived from UNCTAD B2C E-Commerce Index 2020, and the ITC Development Rankings 2017, ITU

90. Trade platform launched specializing in Lao PDR goods. With funding from the Asian Development Bank, the MOIC, and the Lao PDR NCCI launched an online website, Plaosme, to promote SMEs and improve access to ASEAN markets. The website is owned and operated by a private company (Barterfli Holdings). The online store's main products are food and beverages, jewelry, spare parts, luggage, textiles and clothing, and information technology equipment. The company requires payment by bank transfers and aim to allows for payment online (BCEL One). Key challenges faced by Plaosme include delivery delays, the absence of formal purchase contracts and payment challenges (i.e., lack of bank accounts). UNCTAD (2018) has identified payment solutions as a major bottleneck holding back the growth of e-commerce in Lao PDR.

91. Developing Digital Financial Services (DFS) is essential to increasing e-commerce. DFS provides for secure, reliable, efficient, and affordable payment. In Lao PDR, the Bank of Lao PDR, as the lead agency responsible for coordinating DFS, issued draft DFS guidelines in 2015 for bank and non-bank DFS providers. The Banque pour le Commerce Extérieur Lao Public (BCEL) offers internet banking and a mobile application; however, this is only available to customers with a bank account.

92. Lao PDR is committed to addressing the outstanding regulatory issues through their engagement in ASEAN and the WTO. In June 2021, Lao PDR acceded to the WTO 1996 Information Technology Agreement (ITA) and the 2015 ITA Expansion. Lao PDR has submitted a draft tariff elimination schedule for the high-tech products covered by both agreements. The ITA covers 82 WTO members which accounts for 97 percent of world trade in information technology products. Lao PDR is the first LDC to accede to the ITA, and the ITA Expansion, and is also active in the discussions on the WTO Joint Statement Initiative on Electronic Commerce.

93. Lao PDR is working within the e-ASEAN framework to develop domestic legislation addressing consumer protection, privacy, and electronic signatures. The ASEAN Economic Community Blueprint 2025 highlights the vital importance of global e-commerce and notes how it has reduced barriers to entry and business operating costs and can facilitate foreign investment. The Blueprint building on the e-ASEAN Framework Agreement was adopted in 2000 with the goal of developing an ASEAN Agreement on E-Commerce to facilitate cross-border transactions within ASEAN. E-commerce development is one of the Ministry of Post and Telecommunications strategic aims for 2016-2025. Lao PDR aims to have a comprehensive set of e-commerce laws and regulations by 2025. Realizing this goal requires the GOL to further develop e-commerce policy and the regulatory framework to ensure e-commerce is efficient, safe, and secure. E-commerce has grown rapidly, particularly since the COVID-19 pandemic; however, in the absence of comprehensive legislation, this remains informal. Further legislation is required to address data protection and cybercrime.

94. Lao PDR should accede to the Asia-Pacific Framework Agreement on Facilitation of Cross-border Paperless Trade. While the legal framework for paperless trade broadly consistent with core principles in the UNCITRAL Model Law on Electronic Commerce and the e-Co allows for cross border data exchange and was introduced in December 2019 (ATIGA Form D) further work is required to implement paperless trade. Customs declarations and supporting documents can be submitted electronically, however, Customs still requires the paper copy for authentication purposes at the border and for post-clearance inspection. The 2022 ESCAP Readiness Assessment for Cross-Border Paperless Trade identified Lao PDR's technical and legal readiness. Key legal priorities included ensuring the electronic transactions and electronic signature requirements were consistent and reflected current international standards, ensuring up to date practices for accessing and sharing information and personal data, and ensuring full implementation of the national legal framework for paperless trade. Work on data standardization, ensuring interlinkages, improving interoperability, and safeguarding data is ongoing. The ESCAP assessment found limited understanding among stakeholders of paperless trade, and recommended capacity building in both the public and private sectors.

3.4 Gender and Trade

95. Increasing trade as a share of GDP is linked to improving opportunities for women. Trade policy and trade facilitation reforms reduce trade costs, widen market opportunities, and encourage increased competitiveness. Increasing competitiveness creates positive incentives for economies and businesses to reduce gender discrimination. Policies and practices that discriminate against half the population represent a significant constraint to development. Further, exporting firms, and firms linked to global value chains (GVCs), employ more women than firms that serve the domestic market. Large gender disparities in economic participation misallocate resources and reduce labor force talent, which reduce economic growth and result in lower per capita income levels¹⁰. Further, increasing women's economic participation augments long run economic growth as women invest more in their children's education which increases human capital.

96. Increasing trade improves the lives of women through creating more formal jobs with improved benefits and job security. Trade policies frequently result in higher tariffs on products specifically consumed by women. In such cases, reducing or eliminating import tariffs could lead to a rise in real income for female-headed households relative to male-headed households. Nontariff measures raise trade costs for all producers; however, when they are discriminatory and non-transparent, they may have a disproportionate impact on women-owned businesses and traders. Women engaged in cross border trade often have household and childcare responsibilities, limited access to finance, and limited knowledge of customs procedures; all these factors render them vulnerable to border inefficiencies.

97. Lao PDR has over 70 percent of female owned "informal firms". This was confirmed by the 2019 World Bank survey; over 77 percent of women owned businesses were concentrated in reselling of food or groceries. In Lao, women operated informal businesses out of necessity, as either a second income or income of last resort. Women in the formal sector were mainly engaged in family-owned businesses. Lao PDR business registration procedures are gender-neutral; however, they impact men and women differently. The fixed costs of registering are a greater impediment for the smaller female owned and operated firms which also have less capital investment. Reducing the costs of business registration will disproportionately benefit women owned businesses. Implementing transparent and predictable customs clearance procedures will reduce trade costs and benefit small-scale cross-border traders.

98. Lao PDR performs well relative to peers in the Women, Business and Law Report. Laos PDR's index of 88.1 in 2020 exceeds both Thailand and Vietnam. Lao PDR supports the advancement of women and the promotion of gender equality. In 1981, it adopted the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and more recently Lao PDR is implementing the National Strategy for Gender Equality (2016-2025).

99. Women-managed firms are primarily focused on the domestic market. Approximately one-third of all women-owned firms sell into export markets (defined as exports accounting for 10 percent or more of total sales). For firms with a senior female manager, the figure increases to approximately half of all firms. Women-led firms are smaller, have lower productivity, limited use of ICT, and lack information on foreign market requirements, and value chain positioning.

100. Small-Scale Cross-Border Trade (SSCBT) is a promising vector for income generation and economic empowerment for women. This is supported by the findings of the recent survey of SSCBT in Lao PDR and Cambodia¹¹. The relatively small proportion of women engaged in SSCBT relative to other activities (and lower than similar surveys in Sub-Saharan Africa) may be attributed to binding constraints affecting women more than men. Female SSCBTs are usually expected to

10. Cuberes David and Marc Teignier (2017). Gender Gaps in Entrepreneurship and their Macroeconomic Effects in Latin America, IDB Working Paper Series No. IDP-WP-848.

11. 48 In-Depth Interviews at the Vangtao International Checkpoint. The methodology and findings are reported in Seror Marlon, Richard Record and Julian Clarke, (2017). Glass Barriers: Constraints to Women's Small-Scale Cross-Border Trade in Cambodia and Lao PDR, World Bank, Policy Research Working Paper 8249.

spend more time on household chores and childcare than men. This may constrain women from becoming cross-border traders because of unpredictable clearance times at the border. Women were much less likely to try and negotiate over fees and taxes at the border. This is consistent with women prioritizing minimizing the time at the border; however, it also results in women paying more than twice as much as men in higher fees and taxes¹².

101. Women SSCBT face time constraints and gender biased tax at the border should be addressed through increased transparency and one-stop single window. This 'invisible' discrimination stems from border checkpoint procedures and front-line border officials operating principles. Many SSCBT do not know the tariff rates and border regulations, leaving them vulnerable to informal taxation and demands for multiple payments which are time consuming. Signage should list applicable taxes, up to date tariff rates should be displayed, and weighing scales should be readily available. A one-stop single window for SSCBT would reduce border clearance times.

102. Introduction of a Charter for Cross-Border Traders and Brokers. A charter would establish the rights and duties of border authorities, SSCBT, brokers and transporters, and would provide information on the rules of conduct. A charter will strengthen the bargaining position of the most vulnerable border users and raise knowledge levels on trade rules and regulations. A cross-order charter was successfully piloted at the Mwami/Mchinji crossing between Malawi and Zambia.

103. Limited data on the gender dimensions of business practices across sectors. Lao PDR has limited data on the impact of environmental degradation and relation social development implications resulting from irresponsible business practices on women's well-being, livelihoods, and economic participation. Global research highlights multiple concerns including, discrimination, gender-based violence in the workplace, gender stereotypes in business marketing, and disproportionate health risks. Lao PDR's existing trade and investment policies are gender -neutral, which tends to exacerbate existing inequalities. The planned reform of the Investment Promotion Law and development of a National Action Plan (NAP) on Responsible Business Practice should be informed by relevant gender data and by consultations with representative women-led organizations.

3.5 Trade finance in Lao PDR

Improving trade finance is integral to a competitive external trade sector

104. The financial system of Lao PDR is composed of a relatively large number of financial institutions, several of which propose trade finance services. There are more than 30 banks and foreign branches/representative offices operating in Lao PDR, including 3 state-owned commercial banks and 7 privately-owned banks, as well foreign subsidiaries and branches or representative offices of international banks. However, state-owned banks have a significant market share, with close to half of lending flows and two-third of assets. The country's largest bank, Banque Pour le Commerce Extérieur Lao, is also the largest trade bank. Both loans and deposits of the banking system have expanded rapidly in the late 2010's, along with the fast expansion of the economy. Lending growth had nonetheless slowed down amid supervisory concerns, increased foreign exchange exposure of banks and the COVID-19 pandemic. Roughly half of the adult population is formally banking, but financial institutions have recently developed electronic services, including e-banking and e-wallet, to attract a population not yet formally served by them. Competition between banks has been strong in recent years in a context in which interest rates and banking charges, including on trade finance instruments, are in-principle capped by regulation. In practice, they vary significantly across banks and categories of customers.

105. Transactions linked to international trade have also increased rapidly, mostly to and from China and Thailand. Pre-pandemic, trade has contributed to the economic expansion of the country, fuelled a dynamic extractive industry (copper, wood), exports of hydropower, and textiles, to a lesser extent. In turn, the import boom included imports of fuel, capital equipment and consumption goods.

12. Ibid. p17. At Vangtao tax payments on average exceed 50 percent of gross profits.

106. While Lao PDR does not apply strict exchange controls, shortages of foreign exchange could eventually end up affecting traders. Restrictions on foreign exchange a priori are not meant to affect the supply of trade finance. Domestic trade and payments must be provided in domestic currency (the Lao Kip), but access to foreign exchange through an authorized bank or foreign exchange bureau, for the purpose of importing internationally, is in principle unlimited. Conversely, authorized dealers and banks may exchange foreign currency for Kip to facilitate local payments. Many international investors hold accounts both in foreign exchange and convertible Kip for payments from Lao PDR. In fact, the level of dollarization of the economy is relatively high, as banks had been funding part of their expansion in international markets. Payment of imports in all the currencies of foreign exporters to Lao PDR is common (in US dollars, Thai Bath and Chinese Renminbi). Since the beginning of the COVID-19 pandemic, though, pressures on the balance of payments increased, leading to downward pressures on the exchange rate and gaps between the official and the “street” exchange rate. Foreign exchange has become scarce, including for traders, a point discussed in the Financial Services Working Group.

107. A wide array of trade finance products is offered by all the main commercial banks. This includes import and export letters of credit, import and export documentary collection, bills of exchange and discounting of bills of exchange with export documentation, finance against trust receipt (for imported goods), pre-shipment finance, bank bonds and guarantees, all of which are relatively traditional forms of trade finance. Banks have started to offer open account trade financing, factoring and export financing secured by receivables.

108. Use of trade finance facilities for local companies remains limited. Foreign companies operating in Lao PDR draw on facilities provided by locally established foreign banks or directly from their countries of origin. The use of modern facilities by companies from Lao is much less frequent. There are many reasons for this. Given the economy’s size, there is greater likelihood that Lao PDR’s traders are small and medium sized enterprises. For imports of consumer goods and foods, for example, many local traders are relying on established relationships with foreign sellers to obtain suppliers’ credit directly, albeit not always at optimal conditions. However, suppliers’ credit is not always available. When such a relationship does not exist, exporters to Lao PDR may simply ask to be paid cash-in-advance before shipment, thereby imposing pre-payments to importers from Lao. Conversely, small Lao exporters with little market power face difficulties to be paid in a timely manner. Existing and traditional supplier-buyer arrangements do not mean that more efficient, higher volume trade finance facilities are not in demand. The garment, agriculture and agro-processing are in demand for more modern, less expensive, and more efficient trade finance instruments to support their international expansion.

109. Small companies experience challenges in accessing available trade finance instruments. One of the main reasons invoked by financial institutions in explaining the modest use of trade finance facilities is the lack of preparation of funding requests and limited level of financial literacy of corporates. This prevents them from properly defining their needs and meeting the requirements for applications, regarding know-your-customer information, book-keeping, the presentation of up-to-date tax record or tax payment records, recognizable invoices, and other formal paper or titles of collateral and guarantees. Few companies have knowledge about available trade finance tools and their working. While business services are available locally for the preparation of applications, such services are too expensive given the small average size of customers and modest potential financing requested. On their side, companies and professional organizations argue that customers (traders) face in practice high interest rates and charges, and systematic collateral-based lending. While newest forms of trade finance are in principle on offer, such as supply chain finance and factoring, they are neither systematically proposed nor used.

110. Demand and supply constraints to accessing trade finance. On the supply side, knowledge in modern trade facilities and in risk management, notably for supply chain finance (which includes factoring), is not widespread amongst existing local banks. When banks receive inadequately

prepared applications for trade finance, they often choose to offer overdrafts and short-term working capital on a revolving line of credit, subject to obtaining collateral. This reduces their administration costs. Many customs request 'urgent' working capital funding requests which limits Banks' flexibility to negotiate new trade finance, it is simply easier to offer an overdraft or a working capital line of credit. However, these are more expensive form of finance for both banks and customers. Structured trade finance, which uses guarantees and risk mitigation as well as cash-savings or cash-optimization techniques, are hardly used. On the demand side, businesses contend that systematic requests for collateral-based lending restricts their ability to borrow. Collateral is often already engaged for establishing companies and setting up factories. Cash and land collateral are in short supply; although the International Finance Corporation has promoted the establishment of a movable collateral registry, in practice movable-based lending is not frequent, as described below.

111. Limited use of letters of credit. While letters of credit can be issued by local banks, they are not widely used. Most letters of credit are required by overseas suppliers, or owners of local factories. The perception of the credit risk is that insurance on such letters of credit is often required, hence bearing on the overall cost of setting up such facilities. The process is still primarily manual and somewhat burdensome; it depends on a relatively large number of documents, due to Lao PDR's landlocked situation (hence cumulating shipping and land transport) and its reliance on foreign ports. In this context, the cost of making letters of credit compliant may be high. The COVID-19 pandemic hampered traders and banks, temporarily obstructing documents which could not be obtained, shipped, and exchanged in the whole region. The prevalence of land transportation into Lao PDR, relative to sea transportation, may also explain why transport documentation may be lacking in certain cases. Like most other trade facilities, the opening of letters of credit is subject to collateral requirements. In principle, the main collateral in a letter of credit is the merchandise itself. Despite this, the main banks require "hard" and cash collateral, thereby potentially reducing the number of potential clients. Various assets are used, possibly movables (e.g., equipment, inventory), but more frequently cash and land, as enforceable security, enabling secured creditors to enforce such security on the event of insolvency¹³. Collateral-based lending or setting-up of letters of credit is justified on grounds that loans reimbursements are often late relative to repayment schedules, and that, in the case of letters of credit, recovering the merchandise can be difficult in case of conflict due to lack of judicial experience on such cases.

112. More efficient and affordable trade finance mechanisms are essential to Lao PDR's competitiveness, especially for exporters. Currently, the high cost of finance met by importers and exporters is a constraint to competitive production in Lao PDR. The current system is likely to be unsustainable if Lao PDR wished to expand its trade sector, notably in the promising areas of garment, agri-food and other light industrial sectors. A system based on working capital lending at high rates is not well fitted for high volume imports and exports, which could require supply chain finance arrangements and guarantees, instead of outright lending. High volume imports and exports of goods require high volume, low margin finance. The lending system is biased against landless, cashless outward-processing firms, such as those typical of other countries, in the processed foods, garments, and light manufactured businesses. Currently, certain local producers rely either on facilities provided by their foreign owners or on the foreign banks of these owners. Fully local companies relying, when available, on more expensive, local trade finance, might be at a disadvantage.

113. Successful integrators in international trade are also those countries which have reduced the financial costs of importing and exporting. They have resorted to letters of credit, supply chain finance, factoring, forfaiting, and credit insurance, all of which carry smaller fees and are under-utilized in Lao PDR. Many of these products are based on guarantees, mitigation of payment risks between the buyer and the seller and other non-lending facilities. The current system

13. The International Financial Corporation (IFC, World Bank Group) is working to assist SMEs to obtain more additional finance by supporting the establishment of an online movable collateral registry. The registry makes it easier for borrowers to obtain such facilities by pledging equipment and inventory, rather than land titles and property, as collateral. While land titles and property are still often requirements, many SMEs do not own the land on which economic activities operate.

based on collateralized lending is inefficient, draws excessively on banks' balance sheets relative to payment guarantee and mitigation systems, and does not recognize the low-risk character of trade finance. Alternatives to this problem exist, such as factoring or, a more frequent use of supply chain solutions in general, with a view to optimize the cash cycle of companies, optimize bank's balance sheets resources. The cost of letters of credit handling could be reduced using qualified personnel, standard documents, and semi-digital techniques. Credit insurance is also a popular non-bank form of trade finance. Cash-constrained companies have no interest or expertise to be bankers for their partner companies, therefore they wish to insure their risk. This is commonly taking place in trade finance markets. About \$2 trillion of short-term credit insurance flows are being recorded each year, at lot from SME inter-company lending, according to the Berne Union, the association of export credit agencies and private insurers.

114. The best options for traders could perhaps be discussed openly between the authorities, traders, and bankers. Hence the pros and cons of each form of trade finance (letters of credit, receivable finance, trade loans, credit insurance) could be examined, and compared against wider considerations (protection of foreign exchange). In any case, the adoption of any new alternative trade finance solution would require prior financial education of trading companies and banks, possibly in conjunction with Chambers of Commerce, the Central Bank, the Ministries concerned and perhaps relevant international agencies. For example, trade receivables and payables financing can help optimize SMEs' scarce amounts of cash, but these relatively simple techniques must be understood by users. A maturity mismatch between receipts on their exports may result in a serious cash-flow problem. It is therefore important to educate banks and industries about the potential of short-term receivable and payable financing. The same applies for other forms of open account finance and credit insurance.

115. Promotion of new alternative trade finance solutions require dialogue with key stakeholders. This includes the trading companies and banks, in conjunction with Chambers of Commerce (which provides internationally qualifying courses), the Central Bank, the Ministries concerned and perhaps relevant international agencies. The dialogue could cover the following issues:

- Examination of the pros and cons of improving the letter of credit system to save time and lowers costs for trade, compared to the pros and cons of alternative forms of trade finance.
- Promotion of financial education in SMEs, and amongst banks on the setting up of Letters of Credit, factoring, supply chain finance, and credit insurance facilities; promoting education on the low-risk character of trade finance products, based on publicly available documentation by the International Chamber of Commerce.
- Establishing a summary of the above-mentioned instruments in a 1 or 2-pager and dissemination among the main industry associations. Design and implement a survey to assess the potential demand for these products and need for education about them



Chapter 4 Trade Policy

116. **This chapter outlines trade policy in Lao PDR and the aggregate trends in export performance since the last Diagnostic Trade Integration Study (DTIS) 2012, comparing Lao PDR with its regional partners, and focusing on intraregional trade.** The discussion of trade policy focuses on Lao PDR's existing trade agreements prior to describing the structure of nominal protection, which measures the price-raising impact of tariffs under the general tariff and the applied duties.

117. **Over the past 30 years world trade grew faster than GDP and increasingly trade was part of global value chains (GVCs).** The rapid growth of GVCs has created millions of jobs in lower income countries. A recent report by the World Bank (World Development Report, 2020) found that a 1 percent increase in GVC participation increases per capita income by more than 1 per cent. This is more than double the average for conventional trade. Immediately prior to the pandemic, GVCs accounted for one half of global trade. Economies with a track record of attracting Foreign Direct Investment (FDI) to participate in GVC are more business and investment friendly and have reduced connectivity costs. Given the production linkages across countries, international cooperation aimed at reducing trade costs and encouraging investment is essential. To this end, Lao PDR's active engagement in the ASEAN Free Trade Area and the Regional Comprehensive Economic Partnership Agreement (RCEP), along with their multilateral commitments to the WTO, is vital for advancing investment and growth.

118. **Lao PDR is a member of the multilateral WTO and multiple regional trade agreements.** Lao PDR is a member¹⁴ of the World Trade Organization (WTO), and several regional trade agreements including the Association of Southeast Asian Nations (ASEAN) Free Trade Area, and the RCEP. Lao PDR is also party to several ASEAN Free Trade Agreements with third countries including Australia, New Zealand, China, India, Japan, Korea, Hong Kong, as well as a signatory to the Asia Pacific Trade Agreement (APTA) on goods, and the APTA on Services. Lao PDR also has two long standing bilateral agreements with Thailand and Vietnam although, since 1997, these have been subsumed under the ASEAN rules¹⁵.

119. **The ASEAN Trade in Goods Agreement (ATIGA) entered into force in 2010.** The ATIGA streamlined the earlier ASEAN Free Trade Area Agreement, the AFTA Common Effective Preferential Tariff (CEPT), and, inter alia, provided for the complete removal of tariffs within ASEAN. Lao PDR eliminated import duties on all products from ASEAN member states in 2018, except for the General Exception List¹⁶, and 275 products on the Sensitive List, and no products on the Highly Sensitive List.

120. **The 2012 DTIS highlighted the necessity for Lao PDR to leverage mining and hydroelectricity exports to encourage economic diversification through growing tradable non-resource sectors.** Natural resource exports of electricity, wood and copper remain key drivers of foreign exchange, accounting for over 70 percent of total exports, with limited linkages to the domestic economy, modest job creation, and negative environmental spillovers. Further dependence on mining exports leaves Lao PDR vulnerable to price volatility. In 2012, the World Bank estimated that mining and hydro resources would contribute 25 percent of GDP by 2020. It stressed the importance of growing the non-resource sectors, specifically higher-value agricultural products to create jobs, diversify the economy and build resilience.

121. **Lao PDR joined the WTO as the 158th member on February 2, 2013, and the first Trade Policy Review was held in November 2019¹⁷.** Lao PDR is also a member of the ASEAN Free Trade Area Agreement and the ASEAN Trade in Goods Agreement, and in November 2020 joined

14. Since February 2, 2013

15. Outside the border areas.

16. Essentially armaments, munitions and nuclear materials.

17. Trade Policy Review, Report by the Secretariat, Lao PDR, 2 June 2020. WT/TPR/S/394/Rev.1

the 15 nation RCEP. RCEP is a regional free trade agreement that builds on Lao’s existing free trade agreements and includes China -it’s largest trading partner.

122. RCEP commits to open regionalism and creates increased opportunities for investment and trade. Lao PDR, along with the other members of ASEAN, and five regional ASEAN dialogue partners with which ASEAN has Free Trade Agreements (FTAs) – Australia, China, Japan, the Republic of Korea, and New Zealand – joined the RCEP. The RCEP is the largest FTA in the world, accounting for approximately 28 percent of global trade. The RCEP agreement signals a commitment to open regionalism. This represents a positive step during the uncertainty created by the COVID-19 pandemic disruption of GVCs. The RCEP includes a commitment to a single rule-of-origin (ROO) framework for all signatories. The ROO requires either 40 percent regional value content or a change of tariff heading at the 4-digit HS level. The RCEP includes China, a major trading partner for Lao PDR. The improved market access along with the scheduled opening of the rail link with China promises to increase the attractiveness of Lao PDR for investment and trade. For Lao PDR to fully realize these opportunities, further improvements in the business-enabling environment are required.

123. RCEP commits to a ‘negative list’ approach to liberalizing services. In addition to increased market access for goods, the RCEP includes trade in services and specifically references e-commerce, financial, professional and telecommunication services. Liberalizing these key services will underpin increased competitiveness in manufacturing and advance service GVC linkages. The RCEP also shifts to using a ‘negative list’ approach where all sectors are liberalized unless specifically excluded. By reducing regulatory uncertainty, a ‘negative list’ approach promises to increase regional trade and investment in service sectors, lower trade costs and create jobs.

124. Ministry of Industry and Commerce is the focal point for trade, but multiple government agencies have trade responsibilities. The Ministry of Industry and Commerce (MOIC) is responsible for the formulation, implementation and coordination of trade policy and Intellectual Property Rights, and is the focal point for WTO, regional trade agreements, and the Enhanced Integrated Framework (EIF). The Department of Industries and Handicrafts in the MOIC also has a mandate covering environmental protection with the Ministry of Natural Resources and Environment. Other Ministries are also involved in trade policy and administration. Apart from the Prime Minister’s Office, the Bank of Lao PDR and the Ministry of Finance, multiple line ministries are responsible for managing policies and regulations that impact trade, as shown in Table 4.1.

Table 4.1 Government Agencies Involved with Trade

Line Ministry	Technical Responsibility
Agriculture & Forestry	Agricultural policy, sanitary and phytosanitary measures (SPS)
Health	Health safety for food and drugs
Public Works & Transport	Technical Barriers to Trade (SPS)
Energy & Mining	TBT, environmental protection
Home Affairs	TBT
Natural Resources and Environment	Environmental protection
Information, Culture & Tourism	Copyright
Science & Technology	TBT and IPRs

125. Trade policy coordinated by the National Steering Committee. After joining the WTO, Lao PDR established the National Steering Committee (NSC) for Economic Integration to coordinate trade policy at the multilateral, regional and bilateral levels. The NSC is chaired by the Deputy Prime Minister with the Minister for Foreign Affairs and the MOIC as deputy chairs. Following the 2015 decision of Lao PDR to ratify the WTO Trade Facilitation Agreement (TFA), a National

Trade Facilitation Committee (NTFC) was established with participation from both key government Ministries and the private sector.

126. Lao Business Forum promotes public-private dialogue. In 2005 the Lao Business Forum (LBF) was launched as a joint initiative between the International Finance Corporation (IFC) and the Ministry of Planning and Investment. In 2015, the MOIC was charged with coordinating government participation. The LBF has received technical support from the multi-donor Competitiveness and Trade Project with annual forum chaired by the Prime Minister. At operational level, public private dialogue under the LBF is coordinated by MOIC and LNCCI. The LBF encourages active public-private dialogue with participation from the Lao National Chamber of Commerce and Industries (LNCCI), various business associations, and foreign chambers of commerce and industry

127. Lao PDR's trade and trade-related policy objectives are guided by the 8th National Social and Economic Development Plan (NSED) 2016-2020. This includes a commitment to inclusive and sustainable growth, effective management, and efficiently utilizing natural resources, advancing growth in areas of comparative advantage, and engaging in multilateral and regional integration. The government prioritized investments in infrastructure development, mining, and hydroelectric power. The 9th NSED prioritizes investment that will diversify the economy in agriculture and agribusiness, tourism, and manufacturing.

128. The Ten-Year Socio-economic Development Strategy (2016-2025) prioritized higher growth rates. The strategy set the goal of raising per capita income above the least developed country threshold and delivering progress on the SDGs by 2030. Specific trade related policies focused on lowering trade costs and increasing export competitiveness through facilitating trade and improving the business and investment environment. Lao PDR is currently expecting to transition to upper middle-income status by 2025.

4.1 Trade Costs

129. Trade costs increase the cost of importing and exporting goods and services across borders, inhibit trade expansion and slow down economic growth. Increasing trade drives economic growth and increasing income; each additional dollar traded, on average, is estimated to lead to 20c increase in income¹⁸. Increased engagement with the global economy through trade is linked with technology transfers, better product quality, and reduced poverty rates. Economies linked to global value chains were less vulnerable to the adverse effects of domestic downturns, although they remain sensitive to external shocks. The global pandemic caused a global recession in 2020 as trade plummeted; however, with the growing availability of vaccines trade has begun to recover. The pandemic exposed vulnerabilities in international supply chains, accelerated digitalization and encouraged the regionalization of production networks. These global trends create an opportunity for many developing economies, including Lao PDR, to attract new efficiency-seeking investment, by increasing linkages with regional and global value chains. Realizing these opportunities requires Lao PDR to reduce trade costs.

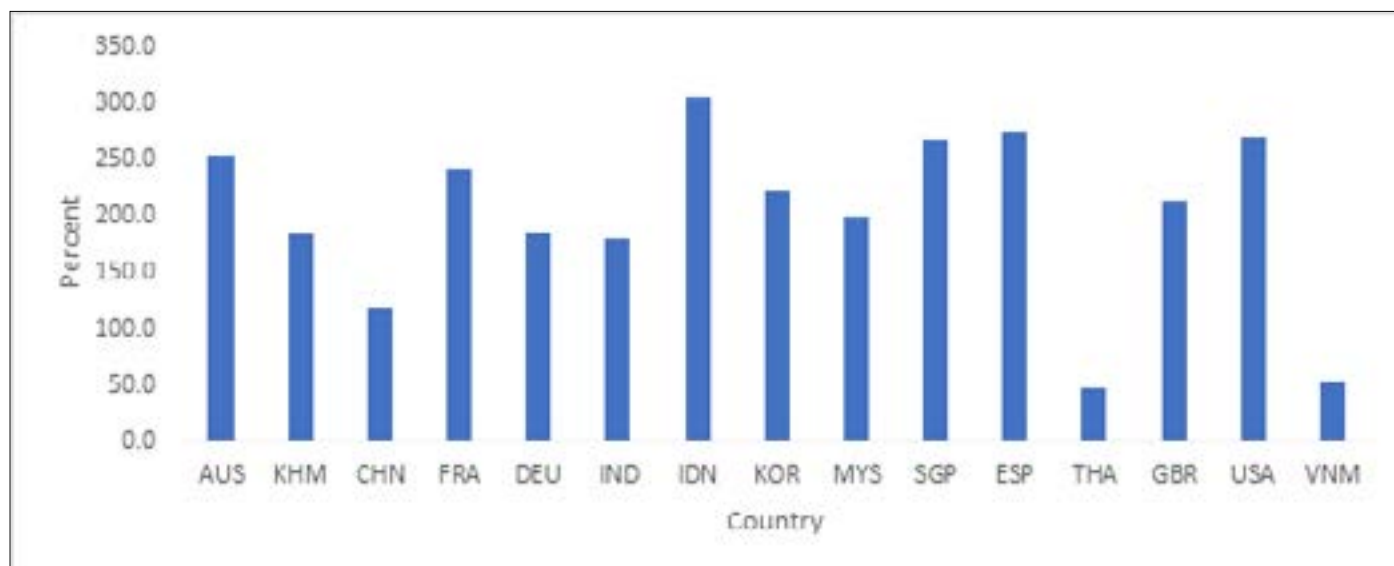
130. While tariffs have declined substantially, it is apparent from the data on trade costs that other costs involved in importing and exporting goods and services remain substantial. Trade costs refer to the costs faced by countries when they trade goods or services across borders, relative to trading the same goods or services in the domestic market. On average, trade costs for goods double the costs of an internationally trade good over an equivalent domestic good, which is much higher than the average tariff cost of 7 percent. Recent estimates by the WTO (2019) and others indicate that trade costs for trade in services are significantly higher than for goods.

131. Trade costs are much higher than tariffs, and agricultural trade costs are significantly higher than manufacturing. Lao PDR trade costs are 46.9 percent with Thailand, 52.1 percent with Vietnam, and 117.8 percent with China. It is notable that trade costs vary widely across ASEAN

18. World Bank, 2020, World Development Report: Trade for Development in the Age of Global Value Chains.

members and even with neighboring countries. Trade costs with Cambodia are estimated to exceed 180 percent, broadly equivalent to Lao PDR's trade costs with Germany. This indicates that while transport costs vary by geographical distance and remain an important element of trade costs, other factors including policies, regulations, administrative procedures, and infrastructure must also be considered. Table 4.9 shows the aggregate average trade costs for Lao PDR with selected countries. When the trade costs are separated out, between agriculture and manufacturing goods, it is apparent that agricultural products face significant hurdles with trade costs more than twice as high for most countries. Agricultural trade costs with Thailand are estimated at 90 percent, 200 percent with China, and over 122 percent with Vietnam.

Figure 4.1 Lao PDR Trade Costs with Selected Countries, 2018



Note: All data for trade costs for 2018 except for Lao PDR to the USA and Vietnam which are 2017 and 2013 respectively.

Source: Derived from <https://www.unescap.org/resources/escap-world-bank-trade-cost-database>

132. Estimated trade costs, defined as the ratio of international to domestic trade costs, have extended the estimates to trade in services and identified the factor contributing to trade costs¹⁹. The estimates were based on data from 43 countries which included advanced economies and emerging economies²⁰. Lao PDR was not included in the list of countries; however, it is reasonable to assume that the findings for emerging economies are indicative of the trade cost structure facing Lao PDR importers and exporters. The WTO analysis found that 2017 trade costs for emerging economies were 66 percent higher than in advanced economies; for all economies, trade costs in services were almost double those for goods. Trade costs varied significantly across different service sectors and were higher for manufacturing than agriculture. The service sectors with low trade costs included transport and logistics, wholesale trade, other business and professional activities, post and telecommunications, financial intermediation, and environmental, cultural, and personal services. The sectors with the highest trade costs include real estate, retail trade, motor vehicle sales, and construction; all these sectors tend to be produced and consumed domestically. The growth of e-Commerce is reducing trade costs in the retail sector.

133. Trade costs restrict Lao PDR's trade openness and constrain participation in Global Value Chains (GVC). Trade costs include transport costs, costs incurred at the border and for the use of infrastructure, information and transaction costs, trade barriers and regulatory issues, and governance quality. Trade costs may be classified into five components: transport costs, information and transaction costs (including information technology), trade policy and regulatory differences (between bilateral trading partners), and governance quality. The WTO estimated the share of trade

19. See the WTO (2019). https://www.wto.org/english/res_e/booksp_e/05_wtr19_4_e.pdf

20. The detailed methodology and data sources are shown in WTO (2019) Appendix D.1. Lao PDR was not included in the country data.

costs that could be explained by each of the five components. Their model found that policy-related factors account for a significant part of trade costs. In addition to policy-related measures, trade facilitation can account for a third of total trade costs; this includes all the border costs related to clearance and ensuring regulatory compliance. Transport and travel costs are estimated based on geographical distance and the quality of the transport infrastructure; these account for almost 30 percent of total trade costs.

Figure 4.2 Breakdown of Trade Costs for Goods and Services Trade



Source : Gillson Ian et al (2020).

4.2 Tariff Schedules and Tariff Policy

134. **Lao PDR has a relatively complex multiple bank tariff schedule.** The 2018 Lao PDR tariff schedule contains 11,514 ten-digit tariff lines. The tariffs are classified using the Harmonized System 2017 (HS2017) nomenclature which is standardized to the 6-digit level and totals approximately 5,300 lines. This means that over 6,000 tariff lines are Lao PDR specific. The applied MFN tariff has 11 different tariff rates ranging from zero to 40 percent. Between 2014 and 2018 Lao PDR created almost 2,000 new tariff lines by transitioning from an 8-digit tariff classification with 9,558 tariff line and just over half (1,025) of the new tariff lines were zero rated. The creation of 1,025 zero tariff lines reduced the simple average (unweighted by trade) tariff rate from 10.7 percent in 2014 to 8.6 percent in 2018. Over 80 percent of applied tariffs range between zero and 10 percent.

135. **The large number of tariff line increases the administrative burden.** The decision to create additional tariff lines, rather than to simply introduce zero tariffs against established tariff line classifications, increases the administrative classification burden for traders and customs. Further, significant tariff variation within narrowly defined products creates incentives to misclassify products in the lower band and enables end-user tariff discrimination. End-user discrimination is present when the tariff on an identical product varies according to the importer and declared end-use. For example, when a sewing machine is imported by a factory producing garments it is zero rated, but when it is imported by an individual a positive tariff is applied. Levying different tariff rates according to the user effectively discriminates against small and medium enterprises and women-owned microenterprises.

Table 4.2 Lao PDR HS 8 Digit Tariff Lines 2018

Number of Tariff Bands	Tariff Rate	Number of Tariff Lines	Percent of Tariff Lines
1	0.0	420	4.27
2	1.0	30	0.31
3	5.0	4,884	49.69
4	5.1	26	0.26
5	6.5	30	0.31
6	10.0	3,367	34.26
7	15.0	43	0.44
8	20.0	592	6.02
9	25.0	9	0.09
10	30.0	246	2.50
11	40.0	167	1.70
Blank	no rate	14	0.14

Note: The missing tariffs refer to 14 Prohibited products (e.g., opium, coca leaves, amphetamine)
Source: Derived from World Integrated Trade Solutions

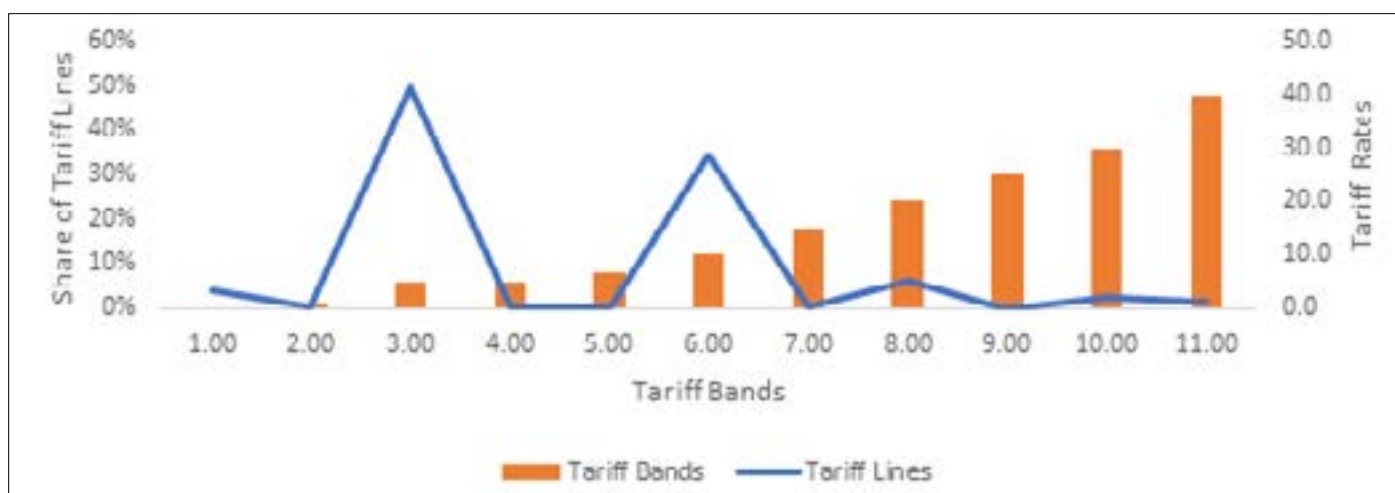
136. **Multiple tariff bands and nuisance tariffs require simplification.** Tables 4.2 and 4.3 are based on the 8-digit HS tariff data. Lao PDR has too many tariff bands, and considerable tariff variation within sectors, although this has been declining over the past decade. Significant variations in tariffs rates across product lines, particularly between substitutable products, will distort demand. The tariff structures of fast-growing trade-liberalized economies have the following characteristics: 3 or 4 tariff bands including zero, no nuisance tariffs (low tariffs that increase trade costs and provide minimal revenue), clear differences between tariff bands, low variation within economic categories, and limited domestic and international tariff peaks to limit the impact of cascading tariffs.

Table 4.3 Number of Tariff Lines by Sector and Average Ex Ante Most Favored Nation Tariff (MFN)

HS Codes	Sector	No. of Tariff Lines	Average Tariff (Percent)
01-05	Animal	37	10.6
06-15	Vegetable	1114	8.8
16-24	Foodstuffs	443	8.2
25-27	Minerals/Electricity	204	19.5
28-38	Chemicals	1157	14.6
39-40	Plastics/Rubber	480	11.6
41-43	Hides/Skins	100	6.4
44-49	Wood	426	8.4
50-63	Textiles/Clothing	1079	10.7
64-67	Footwear	74	8.9
68-71	Stone/Glass	296	17.4
72-83	Metals	909	15.8
84-85	Machinery/Electrical	2067	13.7
86-89	Transportation	835	10.8
90-97	Miscellaneous	607	10.2
	Total/Average	9828	8.70

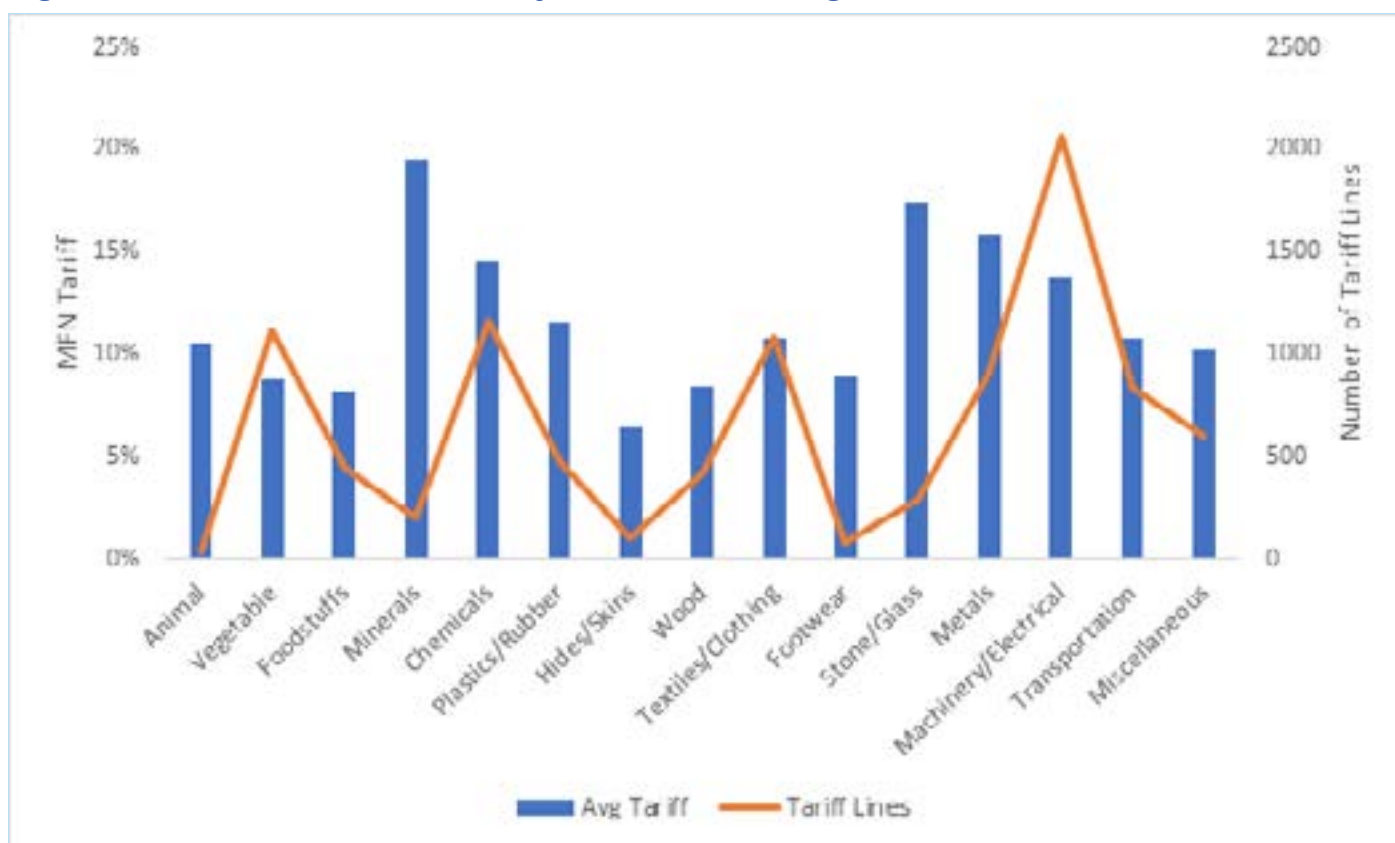
Source: Derived from World Integrated Trade Solutions

Figure 4.3 Lao PDR Most Favored Nation (MFN) Tariff Structure



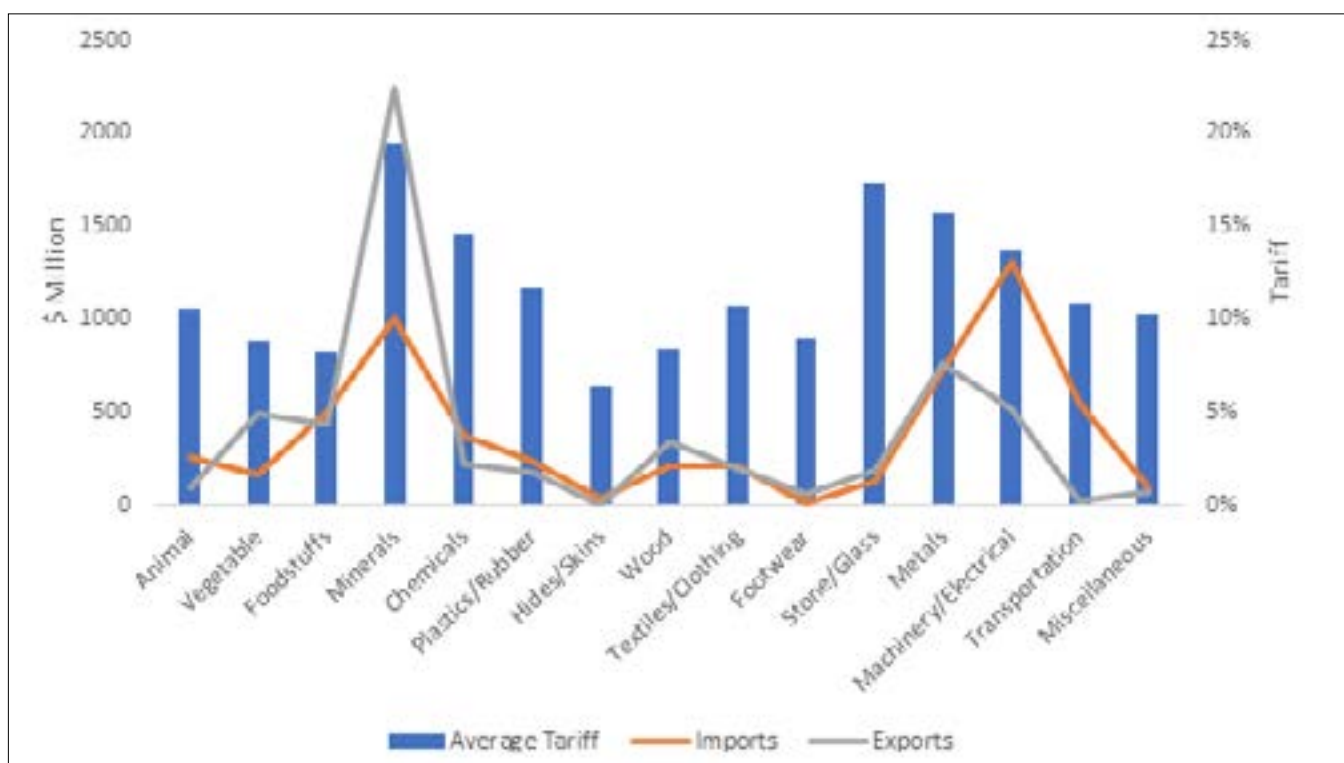
Source: Derived from World Integrated Trade Solutions

Figure 4.4 Number of Tariff Lines by Sector and Average Ex Ante MFN Tariff



Source: Derived from World Integrated Trade Solutions

Figure 4.5 Lao PDR Ex Ante MFN Tariffs, Imports and Exports, 2019



Source: Derived from World Integrated Trade Solutions. <https://wits.worldbank.org/>

137. **Lao PDR tariff schedule has mixed escalation.** The WTO Trade Policy Review (2020), classifying tariffs based on the ISIC classification, reported an average tariff of 10.7 percent on raw materials, a lower rate of 7.5 percent on intermediates, and a higher rate of 8.7 percent on finished goods. When tariff lines are grouped by the HS codes into broad sectors minerals, stone/glass have the highest average tariffs.

138. **Scope for tariff simplification.** It is apparent from the analysis of the Lao PDR tariff structure shown below that there is scope to simplify the tariff structure. Potential reforms include reducing the number of tariff bands by eliminating the 1 percent band, reducing the 5.1 and 6.5 percent bands to 5 percent or even reducing to zero. Consideration should also be accorded to eliminating the 15 and 25 percent tariff bands by moving them both into lower tariffs bands. tariff simplification.

139. **The MFN tariff rate applies to a relatively small proportion of Lao PDR's imports.** The bulk of imports from neighboring economies qualified for preferential tariffs under the ASEAN Trade in Goods Agreement (ATIGA) and multiple bilateral Free Trade Agreements. Under the ATIGA, the average tariff is 0.2 percent with over 95 percent of covered tariff lines reduced to zero. The bilateral FTA with Vietnam provides duty free access to 98 percent of all tariff lines.

140. **Tariff revenue is not a major source of government revenue.** Tariff revenue has declined in importance as a source of total tax revenue over the past 5 years. In 2018, Import Duty from customs tariffs accounted for 6.2 percent of total government tax revenue, while Excise Duty and VAT accounted for more than half (58.5 percent) of the total.

141. **Import Duty Rebates.** Lao PDR provides for imports to enter free of duty and VAT, under the Law on Investment Promotion and the Decree on Special Economic Zones (2018). Imports of materials, equipment, and vehicles, not produced in Lao PDR but necessary for the approved production activity, are exempt from both import duties and VAT. Imports of raw materials, equipment, and parts, utilized as inputs for exports, are also exempt from both import and export duties and VAT. Inputs sourced domestically, used to produce intermediates and finished products, are exempt from VAT.

4.3 Non-Tariff Measures

142. **Non-Tariff Measures raise trade costs more than tariffs. With the reduction in tariffs, in Lao PDR and globally, Non-Tariff Measures (NTMs) are increasingly identified as the major cause of high trade costs.** The growing prominence of NTMs has highlighted the cost-raising impact of regulatory requirements and the administrative procedures required to ensure compliance. A NTM is any measure other than customs tariffs that can potentially have an economic effect on trade. These include regulations aimed at ensuring consumer safety, health, environmental protection and other public policy objectives that are desirable and permissible, under the WTO and all regional agreements, providing they are applied equally to domestic products and imports, designed to minimize the trade impact, and in the case of sanitary and phytosanitary measures have a basis in scientific knowledge.

143. **Non-Tariff Barrier (NTB) refers to a NTM which has a negative impact on trade.** This may result from a measure having a differential impact on importers compared to domestic producers, and from procedural obstacles that stem from the business-enabling environment and existing administrative and institutional arrangements. The intent of the regulation may legitimately aim to deliver consumer safety; however, the way in which the measure is implemented may unintentionally and adversely impact potential exporters by imposing high market entry costs which may be prohibitive for small and medium scale operators.

144. **In Lao PDR, multiple ministries are involved in developing and implementing NTMs that may have a trade impact.** These include 14 government issuing agencies including the Government’s Office, the Ministry of Agriculture and Forestry, Ministry of Health, Ministry of Industry and Commerce, and Ministry of Finance. The number of identified NTMs issued by Lao PDR government agencies is shown in Table 4.4 below.

Table 4.4 Non-Tariff Measures by Issuing Agency

No.	Issuing Agency	No. of NTMs	Share of NTMs (percent)
1	Government’s Office	55	18.3
2	Ministry of Health	53	17.6
3	Ministry of Finance	22	7.3
4	Ministry of Agriculture and Forestry	60	19.9
5	Ministry of Natural Resources and Environment	6	2.0
6	Ministry of Industry and Commerce	56	18.6
7	Ministry of Public Works and Transport	7	2.3
8	Ministry of Energy and Mines	6	2.0
9	Ministry of National Defense	9	3.0
10	Ministry of Information, Culture and Tourism	10	3.3
11	Ministry of Telecommunications and Post	6	2.0
12	President’s Office	1	0.3
13	Bank of Lao PDR	9	3.0
14	Ministry of Home Affairs	1	0.3
	Total	301	100.0

Source: Sayasenh, A. (2016), ‘Non-tariff Measures in the Lao People’s Democratic Republic,’ in Ing, L.Y. S.F. de Cordoba and O. Cadot (eds.), *Non-Tariff Measures in ASEAN*, ERIA Research Project Report 2015-1, Jakarta: ERIA, pp. 77-85

145. **Every tariff line has at least one NTM, and many have multiple NTMs.** Lao PDR has just over 300 NTMs²¹ with at least one NTM applying to every tariff line. All 9,588 tariff lines at the 8-digit Harmonized System (HS) have at least one NTM. Technical Barriers to Trade (TBT) account for

30.2 percent of all NTM and affect 19.4 percent of tariff lines. While over 200 NTMs apply to imports, approximately 35.8 percent of tariff lines are subject to export-related measures. The distribution of NTMs by type and share of tariff lines is shown below in Table 4.5.

146. **Many imported products are required to comply with multiple NTMs.** Over 95 percent of animal products, vegetable products and foodstuffs, 88 percent of transport items, and 76 percent of mineral products, all face three or more NTMs. The bulk of the remaining tariff lines are subject to two NTMs. In aggregate, over 3,900 tariff lines face 3 or more NTMs and over 5,500 tariff lines are subjected to two NTMs. Agricultural products, including vegetables, can face up to 20 NTMs relating to SPS, price controls, and export-related measures. The bulk of the regulations have been published at the Ministry level and are not enshrined in national level standard laws. The NTMs are listed on the Lao PDR National Trade Portal; however, there is limited information on the approval process.

Table 4.5 Lao PDR Distribution of NTM by Type

Code	Type of Non-tariff measure	NTM #	Percent of NTMs
A	Sanitary and phytosanitary (SPS) measures	38	12.6
B	Technical barriers to trade (TBT)	91	30.2
C	Pre-shipment inspection and other formalities	14	4.7
E	Non-automatic licensing, quotas, prohibition, and quantity control measures (other than SPS or TBT)	26	8.6
F	Price control measures, including additional taxes and charges	48	15.9
G	Finance measures	2	0.7
P	Export-related measures	82	27.2
	Total	301	100.0

Source: Derived from Sayasenh, (2016)

4.4 Non-Tariff Measure Price Controls

147. **Lao PDR subject numerous products to price controls, including food commodities, fuel, agricultural inputs and construction materials.** Stable prices are important because rapidly increasing prices of essential products will increase the number of people living below the poverty line. In Lao PDR, with its large agricultural sector, smallholder farmer incomes are primarily determined by the level and stability of agricultural prices. Rice production is closely associated with the national food security and welfare of both the farming population and low-income urban consumers. Rice producers look for prices to be stabilized at levels that provide ‘adequate’ returns to farmers and millers. Establishing government mandated prices risks being expensive for consumers and taxpayers, while also discouraging investment and reducing growth.

148. **Government price-setting fails to suppress price movements and discourages investment.** Enforcing regulated prices at the national level, when they substantially diverge from import parity prices, requires trade restrictions. Limiting competitively priced imports slows down productivity growth and job creation. Opening the economy to trade and implementing interventions aimed at improving market efficiency is much more effective in promoting stable prices. Addressing the needs of the most vulnerable is best met through the provision of targeted safety nets, rather than price controls.

21. Based on the 2015 NTM database (ASEAN-ERIA-UNCTAD) raw data (Sayasenh, 2016)

149. **Eliminate price controls.** It is recommended that all statutory minimum and maximum prices be eliminated, with government support focused on interventions that will improve market efficiency and identify the most vulnerable groups for targeted assistance. Investment will be encouraged through improving the business-enabling environment and strengthening the availability, quality, and timeliness of price information for essential products (rice, meat, fuel), and data on stock levels. The increased availability of price and cost information will enable more efficient price discovery.

4.5 National Quality Infrastructure

150. **Exporting into regional and global markets requires suppliers to comply with the standards, norms, environmental and social due diligence requirements, technical regulations, and sanitary and phytosanitary (SPS) measures applied by the importing economy.** While standards are determined by the market, technical regulations and SPS are mandatory and are set by the importing country, and/or international frameworks. The WTO allows members to implement Technical Regulations (under the Agreement on Technical Barriers to Trade) providing they apply equally to both domestic and imported products and are designed to minimize their trade impact. The WTO has a similar agreement covering animals, plants, and food products (Agreement on Sanitary and Phytosanitary Measures) with the additional requirement that the measure must be based on scientific criteria. The institutions responsible for developing and applying measures aimed at ensuring product safety are collectively known as the National Quality Infrastructure.

151. **Good regulatory practices minimize the trade restrictive impact of NTM.** There is now an accepted “toolkit” on good regulatory practices for the National Quality Infrastructure. A good practice NQI will be transparent, impartial, technically credible, inclusive, actively involve the private sector, and ensure institutional separability. A NQI involves four distinct functions: standard setting, conformity assessment (inspection, testing, and certification), metrology, and accreditation. Many of these functions can be carried out by specialist private sector firms; however, most national standards bodies, legal metrology and a national metrology institute, and a national accreditation body are all usually public agencies.

Elements of a National Quality Infrastructure

152. **The National Quality Infrastructure (NQI) includes standardization, testing, certification, metrology, and accreditation, which are all necessary for proving that products or services meet public policy objectives such as health and safety.** The relationship between the different components of the NQI is shown in Figure 4.6. Stakeholders in the National Standards Bureau define standards for certification and inspection bodies as well as for testing and calibration laboratories. Accreditation bodies confirm the competence of the conformity assessment services. Certificates or reports from conformity assessment bodies are issued to companies or organizations that comply with the relevant standards. Consumers, businesses, and the public all benefit from certifications in the form of enhanced product quality, enhanced product safety and health, decreased environmental impacts and increased trade opportunities. However, standards, technical regulations and mandatory conformity assessment can represent a burden for companies. This is especially true when the results of the conformity assessment are not recognized in international markets and firms are required to incur the costs for redundant tests and certifications.

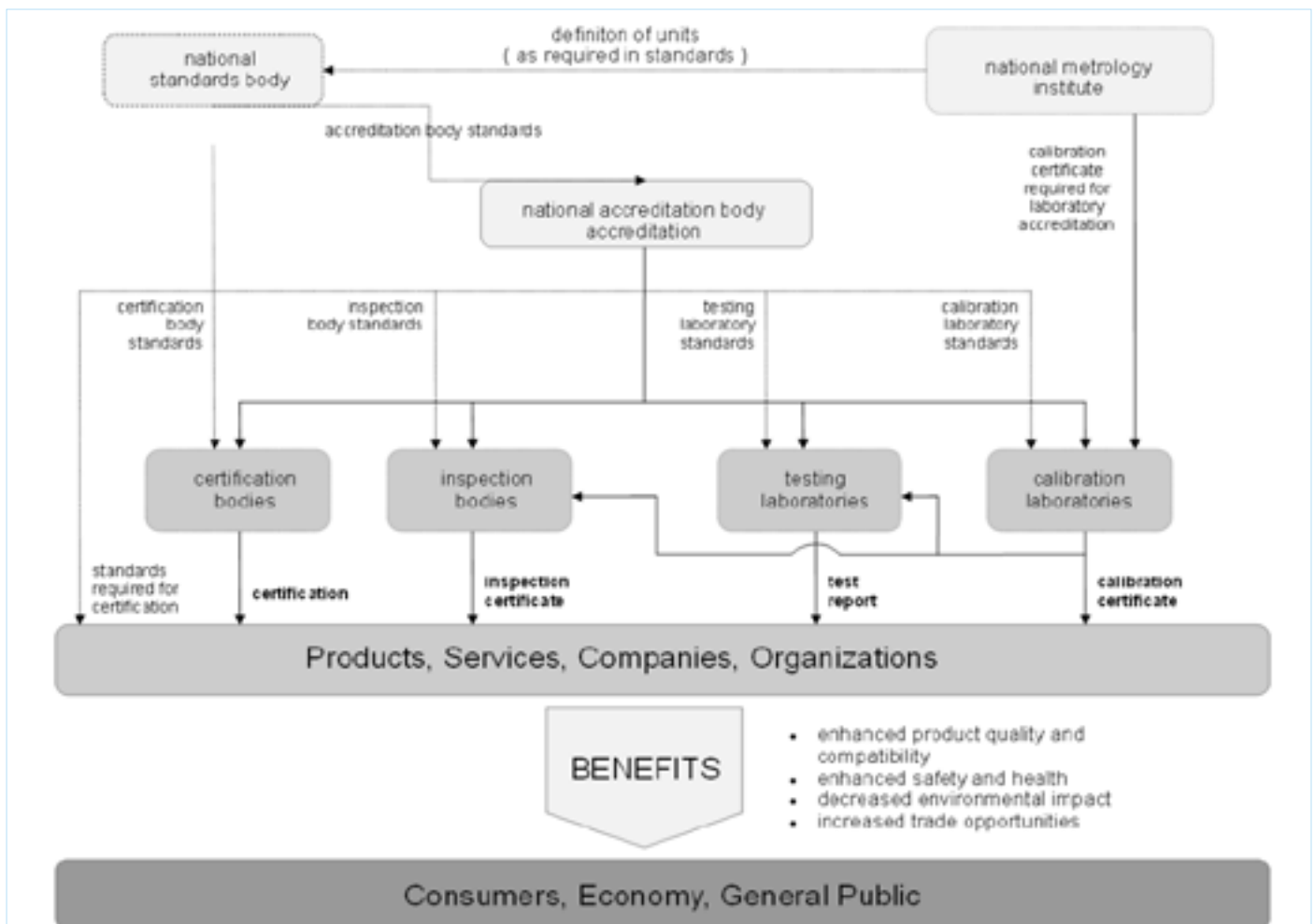
153. **Standards are formal documents containing the requirements that a product, process or services are expected to meet.** Best practice policy supports maximizing the use of international standards and removing obsolete standards. International standards should be adopted in areas with adequate domestic technological conditions and high trade potential. Technical Regulations are often referred to as mandatory standards since they must be complied with. Standards can also be set by industries or international bodies as recommendations, and these are referred to as private standards. When countries set Technical Regulations, it is best practice to adopt international standards that have been agreed by industries and international bodies.

Standards define characteristics or performance and convey information to the buyer/user and are voluntary. Standards are frequently set by Specialist International Agencies representing industry groups, or even private firms, or groups of private firms. They are not set by the WTO.

Technical Regulations are sometime referred to as mandatory standards. They define characteristics or performance required by Government statute. Technical Regulations can be set by Governments, adopted from international or regional bodies, or private firms. To be compliant with the WTO they should be least trade restrictive and follow international standards where applicable.

154. **Conformity assessment includes testing, inspection, and certification services.** Testing refers to either public or private services which determine certain product characteristics against the requirements of a standard. Inspection is mostly conducted on consignments to ensure that the entire consignment is equivalent to the product sample tested. One example is import inspection done at the border. Inspection services are provided by private or public institutions. Certification means the formal substantiation by a certification body (which can be either public or private) comprising an evaluation following testing that a product, service, organization, or individual meets the requirements.

Figure 4.6 Elements of a National Quality Infrastructure



Source: Based on Guasch et al. (2007) and Racine (2011)

155. **The Department of Standardization and Metrology (DOSM), under the Ministry of Industry and Commerce, operates as regulatory body.** The DOSM is the leading authority on standardization, metrology, accreditation, conformity assessment and related activities. Good regulatory practice separates regulation from conformity assessment (testing and certification). MOST issues the regulations on mandatory certification markers for products related to safety, hygiene, health, the environment, and public safety. Lao PDR recognizes the results of foreign conformity assessments provided it is accompanied by a certificate from a testing laboratory accredited by the national standardization in the exporting country. Goods meeting international standards (such as those established by the IEC), are cleared for import. Lao PDR recognizes all the testing reports issued by laboratories accredited by ASEAN National Accreditation Bodies that are signatories to the ILAC Mutual Recognition Agreements (MRAs).

156. **The Lao National Accreditation Bureau (LNAB) is part of the DOSM.** LNAB consists of members from the MOIC, MOH, MAF, MPWT, the LNCCI and individual specialists. The LNAB maintains a register of accredited laboratories and certification bodies and provides technical advice to government departments on conformity assessment procedures.

157. **Food safety and animal and plant health are regulated by the MAF and the MOH, and administered by the provincial and local Health, Agriculture and Forestry authorities.** The Food and Drug Department (FDD) in the Ministry of Health (MOH) is responsible for food safety, policy, and strategy (under the Food Law 2013). The Bureau of Food and Drug inspection and the Provincial Food and Drug Section implement food safety legislation through market surveillance and checks on food manufacturers, hotels, and restaurants. The Division of Department of Agriculture in the MOAF is the SPS enquiry point, and the Multilateral Trade Policy Division under Foreign Trade Policy Department in the MOIC is the notification authority.

158. **TBT and SPS legal framework are WTO compatible, but capacity constraints prevent effective implementation.** Lao PDR has implemented a comprehensive legal framework for technical regulations and SPS for food safety, animal and plant health which is compatible with their WTO Agreements. However, severe shortages of technical personnel at the provincial and district levels inhibit effective implementation. The absence of quarantine facilities at Lao PDR border checkpoints requires all animal and livestock importers to provide proof of quarantine inspection from the exporting country. Lao PDR follows International Plant Protection Convention guideline for implementing SPS measures for plants. Plant imports are not inspected providing the imported has a plant Health Certificate issued by the competent authority in the exporting country.

159. **Capacity challenges result in imports being prioritized for testing, increasing trade costs and undermining food safety.** Imported food products require a Certificate of Analysis (COA), Health Certificate (HC), GMP Certificate, and HACCP Certificate, issued by the competent authority of the exporting country or by a third private party that is accredited by the competent authority. Testing samples are also required. Lao PDR firms are required to comply with, the national standards based on Codex standards, guidelines, and recommendations. Domestic producers are required to retest every 180 days to show continued compliance; however, owing to staffing and financial shortages, food inspections are only conducted following complaints and safety alerts. The procedures for food inspection (No 297/MOH) follow a risk assessment system that applies to both imports and domestically produced food items. In practice, staffing shortages result in MOH officials prioritizing the inspection of imports.

160. **Technical assistance for NQI remains a priority.** The EU funded ARISE Plus Laos project continues to provide technical assistance to the MAF, the MOH and MOST to strengthen the SPS institutional, legal, and regulatory framework, develop risk-based policies and control measures, and strengthen the role of the private sector in the SPS regime.



Chapter 5: Border Management, Trade Logistics and Connectivity

161. **This chapter focuses on trade facilitation, logistics services and transport.** The chapter seeks to highlight the key issues related to the border clearance process (including customs and other government agencies (OGAs)), logistics services issues and transport. The chapter focuses on identifying priority actions, including streamlining and simplifying documentation, regulatory requirements, inspections and procedures for imports, exports, and goods in transit.

162. **Border management, trade logistics and transport services are key determinants of trade costs.** For Lao PDR, as a landlocked country, trade facilitation is a critically important determinant for internal, regional, and global trade. The 2011 Trade Facilitation Strategic Plan (2011-2015) sought to simplify border procedures and reduce trade costs to promote trade competitiveness. The TFSP committed to mainstream trade facilitation across government ministries, simplify trade and customs procedures, implement WTO, ASEAN, and GMS commitments, build private sector capacity, and advance the National Trade Facilitation Secretariat (established in 2010) as the nodal body. The TFSP successfully simplified some customs procedures with the introduction of risk management, post clearance audit, advance rulings, and improved coordination. Border infrastructure was also improved with new computers and better facilities; a national trade facilitation body was established.

163. **Lao PDR took advantage of the WTO TFA to recharge their trade facilitation agenda.** The TFA contains provisions for expediting the movement, release, and clearance of goods traveling across borders through effective cooperation between customs and OGAs on trade facilitation and customs compliance issues. The Lao PDR Trade Facilitation Roadmap (TFR) for the period 2017-2022 sought to reinvigorate the trade facilitation agenda.

164. **The TFR is lowering clearance times and costs.** The average time from submission of customs declarations to customs release has declined from more than 11 hours in 2012, to 8 hours 10 minutes in 2019 and 5 hours 7 minutes in 2020²². Procedural reforms, and improvements in standard operating procedures has reduced the time required for documentary compliance from 216 hours in 2016 to 60 hours in 2020. Further Lao PDR launched the Single Stop Inspection (SSI) at the Dansavanh-Lao Bao border crossing point with Vietnam under the Cross Border Transport Agreement (CBTA). Notwithstanding this progress the Trade Facilitation Secretariat has only met once a year, leaving the day-to-day work to the Department of Import and Export (DIMEX) which has no mandate for driving implementation or monitoring.

165. **Lao PDR's commitment to implementing a range of trade facilitation reforms has made progress, but further reforms are necessary.** Lao PDR is a signatory to the WTO Trade Facilitation Agreement (2017) and integrated the TFA commitments into the Lao PDR Trade Facilitation Roadmap for 2017-2022. Pillar B of the World Bank funded Competitiveness and Trade Project (CTP) from 2018-2022 (now extended to December 2024) seeks to advance trade facilitation reforms and reduce the time, document requirements and cost of trading across borders. Pillar B's subcomponents include support for the National Trade Facilitation Committee (NTFC) and a TFA Challenge Facility.

166. **Effectively implementing the TFA will lower trade costs and benefit the private sector.** The TFA provides for protecting legitimate public objectives in areas such as revenue collection, community protection and national security. Achieving these public objectives while also facilitating trade requires the active engagement, coordination, and cooperation across all the government agencies involved in trade, and wide consultation with other stakeholders. The large number of government agencies and stakeholders engaged in trade regulations provided the rationale for the TFA requiring each member to establish a NTFC.

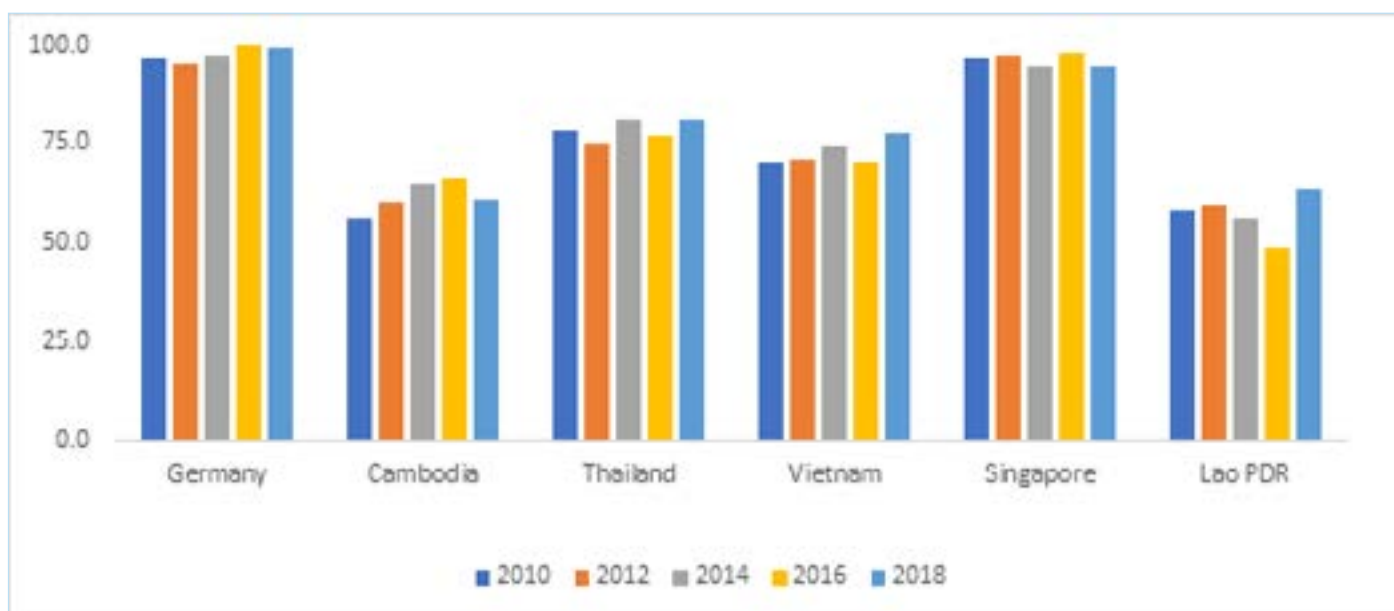
22. Trade Facilitation Road Map (TFR) of Lao PDR for 2017-2022, Ministry of Industry and Commerce, Trade Facilitation Secretariat, 2017, and 2020 Time Release Study <http://www.t4dlaos.org/publications-from-ict-project/>

5.1 Lao PDR's Trade Logistics and Trading Across Borders Performance

167. **Lao PDR's reports on trade logistics and trading across borders reinforce the necessity for further trade facilitation.** Lao PDR's comparative performance on the World Bank Logistics Performance Index and the World Bank Trading across Borders component of the Doing Business Index highlight the necessity of continuing to prioritize implementing the Trade Facilitation Road Map, to streamline and simplify regulations, and strengthen government and private sector capacity. The World Bank's Logistics Performance Index (LPI) ranks countries on a range of trade facilitation measures based on the perception of business users. Figure 5.1 shows that Lao PDR has consistently performed lower than its major regional trading partners, Thailand, and Vietnam; in 2018, Lao PDR was at 64 percent relative to Germany, the top ranked country. While there has been a relatively modest improvement over the period 2010 to 2018, it is noticeable that Lao PDR declined between 2012 and 2016. Figure 5.2 shows the performance of Lao PDR, relative to regional comparators, for the six individual components of the LPI: (i) customs, (ii) infrastructure, (iii) international shipments, (iv) logistics quality and competence, (v) tracking and tracing, (vi) timeliness. In 2018, Lao PDR's performance in each of the individual LPI indicators is consistently below Malaysia, Thailand, and Vietnam, and slightly higher relative to Cambodia, except for timeliness where Lao PDR is ranked significantly lower.

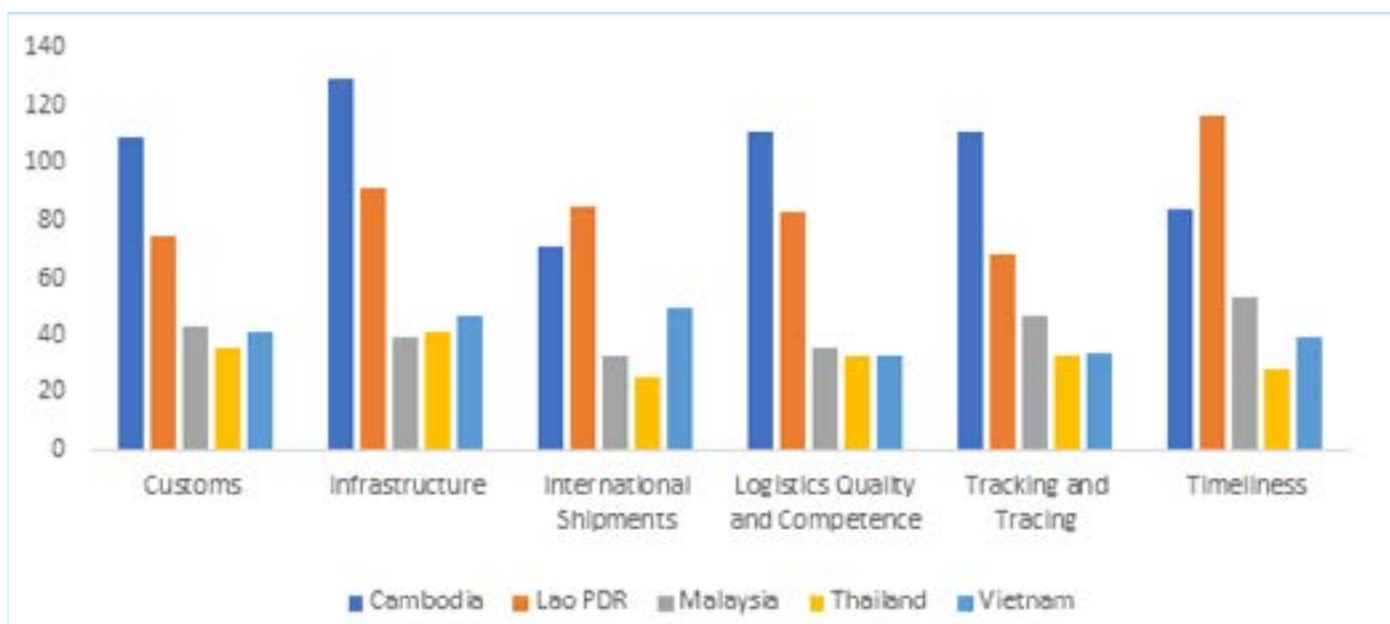
Figure 5.1 Logistics Performance Index, Lao PDR, and Selected Countries 2010-2018

Percentage of the highest performer, LPI trend, 2010-2018



Source: Derived from World Bank, Logistics Performance Index <https://lpi.worldbank.org/>

Figure 5.2 Performance on Logistics Performance Index, indicators rank, 2018



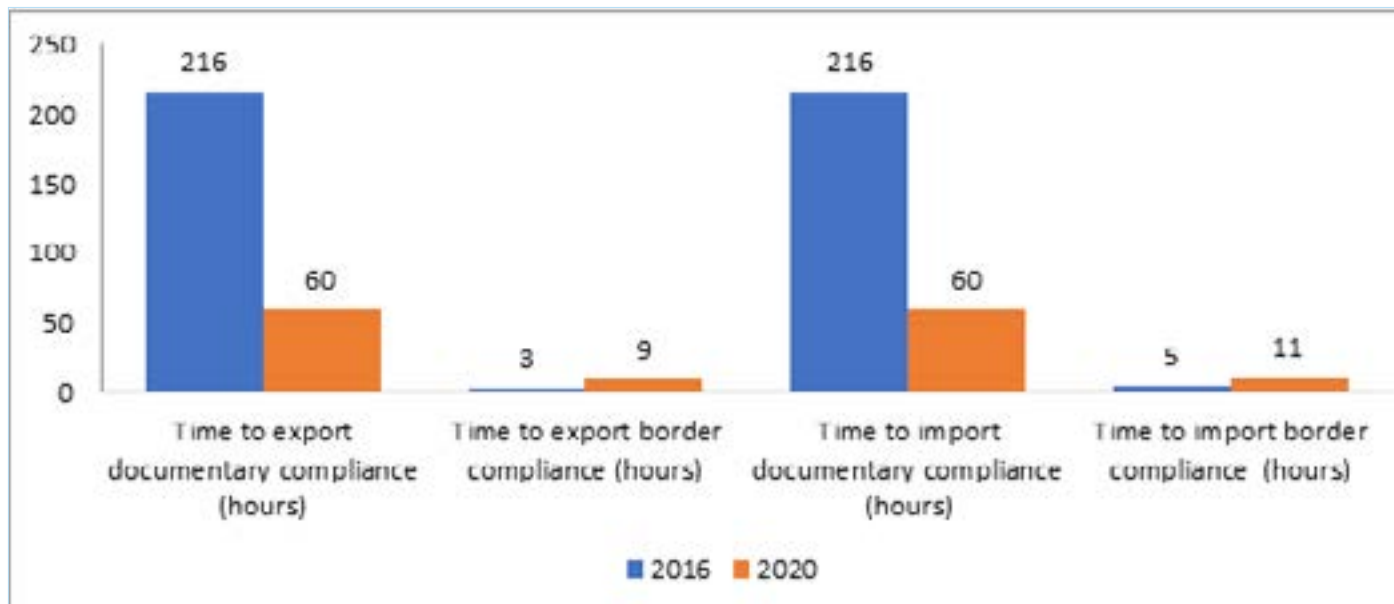
Source: Derived from World Bank, Logistics Performance Index <https://lpi.worldbank.org/>

168. The Logistics Performance Index shows Lao PDR lags its major trading partners. The LPI performance indicators show that organizing supply chains in Lao PDR carries a higher cost and has slower turnaround times relative to most neighboring countries. Logistics is concerned with the management of supply chains, where competitiveness is determined by the reliability and efficiency of transport infrastructure, trucking companies, border agencies, transport regulators, and logistics services providers. Competitive economies that attract efficiency-seeking investment have established a regulatory framework in which both government and private sector work together in a predictable and transparent manner. To this end, Lao PDR’s LPI score suggests that it needs to close the gap in the quality of logistics services and trade facilitation with the neighboring economies if it is to attract non-resource seeking investment.

169. Trading Across Borders was Lao PDR’s highest indicator on the 2020 Doing Business. The 2020 Doing Business (DB) survey ranked Lao PDR 144 out of 190 countries for the overall ease of doing business; however, trading across borders was Lao PDR highest indicator with a rank of 78 (a significant improvement from 108 in 2016) and a “distance to the frontier” score of 78.1 (an improvement from 64.09 in 2016). This was lower than major trading partners Thailand (62) and China (56), but higher than Vietnam (104) and Cambodia (118). Lao PDR is more than 20 percentage points below the most competitive global performer on trading across borders, which is measured as the “distance to the frontier.” There is still significant scope for reducing the costs of trading and the time required for clearance through implementing trade facilitation.

170. Improvements at the border need to be matched by behind the border reforms to streamline OGAs clearances or no objection certificates. Improvements over the past two years have reduced customs clearance times. Findings from the 2020 Time Release Study (TRS) indicate a reduction in the average time, from submission of customs declaration to customs release, of 5 hours and 07 minutes compared to 8 hours and 10 minutes in 2019. The partial implementation of In January 2021 the Lao National Single Window (LNSW) was partially implemented at the Friendship Bridge 1 and Thanaleng international border crossing, for selected permits from MOIC and MPWT. The integrated functioning of customs and OGAs at the border alongside a risk-based synchronized inspection regime is expected to further reduce clearance times. While this accounts for the approval by Customs and OGAs to provide border clearance, it is important to note that the customs declaration is only submitted after obtaining the clearance or no objection certificate from the OGAs. This does not account for the time required by OGAs²³ to approve goods subject to technical regulations (for example, agricultural products, food stuffs, chemicals, fertilizer).

Figure 5.3 Doing Business, Trading Across Border Indicators, Lao PDR 2016- 2020



Source: Derived from World Bank Doing Business data. <https://www.doingbusiness.org/en/doingbusiness>

171. Reducing trade costs will improve the import and export environment and promote growth. Reviewing, streamlining, and simplifying regulations and procedures for trade facilitation are priorities required for improving the business-enabling environment. Further, the high cost and limited trade transport and logistics services, and infrastructure constraints, all add to the cost of importing and exporting, contributing to delays and slow turnaround times. The net result is to suppress trade because high trade costs inhibit participation in global value chains. Ensuring simplified and transparent trade procedures are central elements of a good practice trade policy, which is necessary for mobilizing private investment, leading to more sustainable, diversified, and resilient economic growth. A government bureaucracy focused on control rather than facilitation will suppress trade and discourage investment, encourage rent seeking behavior, and stunt the growth of small and medium enterprises.

5.2 Logistics and Transport

172. Lao PDR logistics services are high cost, relatively low quality and offer a limited range of services. Compared with other ASEAN economies Lao PDR logistics costs are double the price. High logistics costs discourage foreign investment, decrease competitiveness, and result in lower living standards. Physical infrastructure limitation can only partially explain the high costs; other contributory factors are regulatory restrictions limiting entry and trade facilitation challenges.

173. Investment in hard transport infrastructure requires complementary investment in soft infrastructure of logistics and transport services. The development of hard infrastructure, including all weather roads, bridges and tunnels, and permanent ways for the rail link, must be coupled with the creation of a conducive enabling environment for logistics and transport services. The rail link has the potential to integrate Lao PDR, through reducing trade costs, in both regional and global markets. Efficient logistics services are essential to advancing Lao PDR’s overall competitiveness and attractiveness as a location for GVC investment through enabling more efficient importation of inputs, intermediate and consumer products, domestic distributions, and export of intermediate and final goods.

23. While explaining the T1.5, TRS 2020 report (on page 34) clarifies that ‘any shipment subjected to OGA’s control and inspection requires the process to be completed prior to the submission of detailed declaration to customs authority’. Table 12 and Figure 25 on pp. 42-43 of the TRS 2020 report, provide further details of the time incurred by OGAs.

174. **Inland Clearance Depots (ICD) have a key role to play in reducing trade costs.** ICDs are designated inland destinations for the customs clearance of imports and exports. They may also provide warehouse facilities, cold storage, containers, and cargo handling, allow for unbundling and repacking of cargo, road haulage brokerage, cargo tracking and a range of other logistics services. The Lao PDR national logistics development plan for 2016-2025 identifies the limited development of logistics services as a major challenge; it set the goal of realizing highly effective and efficient connectivity services, with competitive and sustainable domestic freight transport and logistics by 2030.

Table 5.1 Proposed ICDs

1. Thanaleng, Vientiane
2. Nateuy, Luangnamtha
3. Savanakhet, Savanakhet
4. Houyxai, Bokeo
5. Laksao, Morihamsai
6. Luangprabang, Luangprabang
7. Oudomsai, Muangxai
8. Paskse, Champasack
9. Thakhek, Khammouane

175. **ICDs should be linked to the major transport corridors and need to complement the Trade Facilitation Roadmap.** The logistics development plan envisaged 3 international logistics parks (Vientiane Capital City, Luang Namtha and Savannakhet) and 6 regional logistic parks along the Laos-Vietnam and Laos-Thailand borders. The plan also nominated 9 ICDs under the Intergovernmental Agreement on Dry ports. The World Bank report, *From Landlocked to Lank-Linked: Unlocking the potential of Lao-China Rail Connectivity (2020)* notes that, it may be prudent to limit the number of ICDs to fewer than 9 to ensure their profitability, given anticipated traffic levels.

176. **Establishing at least two ICDs at nodal points for the rail link should be a priority.** This is necessary for ensuring effective freight handling

for containers, with the ability to offer efficient intermodal transfers between road and rail transport. While planned trade facilitation measures will limit the role of ICDs in the customs clearance process, customs will be required for compliance along with other logistics services.

177. **Establish ICDs as common-user facilities.** It is recommended that ICDs should allow for multiple firms, including public access. Allowing competition between multiple logistics and transport operators within an ICD will encourage the delivery of more efficient logistics and transport services. This may be challenging in the short term, as companies invest in the construction of ICD and look to recover their costs through selling logistics services; however, limitation on competition should be time bound.

178. **Lao PDR freight and logistics operators offer a limited range of services.** There are no multimodal operators that offer a door-to-door service through the whole shipment cycle. The aggregate market size is forecast to reach \$695 million by 2023. Existing logistics service providers in Lao PDR fall into three categories: approximately 24 small and medium-sized firms operating within the framework of the Lao International Freight Forwarder Association (LIFFA); larger scale concessionaires (who manage ICDs) and have their own fleet of vehicles; and joint ventures between domestic investors and foreign logistics companies.

Text Box 5.1 Lao PDR Inland Container Depots

- The first ICD was established in October 2017 in Savannakhet along the GMS EWEC and serves as an inland terminal providing customs clearance to the Savan-Seno Special Economic Zone.
- In November 2017 a joint venture through a PPP with the Logistics State Enterprise and TZ ICD Lao-China agreed to a 28-year concession at the Boten International border crossing which commenced operations in 2019. When the railway opens this will provide facilities and equipment for intermodal transfers, and the ICD is expected to offer warehousing for cross-border e-commerce. The Chinese partner is expected to transfer knowledge on rail logistics operations.
- The first major ICD investment was announced in March 2021. The GOL approved a 50-year concession agreement for integrated logistics facility scheduled to be developed, by the Vientiane Logistics Park Company Limited (VLP) and Sitthi Logistics Lao Company, on a Build Operate and Transfer (BOT) arrangement, at the expanded Thanaleng ICD and the greenfield Vientiane logistics park. Thanaleng will be the last stop of the Lao-China rail link and will serve as the main link to Southern Thailand by road, and the location where cargo can be transshipped to the Thai rail network. The IFC will provide technical assistance for the design and financing in accordance with leading industry, environmental and social practices. It is not clear if the concession agreement allows will allow for multiple logistics and transport companies.

179. Local providers know local institutions and regulations but do not have the expertise to deliver the full range of multimodal logistics services. LIFFA members, established by Ministerial decree (in 2001), include freight forwarders, trucking companies, and customs brokers. LIFFA members largely dominate in the following activities: the clearance of inbound containerized cargo, the unloading, handling and clearance of general cargo, air and sea exports, and transit customs clearance for domestic trucks in EWEC, and foreign trucks in the North South Economic Corridor. LIFFA members are the strongest and most influential members of the Lao PDR transport sector; two former state-owned companies, SMT and Lao Freight Forwarders are the most influential. The Lao Chamber of Commerce has identified the small market size and collusive behavior as the major factors limiting competition.

180. The Lao PDR trucking sector has low productivity. The Lao PDR trucking sector is relatively small with only 12 firms having more than 50 trucks each, and a larger number (50) of firms with less than five trucks (Ksoll, 2018). The industry is inefficient, with each truck averaging only 55,000 km per year. This compares to a range of 128,000 – 176,000 km for a truck driver in North America²⁴.

181. Regulatory limitations on foreign logistics service providers lead to higher costs and service limitations. Lao PDR does not allow international logistics operators to provide their services unless they establish joint ventures with a Lao PDR registered company. International firms find the establishment of joint ventures to be cumbersome and costly. This results in many international companies choosing to outsource to Lao PDR registered firms, resulting in higher costs and more limited services.

182. Transport costs along key transport corridors estimated at 1.4 to 2.2 times higher compared to Thailand. Ksoll (2018) estimates that operators in Lao PDR incur average transport costs of LAK 489 per tonne-km (equivalent to \$0.06 per tonne-km). Most transport companies operate within the range of \$0.028 and \$0.07 per tonne-km, with variable costs accounting for approximately 60 percent. The prices paid by transport users average \$0.37 per tonne/km, approximately 6X the average costs. Prices vary depending on whether it is a full truckload or less. The limited use of

24. <https://blog.freefreightsearch.com/how-many-miles-do-truckers-drive-a-year/>

backhaul also contributes to increased prices. There is also a significant variation in prices between the southern and northern routes, with the routes between Luang Prabang and Vientiane being the most expensive. There is no separate data on logistics costs, although local service providers state that their costs are higher because of the onerous rules and procedures required by multiple public agencies involved in trade regulation.

Table 5.2 Multimodal Transport and Value-Added Logistics Services

Global integrated supply Chain	
Service	Availability in Lao PDR
Integrated door-to-door multimodal transport	Not available
Freight	
End-to-end transport solutions	Partial service*
Consolidator, Customs brokerage, Transit customs, Freight agency	Available
Intermodal transfer (road/rail/air/water), Container leasing	Not available
Value-added logistics	
Cold Chain, Reverse logistics	Partial service
Consolidations and finished-goods management, materials handling, packaging, warehouse management, cargo insurance	Available
Vendor managed inventory, Inbound management and distribution, Merge-in-transit and cross-deck operation, Configuration & built-to-order management, Kitting-to-line operations, Order fulfilment and management of purchase orders, Inventory management, Sourcing and supplier management	Not available

Note: Only for pick-up or last mile delivery

Source: World Bank (2020).

183. Establish incentives for efficient multimodal transport and a full range of logistics services. Removing ownership restrictions on logistics firms and enabling open access to public railheads and ICDs will promote competition and encourage integrated and cost-effective goods delivery. This will benefit both domestic producers and firms producing for export. As Boten-Vientiane will remain the sole rail line pending the construction of the link to Thailand, multimodal (railroad) transport operations and logistics will be central to ensuring the success of the rail link with China. The range of multimodal transport and value-added logistics services is shown in table 5.2.

184. Only a limited range of value-added logistics services are available in Lao PDR. The existing logistics providers offer the traditional services such as freight forwarding, customs brokerage, trucking, and warehousing. Many modern value-added services such as labelling, packaging, tracking, and tracing, are either very limited or simply not available. This constrains the potential for increasing value added to the agricultural, agribusiness, light manufacturing, and trading sectors. Demand for additional logistics services is forecast to grow following the opening of the Vientiane-Boten railway.

5.3 Institutional Framework for Transport and Logistics

185. Implementation gaps, inconsistent application of regulations, and updating required to meet Lao PDR ASEAN commitments. The institutional and regulatory framework for transport and logistics falls under the Ministry of Public Works and Transport and is governed by the laws on Land Transportation (2012), Multimodal Transport (2012), and Regulation on Business Establishment Approval under Public Works and Transport (2012). Many of the legal provisions in the existing laws and regulations are either partially implemented or not implemented at all. The recent World Bank assessment of the institutional framework identified implementation gaps relating to operating

licenses, with freight forwarders being issued a general transportation license rather than a specific operating license. The 2012 Law on Multimodal Transport has not been implemented.

186. Overly strict requirements for a Business Operating License (BOL) result in an inconsistent approach and stunt logistics services development. The BOL for a transport operator (Regulation 13779/PWT) specifies that a business must own a minimum of 20 vehicles which is unrealistic for small businesses. It limits the establishment of logistics service providers to outsource transport and simply act as intermediaries. It also influences businesses to encourage officials to adopt an ad hoc approach and overlook this requirement.

187. Over-regulation in the transport sectors restricts entry and stifles competition. The requirement for new transport and logistics investors to submit a business plan for review by MPWT officials is not an appropriate role for government officials. Government officials should not be assessing business decisions; this is best left to the private sector. Under the current regulations, government officials may reject the application if it is considered unrealistic. The criterion for approval lacks transparency and is not consistent with international good practice which focuses on consumer safety, health, and environmental protection. Further, requiring the BOL application to be approved by a committee of related agencies results in local interest groups, including existing businesses being consulted. It is not good practice to have existing business engaged, even indirectly, in approving new businesses who may be potential competitors.

Table 5.3 Entry Restrictions in the Transport and Logistics Sector

ISIC	Activity	Minimum Capital (US\$)	Foreign Ownership (percent)	Regulations
4923	Freight Transport by Road			13779/PWT 21 August 2012
	Domestic freight transport	350,000	100	
	International freight transport	570,000	49	
5210	Warehousing and Storage	110,000		
5221	Service activities incidental to land transportation			
	Domestic goods service station	590,000	49	
	International and Cross Border	1,100,000		
5229	Other transportation support activities			
	Domestic goods transport services	350,000	49	
	International goods transport services	350,000		

Source: EMC, 2016

188. Domestic laws and regulations are not aligned with the ASEAN Roadmap for the Integration of Logistics Services. The ASEAN roadmap required member states to open their logistics service sectors to nationals from other member states, up to a ratio of 70 percent by 2013. Currently, foreign participation in Lao PDR's transport and logistics sectors is restricted, with minimum capital requirements and maximum ownership thresholds. These restrictions are shown in Table 5.3.

189. Lao PDR is not implementing international transit agreements. Lao PDR is a member of the ASEAN framework on the facilitation of goods in transit (AFAFGIT) (1998) and the framework agreement on multimodal transport (2005). Lao PDR is a signatory to the ASEAN Customs Transit System (ACTS), a party to the ASEAN Roadmap for integrating the ASEAN logistics sector (2007), and the GMS Cross Border Transport Agreement (2007). The GMS CBTA provides for the exchange of traffic rights and designated transit licenses for each country, however, the existing transit provisions are outdated and the CBTA are currently discussion interim transit arrangements, while waiting for ACTS to be fully operational. Fully implementing the ACTS is a priority for Lao PDR.

190. Lao PDR needs to reform its regulation of the logistics services sector to encourage new investment, increase effective competition and deliver a broader range of services more efficiently. This requires amending regulation 13779/PWT (August 21, 2012) by removing the ownership restrictions in the logistics sector, removing the requirement for a business proposal/feasibility study, streamlining the licensing process, publicizing data on the approval of BOLs and allowing for the investigation of anti-competitive practices in the logistics sector. The licensing process needs to be based on transparent and predictable standard operating procedures which includes clear criteria for approval relating to citizen safety, health, and environmental requirements. The regulations also need to clarify the legal status and operating requirements for multimodal operators.

191. Ensure public access to railheads and other rail infrastructure and ensure transparent pricing. This includes establishing ICDs as common-user facilities and allowing for multiple operators in each ICD. The law on ICDs and dry ports should be revised to clarify their special customs status. The fee schedules for rail logistics services should be made available publicly.

192. Implement Transit Agreements and regulate the use of containers to develop multimodal transport. Lao PDR should implement the official use of the ATA Carnet which is accepted as an international customs and temporary import-export document in 87 countries; it allows goods to clear customs duty and tax free provided they are re-exported within 12 months. Lao PDR should also consider joining the Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention).



Chapter 6: Agriculture and Agribusiness: Trade and Regulatory Policies

6.1 Introduction

193. **Increasing agricultural growth is central to reducing poverty, delivering broad-based economic growth, and transforming Lao PDR into an upper middle-income country.** The World Bank 2008 World Development Report found that in “agriculture-based” economies, growth that originated in agriculture is four times more effective in lowering poverty than growth originating in any other sector (WDR, 2007). Given the relative importance of the rice sector, improving its productivity is pivotal to advancing overall agricultural growth. Lao PDR has the potential to leverage agriculture as drivers for continued poverty reduction and increased economic growth and trade. Increasing agricultural commercialization will have a disproportionate impact on reducing poverty²⁵. Countries with a track record of high agricultural growth have experienced substantial reductions in poverty rates²⁶.

194. **Agricultural growth has underperformed, despite the potential for more rapid growth.** Agriculture has consistently lagged the rest of the economy; most of the Lao citizens who fall below the poverty line are engaged in subsistence farming²⁷. Since the 2012 DTIS, agricultural value added has grown more slowly than the industry and services sectors. Notwithstanding considerable urban migration and the rapid growth of other sectors, Lao PDR remains predominately rural, and the economy’s growth has had a more muted impact on rural poverty. With lower rice yields relative to Thailand and Vietnam and a smaller cropping intensity, agricultural value added per hectare is also substantially lower. Lao PDR, with rich natural resources and deep cultural knowledge, encircled by rapidly growing economies with large populations, has the potential to capitalize on its geographical location and natural endowments by increasing trade in agricultural products.

195. **Increasing agricultural productivity is key for inclusive and resilient growth.** The agricultural sector provides a livelihood for almost two-thirds of the population (around 4.8 million), and accounts for 15 percent of GDP. Increasing productivity, incomes and jobs in the agricultural sector is essential for advancing more inclusive and resilient growth. Despite having rich natural resources, relatively abundant land resources, and geographical proximity to large population centers, the agricultural sector has delivered limited growth. Increases in production have been largely driven by expanding the area under cultivation, rather than from increased productivity.

196. **Increasing productivity in the agricultural sector underpins the GOL goal of continuing to reduce poverty and to graduate to middle income status.** Between 2010 and 2019, annual agricultural output growth averaged 5.7 percent. Income crops, livestock and forest products accounted for approximately two thirds of rural household income (Lao PDR Agriculture Census, 2011), although there are significant regional variations. The northern provinces are more dependent on crop income, while the central and southern provinces have more diversified income sources. There are considerable variations in income with the areas more reliant on subsistence agriculture and less connected to markets having a higher poverty rate. There are also significant gender divisions within the agricultural labor force with women working longer hours with less access to credit and using fewer new technologies (FAO, 2018). This gender division is particularly the case in the upland ethnic areas. When women have access to land they are more likely than men to engage in commercial production to supplement household income. Creating more opportunities for women in the agricultural sector would encourage agricultural growth.

197. **Rice farming dominates total agricultural production but evidence of growing diversification.** The sector is dominated by rice farming which accounts for 70 percent, and this is

25. It will also reduce malnourishment. The incidence of malnourishment is higher in the upland and northern areas and is closely correlated with high transport costs which limits market access to locally produced fruits, vegetables, fish, and livestock. Lao PDR ranks 87th out of 117 countries on the Global Hunger Index (IFPRI, 2019).

26. World Development Indicators (database). <https://databank.worldbank.org/source/world-development-indicators>

27. 80 percent of the rural population remain subsistence farmers.

followed by livestock production (15 percent). The share of traditional cash crops, including coffee, bananas, maize, cassava, and vegetables, in total production has grown rapidly over the past decade but remains relatively small. Women farmers account for over half of all agricultural activities. Agricultural production, marketing and processing is being transformed by rapid urbanization, outward migration, and increased incomes. Labor shortages and a growing demand for a wider variety of food staples, combined with a more liberalized market, are creating incentives for agriculture to become more commercialized. Higher levels of commercialization and cross-border trade are resulting in increased incomes.

198. Smallholder growth is driving increased agricultural income. Subsistence smallholder farmers remain in the majority. However, the past decade has witnessed the growth of more professionally managed farms producing for the market and an increasing number of smallholders selling part of their production into the market. Enhancing smallholder productivity requires the adoption of improved agricultural practices and access to better quality agricultural inputs such as seeds, fertilizer, and machinery. Better farming practices may be realized through contract farming arrangements, farmer education through extension services, and policy and regulatory reforms that reduce trade and transaction costs.

199. Government agricultural strategy prioritizes increasing agricultural productivity. Increasing agricultural productivity in the rice sector was one of the priority sectors in the eighth NSEDP (2016-2020). The Agricultural Development Strategy to the year 2025 and Vision to the year 2030 (ADS 2025) promotes national food security and envisages a modernized and increasingly productive agricultural sector contributing to economic growth. The ADS 2025 sees the agricultural sector generating additional jobs and higher incomes to reduce poverty and lessen urban-rural inequalities.

200. Key challenges include information gaps, coordination challenges along the value chains, market restrictions and changing trade regulations. These all contribute to higher costs and high consumer rice prices relative to neighboring economies. Addressing these challenges requires government interventions aimed at reducing the regulatory and administrative barriers to sourcing agricultural inputs at competitive prices, improving access to information on good agricultural practices, ensuring compliance with sanitary and phytosanitary requirements, increasing knowledge on market prices, and increasing access to finance for players along the value chain. This requires strengthening public service delivery and regulatory compliance and ensuring a conducive business-enabling environment for private investment.

201. The report identifies the priority trade policy and regulatory cross-cutting constraints. These contribute to increasing trade costs which limits the size of the market and reduces the incentive to invest in new technologies and boost productivity.

6.2 Access to Agricultural Inputs

202. Existing regulations and trade policies limit access to competitively priced agricultural inputs. Inclusive and sustainable growth in agriculture requires incentivizing smallholder farmers to adopt improved farming practices to advance productivity and to produce more for sale into the market economy. This requires that smallholder farmers adopt improved techniques, seeds, and other productivity-enhancing inputs such as fertilizer and some mechanization. This may be realized through multiple channels including contract farming arrangements, farmer education through extension service (which itself requires capacity expansion and quality improvement), and certain policy and regulatory reforms that will increase access to lower priced agricultural inputs. This section highlights the regulatory and administrative reforms constraining farmers from accessing a wide range of agricultural inputs at competitive prices. It focuses on how government regulations, transport costs, trade policy and the structure of the agricultural sector impact access to seeds and fertilizers. The ability to import agricultural inputs at competitive prices represents a key building block on the path to increasing farm level productivity and competitiveness.

6.2.1 Tariffs and NTM on Agricultural Inputs

203. **Agricultural inputs have low tariffs but face high NTMs.** Agricultural inputs (machinery, tools, equipment, materials) have relatively low import tariff rates, ranging from zero to five percent, depending on their origin. However, while the rates of tariff have been substantially lowered for most traded goods, user tax, costs associated with transportation and regulatory compliance, increased the price for all imported goods, including farm inputs. Further, agricultural inputs are subject to Non-Tariff Measures which result in significantly higher prices.

204. **NTMs as hidden barriers that result in high trade costs.** NTMs remain a significant problem for producers in Lao PDR to improve efficiency and become more competitive. They are hidden barriers because NTMs, such as SPS and other administrative measures including technical barriers to trade (TBT) are deemed legitimately necessary to ensure consumer safety, environmental protection, plant health, and animal welfare. Ensuring public health and safety requires standards and regulations. These should be applied to all products, regardless of whether they are produced domestically or imported. While the regulations do not distinguish between producers, the impact of the regulations has a differential impact, resulting in much higher costs for imported products.

205. **Administrative procedures for managing regulations result in increased trade costs for imports.** Although NTMs framework has been brought to a level of similar countries in the region, some administrative procedures, and requirements, such as the practice of import licensing for many traded goods remains problematic as these get translated into monetary cost and passed down to final buyers, who may be poor households and smallholder farmers (World Bank, 2016). This will be further discussed under the “Government regulations”. Customs procedures and practices at cross-border transit points and other non-tariff measures that are either unnecessary or redundant, and the many paper documents required that can be digitized, continue to make imports and exports more costly for Lao businesses and consumers, either directly on the goods being imported or/and indirectly on transportation service (to be discussed further under “Transport cost”). Beyond the cross-border transit points, these hidden barriers include import control through licensing that limits supply and competition, to be further discussed under the “Government regulations”.

206. **Import tariff rates for agricultural inputs are generally low relative to other goods but vary across origins, which limit choices and affordability.** Lao PDR is a member of ASEAN. Many agricultural inputs from ASEAN member countries, and those with special free trade agreements either with Lao PDR or with ASEAN, have a tariff rate of zero or above but lower than the MFN tariff rates of 5-10 percent, as illustrated in Table 6.1.

207. **Low tariff rates impact competitiveness.** Even relatively low tariff rates (of 5-10 percent) may have a significant impact on the competitiveness and, hence, bottom line of small or even large Lao PDR farms, considering the relatively high transportation cost facing Lao PDR importers. This is especially true for certain inputs, such as machinery with certain specifications and qualities that must be imported and does not qualify for tax exemption. For example, agricultural tractors imported into Lao PDR are exempt from import tariff (zero tariff), if they are from other ASEAN member countries (under ASEAN Trade in Goods Agreement), Vietnam (under the Lao-Viet Trade Agreement), S. Korea (under the ASEAN-Korea Free Trade Area), and China (under the ASEAN-China Free Trade Agreement)²⁸. However, chemical fertilizers, fruit and vegetable seeds for sowing, land ploughing machinery, or agricultural tractors imported from Australia or New Zealand are subject to 2 percent tariff. Tractors from India are subject to 3 percent, 5-8 percent if from Japan, and 4-10 percent if from Hong Kong, China. If imported from elsewhere, they are subject to the 5-10 percent MFN rate.

208. **Multiple products with dual purpose face higher tariffs.** While import tariff rates have been lowered for most items, they were replaced by high user tax which raises the prices of dual-purpose goods that are critical for modernization in production and services. Items that may seem less important or unrelated to production inputs but are critical for running and modernizing business

28. “Agricultural tractors” with HS Codes 8701911000, 8701919000, 8701921000-51000.

enterprises, because they have dual purposes, for use in production processes or in services and for personal use. These include vehicles, computers, and communication equipment. Import tariff rates for these items have been lowered to 0-20 percent for trucks, 0-40 percent for cars, 0-5 percent for computers, 0-10 percent mobile phones and similar mobile communication units, depending on their origin. Although the tariff may seem relatively low, these products are subject to Value Added Tax (VAT) and vehicles are subject to excise tax. The result is that the lower import tariff rates have eased the burden of commercial importers in moving traded goods across international borders, fulfilling the objective of the “free trade area agreement”, but the excise tax has kept prices for these items high and in some cases (i.e., motor vehicles) higher than before the tariff rates were lowered. For instance, in Lao PDR, pickup trucks that can be used for transporting tools, equipment, small machinery and agricultural products between farm and the market, as well as for personal transportation needs, are generally priced nearly twice those of the same brand and models in the United States. These higher costs are particularly challenging for small farmers and micro and small agricultural processing enterprises.

Table 6.1 Lao PDR’s import tariffs in 2020 for selected agricultural inputs

Other origins with	Normal Tariff rates	5	5	5	10
Other origins with	Most Favorable Nations (WTO)	5	5	5	10
Japan	ASEAN-Japan Comprehensive Economic Partnerships	5	5	5	8
Vietnam	LAO-VIET Trade Agreement	0	0	0	0
APTA	Asia Pacific Trade Area	5	5	5	10
India	ASEAN–India Free Trade Area	0	0	0	3
Korea	ASEAN–Korea Free Trade Area	0	0	0	0
ASEAN	ASEAN Trade in Goods Agreement	0	0	0	0
Australia & New Zealand	ASEAN-Australia/New Zealand Free Trade Agreement	2	2	2	2
China	ASEAN-China Free Trade Agreement	0	0	0	0
Hong Kong	ASEAN-Hong Kong, China Free Trade Agreement	4	4	4	10

Source: Compiled from <https://www.laotradeportal.gov.la> (accessed 15 December 2020).

6.2.2 Government regulations

209. All chemical fertilizer and vegetable seeds used by Lao PDR farmers are imported from neighboring countries as there is no domestic production. While there are several commercial organic fertilizer production plants, a significant portion of organic fertilizer is imported due to insufficient domestic supply and differences in qualities or characteristics.

210. Specific constraints for Lao PDR farmers. The challenging business environment may partially explain the absence of investment in producing agricultural inputs in Lao PDR. There are also several specific constraints holding back investment, including relatively high domestic costs for inputs, and high transport and logistics costs. The legal protection for contract farming discourages large scale foreign investment in commercial agriculture, and the majority of smallholders practice subsistence farming with limited access to finance or modern farming techniques.

211. Administrative control of the supply of agricultural inputs through import licensing, import permit requirements, and unnecessary inspections and clearances contribute to high agricultural inputs prices and, hence, cost of production. Currently, only commercial suppliers or farms (normally relatively large) with a business license, that have acquired an import license from the Ministry of Agriculture and Forestry (MOAF), are allowed to import, either for own use or

for sale, animal feed, fertilizer, pesticides, and some other key agricultural inputs into the country. Prior to an item being imported, the importer must request an import permit from the MOAF. The MOAF will then send its officials, along with officials from MOIC and the Customs Office, to conduct a site inspection to confirm the actual need and determine the amount to be allowed for import. The import licensing requirement for tractors was abolished in October 2021. However, administrative controls remain on many agricultural inputs. Several cases are briefly discussed below to highlight how regulatory requirements, that result in high agricultural inputs cost, erode the competitiveness of Lao PDR agricultural products.

212. Animal feed is subject to onerous import requirements. In most cases, imported animal feed is tax exempted, but it is also subject to administrative control by the MOAF in the same way as fertilizer and tractor. A business process study on animal feed imports from Nongkhai of Thailand to Vientiane Capital by Khamavongsa (2014) identified seven steps involving the required government administrative procedures, some of which are unnecessary and redundant. The study involves an importer, a livestock farm in the Vientiane Capital, which already has a business license, official customs certification, and import-export license as required. The seven steps include:

1. Request for permission to import animal feed, which requires various documents.
2. Officials from three different bodies make a farm site inspection to assess the farm's needs and the amount required for annual import: Vientiane Capital Livestock and Fishery Division (VCLFD), Vientiane Capital Trade Division (VCTD), and Vientiane Capital Customs Division (VCCD)
3. The importer prepares and submits documents to the customs office at the checkpoint to be approved by the head of customs office.
4. Import goods are inspected by quarantine officers at the checkpoint.
5. Import goods are inspected by customs officers at the checkpoint.
6. After receiving clearance by immigration police at the checkpoint, the goods are then transported to the proposed destination accompanied by traffic police to ensure delivery to the proposed location.
7. Within seven days after receipt of goods, the importer is required to obtain a clearance of all import documents with customs office at the Lodgment No. 5.

213. Existing clearance procedures increase costs, cause delays, and creates rent-seeking opportunities. The study estimated that completing these seven steps takes approximately 4.5 days, and costs \$500 equivalent for compliance per shipment, which include 24.7 percent voluntary payment for faster processing and 75.3 percent for actual official fees. In step 2, when import permission has been obtained, requiring site inspections by each of the three government departments is redundant, one (by VCLFD) should be sufficient. In step 6, the requirement to designate a point of delivery beyond the need of a delivery person to know where to deliver the animal feed, and especially an escort by a traffic police to ensure the delivery goes to an officially enforced location is also unnecessary. It simply increases costs. In step 7, the official clearance requirement after goods have been delivered is unnecessary. Once a clearance is completed before the goods leave the cross-border transit point, requiring a further clearance is simply redundant. The clearance at the cross-border transit point should be the only requirement.

214. Cumbersome and unnecessary procedures encourage importers to use informal channels which undermines the intent of the protective regulations. Overall, the cumbersome and unnecessary procedures cause delays and allow room for unofficial payments to speed up the process. In addition, they encourage importers to use the 'informal' channel which put the public and environment at risk and generates no revenue.

215. Fertilizer imports subject to quota and require a permit. According to an interview with officials at the ministry's Department of Agriculture, officials would determine a quota for chemical fertilizer import and application for each agricultural region, normally separated based on district borders, for commercial suppliers to import for sale. For a large farm, with a business license, that wants to import for its own use, it is required to have an import license every time a product requiring a MOAF permit is imported. In the process of obtaining a permit, an official from the MOAF will conduct an inspection to determine the actual need and the quantity to allow for import. The reason for this is to prevent over supply and over application, according to the official interviewed. While over-application of chemical fertilizer can have a negative impact on land quality and, perhaps, long-term impact on the ecological system, this administrative control is effectively limiting the supply and creating monopoly power among suppliers across localities, both of which tend to raise prices.

6.2.3 Transport costs

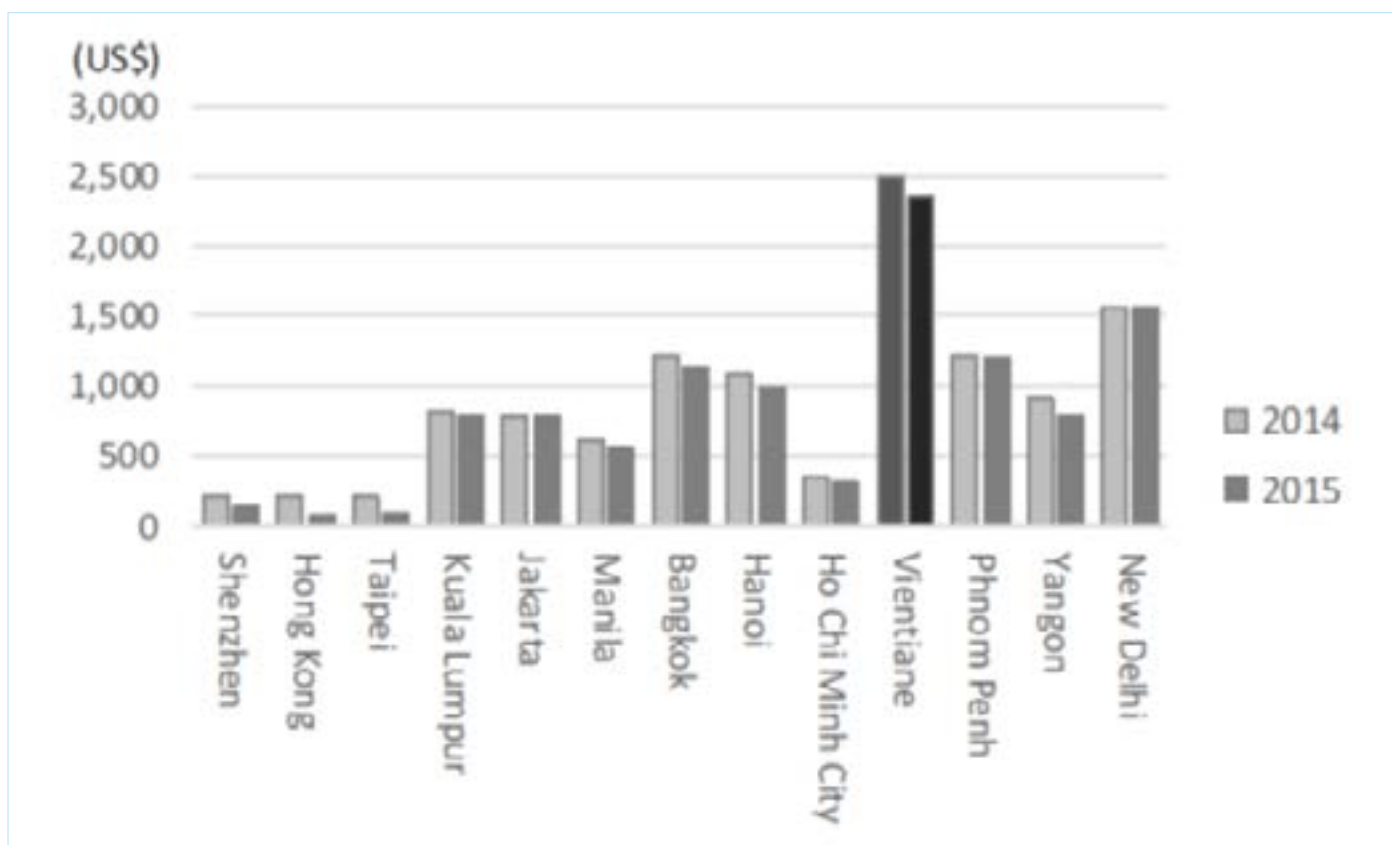
216. Transportation prices within Lao PDR and for international shipments, in general, are higher than in neighboring countries, which contributes to higher prices and erodes the competitiveness of Lao products both at home and abroad. Licensing practices for transporting goods contribute to inefficiency in transportation as it limits competition. As noted earlier, Lao PDR transport prices are higher than Thai truck transport prices; Thai trucks that deliver goods from Thailand to Lao PDR have a full load of goods on the way back to Thailand, whereas Lao trucks exporting to Thailand have no backhaul. Recommendations for reducing the relatively high transport costs are outlined in Chapter 5.

217. Frequent traffic stops increase costs. Traffic stops for goods moving across districts and provinces have been reported as a common problem for traders (some are producers themselves). Although the official purposes for traffic stops are justified, for stopping smuggling of legal and illegal goods, they also unnecessarily increase the cost for transporting legal goods. Each stop is itself a cost, through delay in delivery and its effect on the shelf-life of agricultural goods; officials often ask for some payment from transporters. Traffic stops are used as an opportunity to collect tax for the goods being transported. For example, as late as the first quarter of 2020, coffee transport trucks were stopped by traffic police to collect tax in the Bolaven Plateau area; the Ministry of Finance has announced that such tax collection was illegal, according to the LCA (Lao Coffee Association, 2020). Road stops to check for tax payments and smuggling of illegal goods have created the opportunity for corrupt officials to extract unofficial fees from legitimate transporters, thereby adding to costs.

218. International shipping cost from Vientiane is much higher than for neighboring ports. A study by Ishida (2017) found the cost of shipping a 40-ft container to Yokohama Port, Japan, from Vientiane is twice the cost of shipping from Bangkok and Phnom Penh; more than twice from Hanoi; about eight times more than shipping from Ho Chi Minh City; and about 60 percent more than shipping from New Delhi (Figure 6.1). An important finding is that for the total cost of shipping from Vientiane to Yokohama Port of \$2,500, it costs 40 percent for the 20 km portion of the shipment between Vientiane and Nongkhai, as it costs \$700 shipping between Nongkhai and Bangkok Ports—Klong Toey and Laem Chabang Port, and \$800 from Bangkok Port or Laem Chabang Port to Yokohama Port. The high costs for border crossing between Vientiane and Nongkhai of Thailand accounted for 39.7 percent of the \$1,700 shipping cost between Vientiane and Bangkok Ports or Laem Chabang Port. Further, the absence of back load opportunities from Vientiane, therefore making the return trip empty, also contributes to the higher costs.

219. Fees on the Lao PDR side of the border are higher than those of neighboring countries. Ishida recommends that the Government of Lao PDR “should try to reduce the customs clearance fee and empty container fee to at least that of the Thai side.” In addition, Ishida suggests that both administrations should cooperate to reduce costs involving the border crossing.

Figure 6.1 Shipping cost of a 40-ft container to Yokohama Port, Japan



Source: Ishida (2017). *Logistic Costs in Lao People's Democratic Republic*, Institute for Developing Economies, Japan External Trade Organization.

6.2.4 Impact of Government Controls on Market Structure

220. Import permit practices limit the development of competitive markets for agricultural inputs. Problems associated with market structure in the agricultural inputs supply industry in Lao PDR largely stem from the government's administrative control of supply through import licensing. Import licensing and import permit practices increase the cost of imports and limit the supply. They also effectively create monopolistic power for local suppliers. The import cost increased by these officially required procedures include some unnecessary requirements that cost time and money, as briefly discussed earlier for an animal feed import by a livestock operator in the Vientiane Capital. Moreover, as noted by the World Bank (2016), the costs associated with obtaining a license and permit is higher for importers in the provinces since the issuance of most licenses is centralized in the Vientiane Capital, requiring importers to spend resources in the province and the capital.

221. When applying for import licenses and permits, farm operators must have quantities estimated by officials. For importers who are distributors, their market is limited by the official estimate of needs in the designated area or district. The study by Khamavongsa (2014) cited that a traffic police was required on some occasions to escort the delivery truck of imported animal feed to ensure that the delivery goes to the address proposed as part of the import permit. This effectively limits supply in the locality, inhibits competition among suppliers, and raises costs.

6.2.5 Improving access to seeds and fertilizer

222. Import licenses and permits issuance for farm inputs (feed, seeds, fertilizer, machinery) should be removed. In September 2020, the GOL issued a Ministerial Order terminating a license requirement for farmers who wish to import a handheld tractor for their own use, with a limit set at one tractor per family.²⁹ This easing of the import control also extended to licensed commercial importers-suppliers. This removed the requirement for licensed suppliers to apply for an import

29. Ministry of Industry and Commerce Order No. 0807/MOIC.DMEX, Vientiane Capital, 2 September 2020.

permit for each shipment of tractors, according to an interview with an official at the Department of Import and Export, MOIC³⁰. This is expected to benefit farmers through its impact on market competition, because most farmers will be unable to directly import a tractor. They are expected to go through commercially licensed suppliers/importers. However, farmers' groups or cooperatives wishing to import handheld tractors, must be verified, and then authorized by agricultural officials, who will determine how many tractors each farmers' group can import.

223. Other key farm inputs such as feed, seeds, fertilizer, and farm equipment continue to require an import license and permit from the MOAF. The import license and permit issuance practices and the unnecessary administrative procedures required cause delays and allow for unofficial payments to speed up the process. These costs ultimately get passed on to farmers. In addition, they encourage importers to utilize informal channels that encourages rent-seeking and create safety risks to the public and environment. The official practices, requiring site inspection to estimate the need and establish the import quota of agricultural inputs for each importer/farm operator, are not serving the agricultural sector. The current requirement for import permission, requiring a site inspection by three government departments (Livestock and Fishery, Trade, Customs), is redundant; VCLFD only should be sufficient.

224. Farmers and farm managers are the best determinants of the type and amounts of agricultural inputs required. If an over-application of chemical fertilizer is harmful, the farmer will bear the cost, and experience will lead to adjustments towards an optimum amount of application. Instead of telling farmers how much fertilizer they need and may import, farmers will be better served for the MOAF to provide education through extension services, especially for smallholder farmers. Environmental and human health protection involving agricultural practices is best carried out through education and law enforcement.

225. Abolish the point of delivery designation and redundant clearance. The delivery driver alone needs to know where to deliver the animal feed; an escort by a traffic police to ensure it goes to the designated location is not necessary. Farmers or traders importing farm inputs should be free to transport to where most suited to their needs, which may change over time. The administrative control of distributions of farm inputs only creates inefficiency.

Clearance at the cross-border transit point should be the only clearance required. The official clearance requirement, within seven days after goods have been delivered, is redundant.

226. Transportation cost can be lowered through market liberalization and simplifying the required procedures at the cross-border transit points. Market liberalization in transportation can benefit users by substantially lower user-cost. Simplifying administrative requirements will also reduce transportation cost for imports and exports.

227. Reducing the cost of farm machinery will encourage investment in irrigation technology. High irrigation costs discourage smallholder farmers from farming in the dry season. With only one season, rice farming irrigation is not economically viable since most of the economic benefit derives from irrigation during the dry season. High irrigation cost increases the economic cost of farm equipment and machineries because they will be left idle for several months each year. Thus, lowering irrigation cost is the key to increase dry-season rice production and, in effect, lower the cost of farm equipment and machineries. Lao PDR must seriously consider an irrigation reform to encourage private investment and ownership. A sustainable irrigation system must be developed and operated based on a simple principle of benefit-cost ratio greater than one; fully private ownership and operation are important. Most irrigation systems in Lao PDR have high operation costs. Often, these result from poor design, as well as under-utilization of the irrigation equipment. This is mainly due to state determination of the investment, retaining ownership, and supervising implementation. Ensuring more efficient investment requires a more active role for the private sector, including risk sharing, to spur the smallholder to increase productivity.

30. Interview on 30th September 2020.

6.3 Selected Agricultural Sectors: Growth and Structural Change

228. **This section presents brief overviews of the major trends in rice, vegetables, coffee, livestock bananas, maize, and oil crops.** Rice and maize are the main staple food crops grown by smallholders, for both household consumption and sale in the market. While each sector experiences specific constraints, it is apparent that the cross-cutting challenges identified, in the earlier chapters and in the discussion on agricultural inputs, are critical to increasing investment and productivity in agriculture and in expanding linkages to manufacturing and tourism. Realizing the objectives set down in the draft ninth NSEDP and ADS 2025 requires improvements in the policy and regulatory environment.

229. **These subsectors constitute the main source of income for approximately two-thirds of the population and for the poorest groups.** Addressing constraints to increasing productivity in these subsectors would contribute to reducing poverty in the rural areas.

230. **Rice, vegetables, and coffee: Rice is Lao PDR's most important crop due to its high share in land and labor input, and its critical role in food security as Lao people consume rice daily.** Vegetables have been increasing in importance as job and income generators. Virtually all smallholder farmers grow vegetables for their own consumption and cash income; a small but growing number is prioritizing vegetable production for sale. Coffee is considered a traditional cash crop that has an important role in poverty alleviation. Coffee provides farm-jobs and has considerable untapped value-added potential for creating additional non-farm jobs and income along the value chain.

231. **Oil crops, maize, and livestock: These have been promoted to smallholders as commercial opportunities to complement rice production and increase their incomes.** Lao PDR has targeted developing the livestock industry; however, multiple challenges are holding back growth. Principal challenges include the level of animal husbandry, veterinary services, underdeveloped abattoir, and a weak distribution system. The high cost of imported animal feed is also a constraint.

6.3.1 Rice

232. **Rice is the major agricultural product and food staple for Lao PDR.** It accounts for half of the country's total agricultural output (ADB, December 2018) and utilizing approximately 72 percent of agricultural land under cultivation (WB, June 2018)³¹. The economy is a net exporter; however, the sector potential remains under realized. Over the past two decades, cross border trade and technology transfers have become more important. Increased linkages also result in greater policy spillovers within the Greater Mekong Subregion³² (GMS). For example, Thailand's rice-pledging scheme affected process and trade flows in the GMS economies through 2011-2014; however, such spillovers are not addressed in Lao PDR's national strategies and plans.

233. **There are three major types of rice production in Lao PDR:** rainfed, dry season, and upland. Rainfed and dry season, irrigated, rice paddies are mainly located in the central and southern regions, along the Mekong River basin, where most of the country's flat plains are located. Most upland rice production, which is grown during the rainy season, is in the more mountainous northern region and more commonly practiced by the ethnic minorities, for subsistence purposes, who traditionally resided in the mountainous areas. Rainfed paddy is the largest, at 81.3 percent annual average over a five-year period of 2014 – 18, followed by dry season (12.2 percent) and upland rice (6.5 percent).

234. **Most rice production in Lao PDR takes place during the rainy season.** This includes rainfed and upland paddy, accounting for approximately 88 percent of the annual total rice output in the country during a five-year period of 2014–18 and is overwhelmingly characterized as smallholder operation and for subsistence purposes. Approximately 95 percent of rice produced is consumed domestically; the balance exported. Lao PDR is unique in growing the glutenous (sticky) rice, the daily preference of the Lao people; it comprises 90 percent of total output.

31. Asian Development Bank (December 2018).

32. Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam.

235. **Rice produced in the country is primarily milled in local, small mills.** It is stored in open bags or open-top containers at small rice stalls commonly located next to or near local fresh food (wet) markets and sold in small quantities. The Lao PDR rice value chain is less efficient than those in the neighboring economies of Thailand and Vietnam. Areas for potential efficiency gains include input supply systems, farm level productivity, milling, logistics and transportation, and production of higher quality rice. Increasing labor productivity translates directly into increasing farm incomes and stimulates structural transformation.

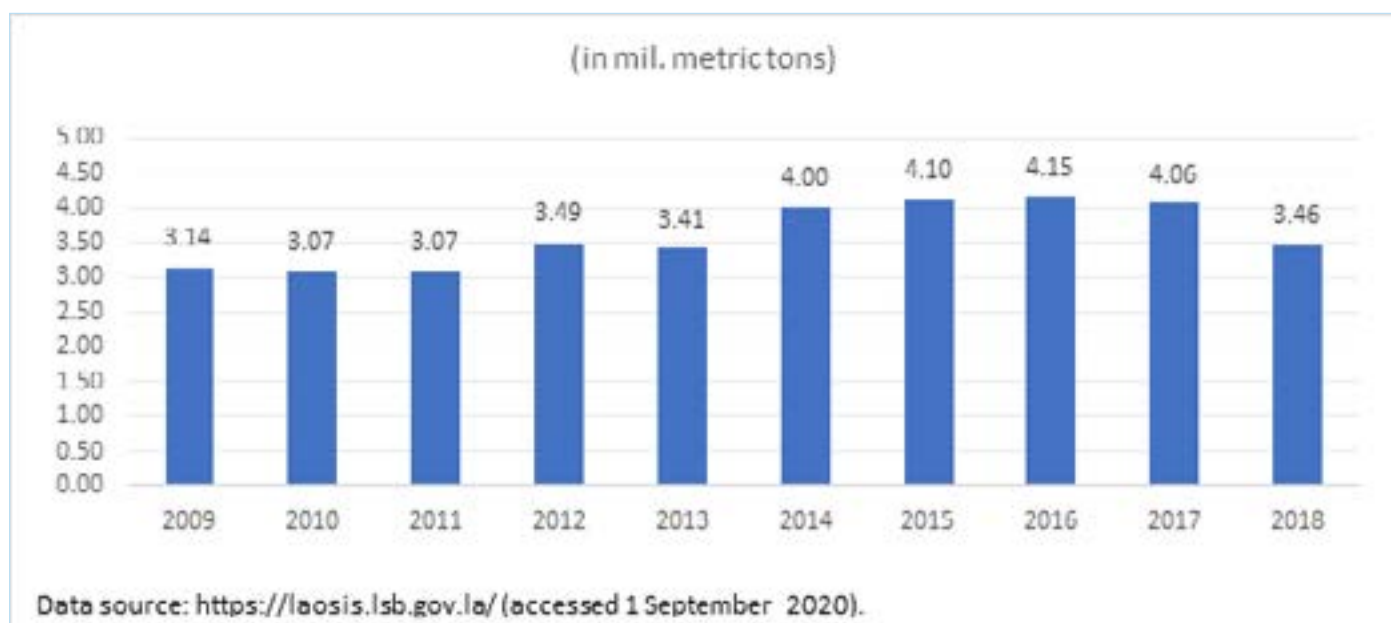
236. **Currently Lao PDR is a small and irregular exporter of rice to Vietnam, China, and the EU.** Economies with regular export markets for their rice products have more efficient domestic sectors known for their quality, reliable supply, effective marketing, and branding.

Recent performance and trends

237. **Lao PDR’s total annual rice output increased over the 10-year period of 2009-18.** Since 2014, it has consistently increased from slightly over 3 million metric tons (mt) to slightly more than 4 million mt, with annual fluctuations due to weather and plant pest (Figure 1). In 2018, however, the latest available data, total output dropped below its five-year average to 3.46 million mt, from 4.06 million mt in 2017, mainly due to floods. In 2018, approximately 12 percent of rice planted was destroyed, due mainly to heavy flooding, based on Lao Statistic Bureau’s data. In 2019, the FAO estimated that output was around 3.4 million tons; again, below the five-year average, also due to bad weather comprising droughts in the north and floods in the central and southern regions.³³

238. **Production shifting southward with rainfed rice increasing.** In the past decade (2009 – 2018), rice production has been shifting more towards the central and southern regions, away from the north, and more towards rainfed rice paddy. Over a five-year period of 2014 – 18, both the central and southern regions increased their shares to account for 83 percent of total output.³⁴ This southward shift of rice production is likely the natural result of the increasing commercialization of agriculture in the country as farmers shifted to more productive crops. Driven by Chinese investors, new additional investments were made in the more mountainous north, in other cash crops such as banana, and vegetables. In the central and southern regions, where rice paddy is more productive, rice farming expanded by increasing the areas harvested by 12 and 14.6 percent, respectively.

Figure 6.2 Total rice production in Lao PDR: 2009 – 18



33. FAO (April 2020): Country Brief 22 April 2020.

34. Instead of examining year by year, taking an average over a five- or three-year period provides a more accurate picture of changes over time, as agricultural output is subject to seasonal weather fluctuations, pests and diseases infestation.

239. **The four largest producing provinces Savannakhet, Champasak, Saravane, and Khammouane have increased their share in total production, primarily through increasing the area under cultivation.** These four provinces are contiguous and situated along the Mekhong River basin, which constitutes a regional rice production cluster. Savannakhet remains the largest producer, growing in importance as its share in national annual output increased from 21.8 percent during the 2009-13 five-year period to 24.5 percent during 2014-18, while Vientiane Capital, Vientiane Province and Xayaboury were all experiencing declining shares in national output.

240. **Output growth is primarily due to land expansion with limited productivity growth.** Output expansion over 2009-18 was a combined result of land expansion for rainy season crop and productivity gain. The total land use for rice production with all the three categories combined (rainfed, dry season, upland) over this 10-year period had increased from 874,043 ha on average during the 2009-13 period, to an average of 965,017 ha during the next five years, a 10.4 percent increase. During 2009-13, productivity increased by 13 percent, from the relatively low five-year average of 3.7 mt/ha to 4.2 mt/ha during the next five years.³⁵

241. **The relatively low productivity of Lao rice production is largely due to its self-sufficient subsistence nature.** Subsistence upland rice, which accounts for slightly less than 7 percent of the country's total rice output, produced only 2 mt/ha per season. The wet season rice paddy, which accounts for more than 81 percent of all rice output on average over the 2014-18 period and is also mostly for subsistence, yielded 4.3 mt/ha during the five-year period of 2014-18, an increase from 3.9 mt/ha on average during the 2009-13 (Figure 6.3). The more commercially oriented dry season rice paddy produced relatively high yield, with 5.1 mt/ha per harvest on average during the 2014-18 period, an increase from 4.7 mt/ha during the previous five years.

Figure 6.3 Productivity comparison across types of rice production in Lao PDR: 2009-18



242. **The share of dry season rice in the country's total output and in the harvested area have both declined.** While it made progress in productivity, there are some worrying signs, including a constant annual average output over a decade (2009-18). This is primarily an outcome of the government sponsored irrigation system which were shunned by many farmers because of their onerous operating costs.

243. **Small scale distributors predominate in the domestic market.** Most rice production is dominated by smallholders for self-sufficient subsistence purpose, with the farmers drying and storing their own paddy and then shipping to small local millers when needed for household consumption. Only the surpluses are either sold directly to local mills or mobile collectors who sell on to a few large commercial mills. The more commercial-oriented rice production is either owned and operated

35. Land expansion and productivity gain are measured based on a five-year average of two five-year periods, 2009-13 and 2014-18, for each respective measure.

by larger mill owners, or smallholder rice farmers who participated in a contract farming agreement with mills.

244. Government intervention, setting statutory prices for rice, should be ended. The government intervenes to promote price stability for rice (and other essential products). The MOIC collects data on value added along the value chain with the aim of recommending minimum purchase prices at each stage. The collection of data should be encouraged as publishing this information will assist with price discovery; however, setting statutory prices should be ended. Establishing a fixed price for a product discriminates between producers. Production costs vary substantially within specific activities for farms and firms. Setting minimum prices may discourage the more productive farms from offering lower prices to take advantage of scale economies; it will discourage investment and constrain productivity growth. Further, price setting by commodity does not address quality differences and will discourage investments aimed at delivering value-added quality enhancements.

Challenges

245. Characteristics of the rice value chain. (i) low productivity and quality management at the farm and immediate post-farm levels, (ii) a fragmented milling sector dominated by small operators using old technology, (iii) limited incentives for increasing product quality; and (iv) limited domestic purchasing power. Constraints in the rice sector of Lao PDR include limited capacity, low productivity, high production costs, inefficiency along the value chain, and inconsistent supply and quality. Increasing sustainability in the rice sector through lowering emissions requires investments in improved irrigation, residue management for run-off, expanded extension services introducing climate-smart technologies, and crop diversification.

246. Farm level inefficiencies. A value chain study by the World Bank (June 2018) reveals that the major factor holding back farmers from engaging in intensive-farming to increase yield and output, by farming in both wet and dry season, is low profit that results from a combination of low productivity, low quality of paddy, and high cost of production.³⁶ This study finds important evidence in contrast to a common belief that farmers were getting a low farm-gate price. In fact, Lao farmers received a higher farm-gate price (\$290) per ton of paddy than farmers in Vietnam (\$227) and India (\$254), but lower than farmers in Thailand (\$332) and China (\$476)³⁷. However, farmers in Lao PDR received the lowest net profit per ton, at only 12 percent, compared to 48 percent in Vietnam, 21 percent in India, 59 percent in Thailand, and 44 percent in China.

247. A major contributor to the high cost of production is the high input costs of the first and last stages of farming, land clearing and harvesting, mainly due to small-scale operations. Even small-scale farms, especially those with children attending school or grown-up children working in cities, commonly require the help of hired laborers and machinery for land preparation and harvesting. The major factor, increasing cost, is the small-scale operation and one season of planting. Owners/operators of machines for land preparation and harvesting must calculate the cost of moving machines from one farm to another with only one busy season; dry season rice accounted for only 12 percent of the total annual rice production (2014–18). An idle machine costs money, which the owner must include in the service fee when hired. Small farmers who can afford to own a small tractor, commonly the type that the operator must walk behind, will use it only one season a year.

248. High operating cost of irrigation, largely due to operational management inefficiencies and small-scale operation. This is one of the major barriers to increasing dry season rice production. Currently, most irrigation systems are publicly owned, due to a lack of private investment, while their operations may be under water-user groups or private lead farmers who have relatively large farmland and investment. Due to this arrangement, most irrigation systems are managed by officials

36. World Bank (June 2018).

37. Prices of paddy with 14percent moisture; sticky rice for Lao PDR, the type of rice mostly grown in the country, and regular non-glutenous rice for all other countries compared (WB, June 2018).

who are less knowledgeable, less competent, and less interested in maintaining good service and efficient operations, leading to often less than reliable service and higher cost than a private owner.

249. Inefficiency along the value chain from collecting, to milling, to distribution to final consumers. Small-scale rice farms without a common place in the village for storage of the harvest, sell to aggregators who also can spend up to 3 days driving to villages to fill one truck. (WB, June 2018). Because the primary purpose of growing rice for most farmers' is self-sufficiency, and due to the small-scale of production, the surpluses sold to collectors are frequently very small quantities. In addition, small farmers tend to sell only the amount of rice they require for their immediate cash needs and keep the rest, only selling again to meet cash needs.

250. Small-scale mills using old technology have lower productivity relative to new mills. Inefficiency in milling is associated with the existence of many small-scale mill operations with old technology located across localities. This characteristic of mill operations in Lao PDR is a natural response to the need of smallholders whose primary purpose for growing rice is for self-sufficiency. Milling efficiency in Lao PDR ranges from 55 percent to 65 percent, compared to an average of 66 percent in Thailand and Vietnam, and 64 percent in Cambodia (World Bank, June 2018).

251. Inefficiency in selling is also due to small-scale operations. In addition to high cost at the selling point due to small operations, this has an effect of raising transportation cost from the mills to the point of delivery as orders by wholesalers tended to be smaller than an efficient quantity, which is a full truck load of 30 tons (WB, June 2018). Prices for truck delivery is charged per trip, a half-full truck costs twice per unit for transportation compared to a full truck. This encourages the use of smaller size vehicles for transporting rice from mills to the point of delivery. This reduces the transportation cost but is more expensive than using a larger delivery truck with a full load.

Recommendations for increasing Rice Value Added

252. Promote commercialization of and specialization in specialty sticky rice varieties for domestic consumption and export. Lao PDR is unique for being the capital of sticky rice and is rich with many indigenous sticky rice varieties of different shapes, sizes, colors, texture, tastes, aromas, and nutritional properties. This distinguishes Lao PDR from other rice producing countries in the region and the world and builds on an existing comparative advantage, instead of promoting the production of regular non-glutenous rice for export, where Lao producers are less competitive. Developing specialty products will require research, experimentation in product development, consumer education and marketing.

253. Increasing productivity for small-scale producers. Much of inefficiency in the rice sector in Lao PDR is systemic and structural throughout the value chain. Small-scale, self-sufficient subsistence farming results in high per unit production cost at the farm level, collection cost, and milling cost. Small-scale wholesale and retail increases per unit transportation and operation costs, which result in higher retail prices.

254. Approaches to encourage increased productivity include promoting lead farmers at different localities who can invest in several hundred hectares, infrastructure, and machinery. These lead farmers, in addition to operating their own farms, will attract smallholders in the area to join in contract farming. Smallholders will benefit from receiving irrigation water for dry season crops, high quality seeds and other necessary inputs, machinery for land preparation and harvesting, and market access, while lead farmers will benefit from larger volume and risk-sharing with smallholders. This will effectively create production clusters, consolidate output storage location with large volume, economizing input costs and farm-to-mill transport cost.

255. Encourage private investment in aggregation and storage in major rice producing areas to lower farm transport and collection costs. Aggregators and buyers could also sell farm inputs and offer technical advice on more efficient agricultural practices.

256. **Reducing Input Costs.** High irrigation cost also has an impact on raising economic cost of farm equipment and machineries, through discouraging farmers from engaging in dry season rice farming. Irrigation requires two seasons of rice farming to be financially viable.

257. **Increasing productivity in the rice value chain requires a range of policy and regulatory reforms.** These will encourage investment and more efficient resource utilization at each stage of the value chain. The text box below (6.1) lists policy instruments throughout the value chain.

Text Box 6.1 Policy Instruments for Increasing Investment & Efficiency in the Rice Value Chain

Inputs

Invest in improved seeds

Strengthen business enabling environment for private sector seed production and multiplication

Strengthen quality control of farm inputs (seeds, fertilizers, chemicals)

Paddy Production

Eliminate rice land use requirements

Improve quality of irrigation investment

Strengthen extension services and vocational training for agricultural mechanization

Invest in programs for soil nutrient and integrated pest management

Design programs supporting women farmers and nutrition

Milling

Improve enabling environment for private investment

Facilitate contract farming with rice mills

Promote the use of green falsifiers by mills

Promote rice fortification and rice mill food safety management certification

Trade

Ensure a more predictable trade policy

Develop rice brands

Support market intelligence and marketing campaigns

Reduce trade costs through improved logistics and trade facilitation

Source: Lessons Learned: Leveraging the Rice Value Chain for Poverty Reduction in Cambodia, Lao PDR and Myanmar, World Bank, 2016

6.3.2 Vegetables

258. **Background. Vegetables grown in Lao PDR are of many varieties, mainly to satisfy demand for Lao traditional dishes.** They include many types of spices, herbs, roots, stems, tubers, leaves, flowers, fruits, and seeds. Over a 10-year period of 2009-18, vegetable production

in Lao PDR expanded relatively rapidly in response to growing population, income, urbanization, tourism, and trade. The five-year annual average output increased by 40 percent from 1.1 million tons over 2009-13 to 1.5 million tons over 2014-18. Over the same period, the annual average harvested area grew by one-third .¹³ The southern region accounts for about half of Lao PDR's total vegetable production, with the central region, producing 28 percent share (Table 6.4) All three regions expanded the area under cultivation with the south growing more rapidly.

259. Most vegetable farmers also grow rice and other crops, and raise livestock, although mostly for subsistence purpose. Vegetable farming is becoming more commercial and is supplying the growing domestic urban consumer and tourist markets, and export markets, mainly in China, Thailand, and Vietnam. The major domestic markets for vegetables include the relatively rapidly expanding Vientiane Capital and several other cities including Pakse City of Champasak Province in the south, Savannakhet City of Savannakhet Province in the southernmost part of the central region, and main tourist towns and cities such as Vang Vieng of Vientiane Province in the northern part of the central region and Luang Prabang city in the north.

260. Recent performance and trends. Lao PDR vegetable consumers prefer lots of herbs, spices, and bitter vegetables for taste and aroma, and for their medicinal qualities. Most Lao domestic consumers, regardless of their income and educational level, prefer either organic vegetables or those with minimal applications of chemicals. This is likely a combined result of media exposure, official promotion of “clean agriculture”, and formal education among younger generations. Notwithstanding GOL commitment to ban the sale of unregistered pesticides, a dearth of human and financial resource impedes effective implementation and there is a low awareness among farmers of sound pesticide practices. Recent work by the UN found that 52.4 percent of the samples of fruit and vegetables over a 2-year period tested positive for residues of organophosphate and carbamate pesticides.

261. Recent growth in vegetable production was boosted by expanding markets. Factors include growing income, exposure to foreign cooking and ways of consuming vegetables (i.e., making drinks), increased awareness among Lao local consumers of their health benefits, and by the growing demand from the tourism and export markets. The export markets have provided an incentive to the production of certain vegetables such as cabbages, carrots, broccoli, sweet potatoes, tubers, shallots, onions, garlic, onions, leeks, turnips, basil, Mexican coriander, chili peppers, lettuces, morning glory. Despite recent growth, much of the high-quality vegetables served in hotels and high-end restaurants are imported, providing opportunities for further development.

262. A regional shift in types of vegetable production may have taken place over 2009-18. Vegetable production has been growing most rapidly in the south where output, measured in ton, increased nearly 98 percent and area harvested increased 66 percent on a five-year annual average between 2009-13 period and 2014-18 period. As a result, the south's national share increased from 36 percent to 50 percent in output weight and 29 percent to 36 percent in area harvested over this period (Table 6.4). The rapid increase in output by weight is mainly due to cabbage production for export to Thailand. Over this same period, the central region had a slight decrease in annual average output measured in ton, but it is more likely the result of a shift in production concentration from lower value vegetables (per weight unit) towards higher value vegetables such as herbs, as area harvested increased nearly 13 percent.

Table 6.2 Changes in Lao PDR's vegetable production: 2009 – 2018

National, Region	Output (1,000 Metric Tons)*			% in National Output*		Harvested Area (ha)*		
	2009-13	2014-18	%Change	2009-13	2014-18	2009-13	2014-18	%Change
National	1,086.5	1,526.4	40.5%	100.0	100.0	128,389	169,485	32.0%
North	268.6	337.3	25.6%	24.7	22.1	36,499	46,200	26.6%
Central	430.1	422.7	-1.7%	39.6	27.7	54,831	61,812	12.7%
South	387.8	766.4	97.6%	35.7	50.2	37,059	61,473	65.9%

*Calculated in annual average. Data source: <https://laosis.lsb.gov.la/> (accessed 1 September 2020).

263. Output growth due mainly to land expansion. Modern vegetable farms, commercial-based with modern techniques and equipment, have gradually emerged in the past decade. However, traditional ways of growing and managing vegetable farms, household-based farming with traditional tools and equipment, remained dominant. Thus, typical vegetable farms in Lao PDR are relatively low in productivity and product quality.

264. Distribution, domestic and export markets. In Lao PDR, while modern supermarkets and convenience stores that offer fresh produce have been gradually emerging in major cities, most vegetables are typically sold in wet markets, where retail prices are lower and where most Lao households purchase food. Most vegetables sold in local wet markets are grown either in small rural household backyard gardens, or small plots adjacent to rice fields, or a portion of rice fields after the wet season rice paddy has been harvested. Most commercial-oriented vegetable farms are small in scale, typically about a third of a hectare, and family-based, in spite of growing urbanization, tourism, and international trade that has created greater demands for vegetable production.

265. Rapid growth in major export markets for Lao PDR's vegetables are Thailand and China; however, there are also exports to the EU. Vegetable exports increased from \$14 million in 2012 to \$133 million in 2019. Lao PDR also imports many types of vegetables, mainly from Thailand, as well as from China and Vietnam, but in a much smaller quantity. Lao PDR also imports vegetables due to seasonal supply fluctuations, domestic shortages, and for increased variety and quality. The high-end restaurants and hotels, import vegetables for improved quality and supply reliability. Vegetable production in Lao PDR lacks the varieties required to meet the demand of urban consumers, foreign visitors, and tourists. This represents an opportunity for Lao PDR farmers to increase vegetable production.

266. Constraints include high production costs and poor postharvest handling Vegetable production in Lao PDR is relatively costly for the same reasons as rice production: relatively high cost of labor input and other farm inputs, small-scale operations, and traditional farm practice and management. Poor postharvest handling³⁸ is a major constraint in the vegetable value chain from the farm to the retail market. For transportation from the farm, vegetables are watered and stuffed in plastic bags or wrapped with plastic sheets. Often, more vegetables were stuffed in bags than their ideal amount, causing damage. Without a cooling system, vegetables must be transported to the wholesale market for sale to retailers and to final consumers within a day. At traditional wet markets, where most vegetables are sold by many small retailers without a cooling system, the only way retailers maintain freshness of their vegetables is by spraying them with water. Over the three-day period during which vegetables must be sold, to maintain attractiveness, retailers shred off stale and spoil parts, causing losses of weight. In addition, retailers are often required to reduce prices to attract buyers and to avoid discarding the produce. The relatively high post farm loss drives down farm gate prices.

38. World Bank (June 2018).

39. These vegetables banned by the EU included basil, Mexican coriander, peppers, and cha plu (Vientiane Times).

267. Lack of awareness of SPS requirements for export markets. Meeting SPS requirements is critical for export markets, but most Lao vegetable farms lack the capacity to meet this standard, due mainly to farmers' low-level of education. However, in some cases it could be a matter of poor farm management. In early 2016, the EU banned the importation of vegetables from Lao PDR due to their failure to meet quality standards.³⁹

Recommendations for sector improvement

268. China represents a significant opportunity for Lao PDR exporters. As an immediate neighbor, especially with the high-speed rail link to be open for service in late 2021, shipment costs to market destinations are expected to decline. Lao PDR has signed SPS agreement with China for 14 agricultural products including rice, banana, watermelon, sweet potatoes, cassava, maize, and livestock; MOIC is negotiating on 36 additional agricultural products that include vegetables, fruits, and meat.⁴⁰ Exporting to China through this quota scheme, while limited to crops produced only in areas inspected and approved by Chinese authorities, is made easier as it bypasses various procedures normally required before and during shipments across the border. However, to optimize the benefits from this quota scheme, Lao PDR farmers must be enabled to raise and maintain standard practices at farm and postharvest handling.

269. Need for high quality extension services. There is a growing requirement for high quality farm extension services. The MAF set up the Department of Technical Extension and Agro-Processing in 2018, but a lack of specialists and funding has limited its ability to provide the needed services. The GOL needs to prioritize in increasing investment in extension services for agricultural specialists to assist in raising farmers' knowledge and skills, to improve farm output quality and productivity. With increased contract farming the private sector could also provide high quality extension services.

270. Reducing postharvest loss is critical for increased competitiveness. At the farm, an extension service can help raise farmers knowledge and skills in harvesting, storage and packing for transportation. To encourage farmers to raise standards, it is necessary to raise food safety standards and food safety regulatory enforcement at the farm level. Improvement at the transportation/wholesale level requires both facilitating private investment in better transportation and cooling systems for storage, and public investment in road infrastructure improvement. At the retail level, raising food safety standard, fire and other public safety standards and their enforcement together with facilitating investment in market infrastructure improvement to meet the new, higher safety standards will be required. At wet markets, where vegetables are sold by many small retailers, it would be impractical for each one to have a refrigerator. However, improved ventilation to reduce heat and improve airflow, and drainage of water retailers' spray on their merchandise through renovation or redesign can help extend vegetables' shelf life.

6.3.3 Coffee

271. Coffee is one of Lao PDR's major agricultural products. In a good year Lao PDR coffee exports total around \$100 million. It is one of the country's top-five agricultural export products, and a major foreign exchange earner⁴¹. The sector employs a significant number of households involved in smallholder farming, provides jobs on the farm and in value added coffee processing. While most coffee grown in Lao PDR is exported, in the form of green beans, domestic sales have recently been expanding with a growing number of local coffee brands and coffee shops.

272. Lao coffee production has grown considerably over the past decade, with commercial plantations driving productivity advances. From 2009–18, production was more than tripled, with an annual average growth rate of 26.5 percent, from 46,035 metric tons in 2009 to 155,970 metric tons of green beans in 2018. This rapid growth has been a combined result of land expansion averaging 6.3 percent, and a productivity improvement of 12.9 percent annually, as shown in Figure

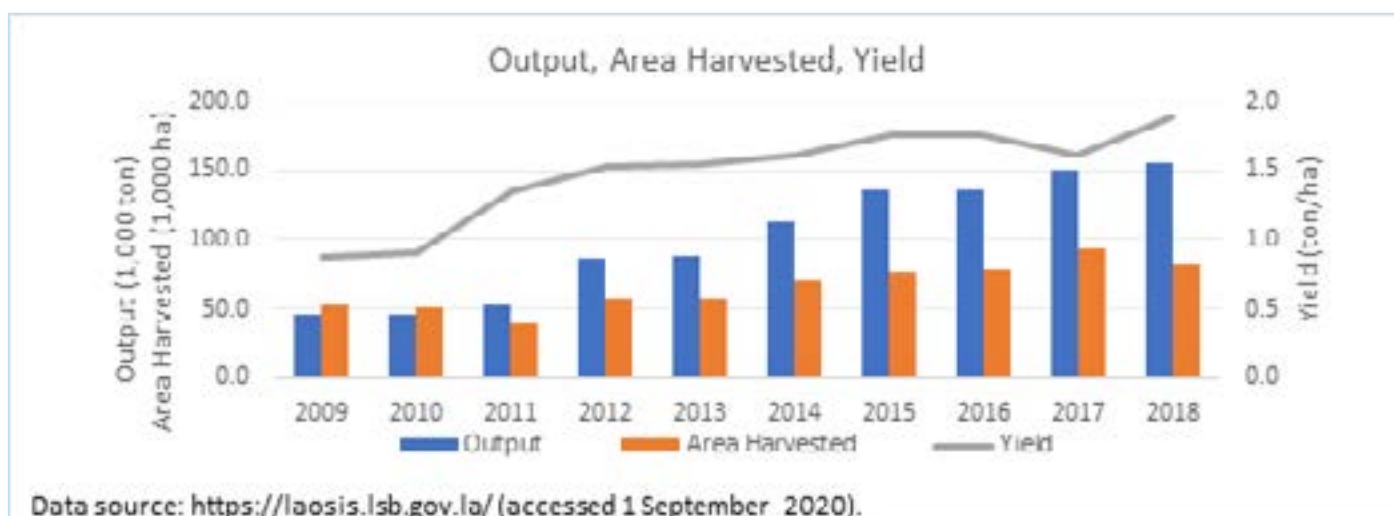
40. Of the seven products that received export quotas, rice, banana, watermelon, sweet potatoes already have registered companies and have exported through the quota scheme, while cassava, maize, and livestock still do not have registered company to export.

41. Lao PDR's other top five agricultural export products include rubber, cassava, maize, and bananas.

6.4. Average yields have almost doubled from under a ton per ha before 2010 to slightly under two tons per ha by 2018; this increase is largely attributable to large commercial plantations, which achieve between 3 and 5 tons per ha. Smallholder coffee farms average 1 ton or less per ha.

273. **Recent growth dominated by Arabica production.** Recent output growth has been largely the result of increased planting of the disease-resistant Arabica Catimor variety with new investment entries and replacement of old Robusta variety, consistent with the GOL’s plan to increase Arabica coffee production to 50 percent of the total. In the early 2000s, when nearly all coffee production was concentrated in the Bolaven Plateau, where soil, elevation, and climate conditions are highly suitable for the top-quality Arabica coffee variety, Robusta accounted for roughly 90 percent of the country’s coffee production (Winston, E., et al, 2005). Arabica coffee production expanded after the more disease tolerant Arabica Catimor was introduced by FAO in 2004. However, though the Arabica Catimor produces a higher yield, sells at a higher price, and has lower risk of being damaged by disease, many smallholder farmers continue to grow the Robusta variety because it requires less labor and fertilizer inputs, and is more disease resistant.

Figure 6.4 Coffee Production in Lao PDR: 2009 – 2018



274. **Coffee production is a significant source of income for smallholders and has attracted FDI.** While much of the recent increase in harvested area in the past decade has been contributed by large, foreign-invested plantations, although numerous smallholder coffee farms in the south and north have entered the sector over the past decade. Coffee is mostly grown in the south and is highly concentrated in the Bolaven Plateau from 300 meters to 1,300 meters above sea level, where the volcanic soil, natural moisture, sunlight, and temperature are conducive to growing quality coffee. During the 2014–18 period, more than 95 percent of the country’s annual average production originated in the Bolaven Plateau. Table 6.5 shows coffee production by district. Recently, coffee production has dispersed to the mountainous northern provinces, particularly Luangprabang, Oudomxay, and Phongsaly.

275. **Emerging northern coffee production.** Coffee production in Lao PDR in the past decade has gradually been dispersing northwards while production in the traditional coffee-producing region of the south was also expanding. Table 6.5 provides details on changes in coffee production in Lao PDR over 2009–18. The numerical figures are reported on a five-year average basis to provide a more permanent change in the sector, as annual agriculture data can be influenced by seasonal fluctuations depending on prices, weather, pests, and diseases. Major producing provinces in the north are Luang Prabang and Phongsaly. Between 2012 and 2018, planted area increased many times in the north, from 610 ha in 2012 to 4,360 ha by 2018. Although yield in the north is generally relatively low, output is expected to further increase as young plants, grown from 2015 and later,

mature and as plants recover from weather effect. In the south, planted area increased 13 percent over this same period, from 78,000 ha in 2012. Xiengkhouang is the only province in the central region which commercially produced a noticeable amount of coffee. It is a relative newcomer. Over the 2009–18 period, while its output share was less than half a percent of the country’s total output and had declined, annual production had increased from a five-year annual average of 270 tons over the 2009–13 period to 498 tons over 2014 –18. This increase was purely a result of increased planting, from 240 ha in 2013 to 845 ha by 2018, as yield had decreased from 2 tons/ha annually during the 2009–13 period to 1.33 tons/ha annually over 2014–18. The decrease in yield in Xiengkhouang was a combined result of bad weather (frost) and an absence of buyers, causing farmers to abandon their plantings, as indicated in the Valadone (2016) study.

Table 6.3 Coffee Producing Provinces in Lao PDR 2009 – 2018

Region and Province	Output (Ton)*			% in National Output		Yield (ton/ha)		
	2009-13	2014-18	%Change	2009-13	2014-18	2009-13	2014-18	%Change
National	64,091	138,574	116.21	100.00	100.00	1.25	1.73	38.71
North	448	4,431	889.06	0.70	3.20	1.92	1.76	-8.25
Phongsaly	13	977	7,415.38	0.02	0.71	0.87	1.66	91.15
Oudomxay	300	720	140.00	0.47	0.52	2.00	1.94	-3.36
Luangprabang	244	2,628	978.15	0.38	1.90	2.21	1.87	-15.33
Central	270	498	84.44	0.42	0.36	2.04	1.33	-34.88
Xiengkhuang	270	498	84.44	0.42	0.36	2.04	1.33	-34.88
South	63,427	133,645	110.71	98.96	96.44	1.24	1.73	39.53
Saravane	20,529	20,183	(1.69)	32.03	14.56	2.41	1.04	-56.99
Sekong	8,901	36,954	315.17	13.89	26.67	1.42	3.30	132.60
Champasack	33,455	70,121	109.60	52.20	50.60	1.11	1.54	39.45
Attapeu	678	1,212	78.89	1.06	0.87	1.20	1.09	-8.64

*All calculated in annual average. Data source: <https://laosis.lsb.gov.la/> (accessed 1 September 2020).

276. Distribution and value addition: Most coffee grown in Lao PDR was exported, and coffee has been one of the most important agricultural products earning foreign exchange. Annual coffee exports valued around the neighborhood of \$100 million, fluctuations based on several factors including world price fluctuations, and conditions at farms such as pests, diseases, and the weather. Recently, Lao PDR coffee has been increasingly exported to Vietnam, particularly for the Arabica coffee beans, commonly around half of Lao PDR’s total Arabica production. During the first five months of 2020, Lao PDR exported nearly 20 tons of green coffee valued at \$37 million, and 65 percent of the total export was destined for Vietnam, according to the Lao Coffee Association⁴². Other export markets include Thailand, Japan, Cambodia, Europe (France, Germany, several other countries), and the United States.

277. In 2015 the Lao PDR coffee export price rose above international composite price for the first time. The increase in Lao coffee export price over 2008 – 18 is clearly noticeable, as illustrated in Figure 6.5. Since 2011, the average export price of Lao coffee has not dropped below the 2008 price level (\$2,053/ton), while the International Coffee Organization (ICO) composite price in 2018 was its 2008 level⁴³. In 2015, the Lao export price rose above the international composite price for the first time, when Lao coffee average export price was reported at \$3,338/ton while the average international composite price settled at \$2,749/ton. Prior to 2015, Lao coffee export price consistently fluctuated following the ICO composite price at a lower level. Following a slight drop in 2016, the Lao coffee price increased in 2017 to exceed the ICO composite price.

42. Lao Coffee Association (June 2020).

43. Composite price, reported by ICO, is an indicator price created by the weighted average prices of Columbian Milds, Other Milds, Brazilian Naturals, and Robustas varieties of EU and USA markets. The weight for each price is updated (by ICO) periodically and reported by ICO. See www.ICO.org.

278. **The increased price of Lao PDR coffee in the international market reflects the sectors success in developing specialty and organic coffees.**⁴⁴ Specifically, it was a direct result of increased Arabica variety in the Lao coffee export content (see Figure 6.5). Success was attributable to both the Arabica variety which normally commands a higher price than Robusta, combined with improved bean quality sorting and selection for export, and increased organic production.

Text Box 6.2 Specialty Coffee Growers

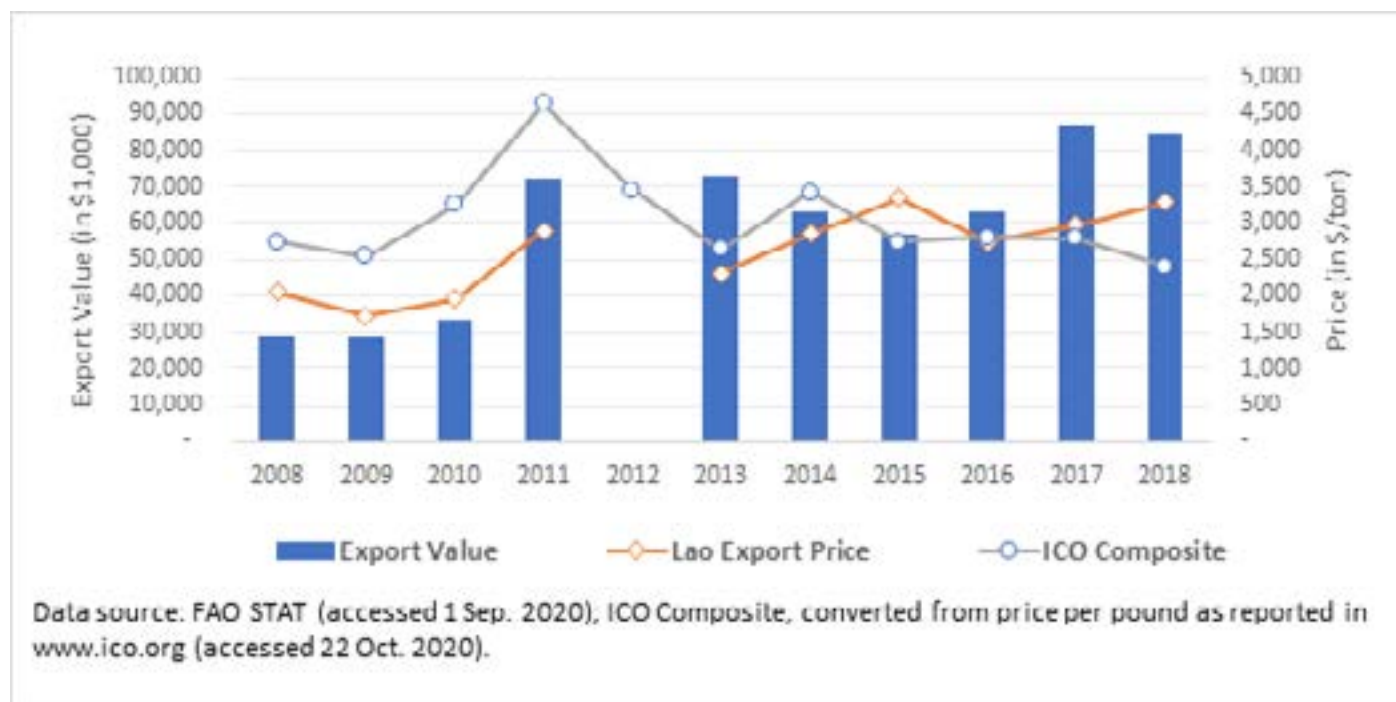
In 2018, the Jhai Coffee Farmers’ Cooperative (JCFC) had 450 members in 21 villages in the Bolaven Plateau, 250 of whom were active organic specialty coffee producers, with the total production area of 1,500 hectares. (JCFC) produced organic specialty coffee which sold between \$4.69 - \$5.86 per kilogram (depending on the bean quality), to their major markets in Japan and the United States as well as other regional markets. The JCFC uses a trust-based system for organic certification.

Another prominent organic coffee cooperative, the Bolaven Plateau Coffee Producers Cooperative (CPC) has 1,093 members across 55 villages, with 824 active organic coffee producers. The CPC uses a third party international organic certification and has received the support from a French aid agency, AFD.

Source: (UNCTAD, 2020).

279. **The Lao PDR national coffee sector development strategy is to create a higher value through improving bean quality, promoting organic coffee production and the development of specialty coffee.** If the specialty coffee development is successful, the higher value the specialty coffee created would normally reflect in the higher value of green beans being traded and an average price that is independent from the international commodity coffee price regularly monitored by the ICO.⁴⁵

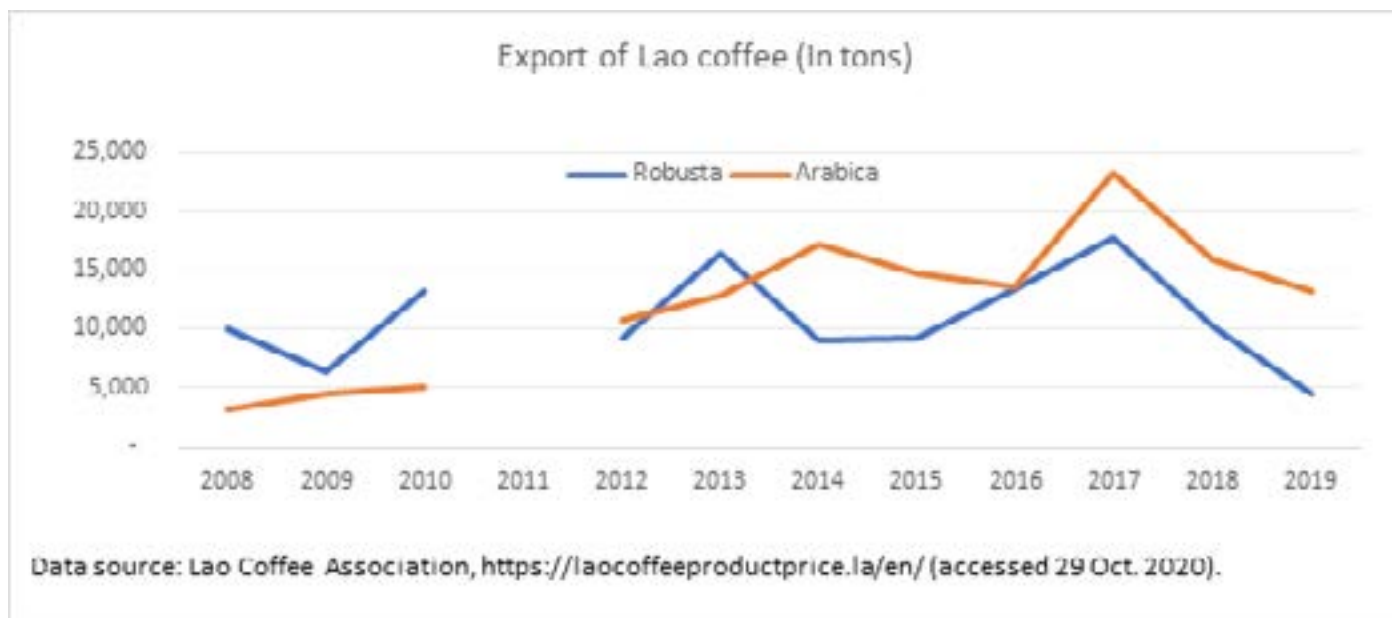
Figure 6.5 Lao PDR Green Coffee Export and Price: 2008 – 18



44. Conseil National Du Café Lao (Lao National Coffee Board) (June 2014). Lao Coffee Sector Development Strategy by 2025, Vientiane Capital.

45. Specialty coffee is generally defined as coffee grown in a specific location which has unique geographic microclimates that produce beans with a unique flavor profile.

Figure 6.6 The Changing Composition of Lao Coffee Exports: 2003 – 2019



280. Virtually all coffee is exported as green beans, but there are good opportunities to increase exports of value-added roasted beans. Lao coffee brands of roasted and instant coffees have become more visible in the domestic market. Coffee shops of locally established brands have also increased in number and visibility in the past decade, as local roasters (some with foreign investment) develop their specialty coffees and brands; however, this is mainly for the domestic market. Well known, established domestic brands include Dao Coffee, Sinouk Coffee, Lao Mountain Coffee, Saffron Coffee, Mae Tee Coffee, Comma Coffee, Le Trio Coffee, Meuang Xieng Coffee, and Yumi Coffee. The main factors creating conducive conditions are Lao urban consumers and growing number of tourists visiting the country.

Coffee value chain constraints and opportunities

281. Smallholder coffee growing has high growth potential. Smallholder coffee farms are an important part of the Lao coffee industry; however, yields are low, and farmers use a higher share of low-quality cherries and beans which lowers the farm gate price. The LCA (2020) reported that stem borer and cherry borer infected 30 percent of coffee farm area in the Bolaven Plateau.

282. Smallholders face multiple constraints to growing higher value coffee. Many smallholder farmers understand the economic and health benefits of growing organic coffee but are unable to enter this niche market internationally. Firstly, the Lao Organic Certification is not recognized internationally; it only has domestic recognition. Thus, domestic organic certification is helpful only for domestic marketing purpose. Secondly, obtaining domestic organic certification is too expensive for most independent smallholders. Thirdly, it is necessary to have third-party organic certification to sell internationally which is prohibitive for an individual smallholder. The small number of successful smallholders engaged in exporting organic coffee have joined Cooperatives to obtain certification.

283. Transport of coffee within Lao PDR continues to be “double” taxed. Coffee tax is collected by village authorities, who pass the tax revenue collected to the district authority. There is a designated stop for the transporter to show the receipt of tax payment to authority for clearance before leaving the district. If tax has not been paid, then it is paid there. However, transporters were also stopped by traffic police that set up “too many” check points along the transport route, emphasized in the report by LCA (2020). It was also reported that even with a receipt of tax payment, transporters were asked to pay.

284. Coffee processing. Currently, coffee mills that service smallholders and other independent producers do not have coffee bean sorting machines to separate high quality from low quality coffee beans. Only some large plantation operators, processors/traders have coffee bean

sorting machines. While this has enabled the industry to improve export product quality and obtain a higher export price, it does not allow smallholders the opportunity to become more independent and possibly develop their own specialty coffee brands and, hence, earn more income than their only option allows, i.e., selling their produce to large plantation operators, processors, or traders.

285. Lao PDR lacks geographical designation and certificate of origin for coffee. This is an important aspect of specialty coffee development. Geographical designation with certificate of origin is necessary for differentiating quality beans grown in a certain area with unique soil and climate qualities which produce uniqueness to the beans grown in that area. Bean quality sorting, area designation and certificate of origin are necessary for specialty coffee development.

286. Need for additional technical and financial support to promote brand development. Currently there are nine Lao coffee brands, and more than half are owned by foreign investors, with the remaining owned by Lao local investors. There is an opportunity to promote new niche brands with smallholders, as the technology enables; a micro scale of a one-hectare coffee farm can be profitable provided it is well managed. Increasing productivity among smallholders requires additional investment in extension services (public/private), well trained technical staff (laboratories), and financing for investment. The existing models of organic specialty coffee cooperatives (JCFC and CPC) could be further studied, strengthened, and expanded to other coffee producing regions where there are interests in organic coffee production. Agricultural cooperatives can work in cooperation with the extension service. The establishment of an organic coffee association may be considered. In addition, improvements in the domestic organic certification are required.

287. Increase organic production to improve value and marketability is the recommended approach in the Lao Coffee Sector Development Strategy by 2025. This is viewed as a sustainable agricultural production approach that produces not only the economic benefit for smallholder producers through additional value creation, but also health benefit to both producers and consumers, and environmental benefit as well.

288. Dearth of sorting service at coffee processing mills is a constraint. The lack of bean sorting service at coffee mills prevents small farmers from developing their own specialty coffee brands and selling their products directly to the final consumers. It may be necessary to consider incentives to encourage mills to invest in bean sorting machines. In addition to coffee bean sorting machines, a geographical designation and certificate of origin would also benefit specialty coffee development.

289. A brand development support program for micro and small enterprises to promote more inclusive growth in the specialty coffee development. The program could support qualified small farmers who want to develop their own specialty coffee brands, as well as any qualified coffee roasters (who are not required to be farmers) interested in developing their own specialty coffee brands. Major key components for this program include technical (growing, processing, roasting, brand development and marketing) and financial supports in the form of commercial loans.

290. Additional considerations include difficulty in accessing information on export tax, lack of transparency and inconsistent implementation of export tax and profit tax for exporters; all are causing inconvenience and artificially raising cost to exporters. Using Lao PDR's export fee and tax rates online is challenging, even from the official website Lao Trade Portal, which would be the primary convenient online resource for potential exporters and export-oriented investors. It requires updating to a more user-friendly interface. The inability to readily access this information increases costs for a potential exporter or export-oriented investor as they seek to obtain the information required for their investment appraisal.

291. The Lao Trade Portal website (LTP) needs updating to be more user-friendly. The LTP provides access to import tax and other information and is a considerable improvement, but it is impossible for potential exporters to find export fees and taxes. While information on export fees

and taxes is available in the LTP, one must know the specific title of the document. For example, to find export tax rate, one must first go to “Search Information”, then select “Search Internal Measure”, then select “tax” from the dropdown menu and select “Duty/tax payable” from the dropdown menu. It is impossible for a potential investor or exporter to obtain simple information such as the export tax rate for coffee, soybeans, maize, etc., for calculating their profitability or their competitiveness in decision making and planning. The LTP could also be strengthened by providing information on responsible business practice and hyperlinks mandatory social and environmental due diligence requirements in foreign markets.

292. Information on agricultural products subject to export tax lacks transparency. In the list of products “subject to export tax”, most agricultural products are not included. Thus, by default, products that are not listed in the “products subject to export tax” are free of export tax. However, in the coffee industry, some exporters interviewed claimed that they had to pay export tax separately from a profit tax collected each time an export shipment is made, while an interview with the Lao Coffee Association Vice President suggests that only profit tax is collected before each export shipment.⁴⁶ The calculation is not based on declared rates (there is no declared rate) but on official’s reference(s) that is not disclosed to the public. The information regarding export tax from industry members is inconsistent; this is a common problem. For instance, producers were required to pay LAK 200/kg on dried cherries when they are moved from the farm to the mill for removing parchment or pay when the coffee beans are to be moved from the village. In November 2019, the Ministry of Finance issued an order to abolish this tax and to be effective immediately. In November 2020, the Lao Coffee Association reported that some village authorities are still collecting this abolished tax.

6.3.4 Livestock

293. Lao PDR’s domestic demand for meat consumption and animal products has been growing in the past several decades along with regional trend. The country’s livestock production has also been expanding with growing populations of cattle, pigs, goat, and poultry. Pig production is the largest, followed by cattle, buffalo, and goat (see Figure 6.7). While commercial cattle farming has recently grown in importance, approximately 98 percent of the cattle herd in Lao PDR are raised by rural households on a small-scale (Napasirth and Napasirth. 2018). Smallholder farmers commonly raise cattle and buffalo by free grazing. Lao PDR exported approximately 25 percent of its livestock production and the rest is consumed domestically.

294. Livestock is used to supplement income and as a source of protein. Livestock farming could contribute to eliminating stunting, underweight, and wasting problems among children and reduce poverty, provided that rural households are enabled to properly raise livestock of their choice. Poultry eggs, and meat and milk from buffalo, cow, and goat are all of important sources of protein. Livestock could help solve health problems, contributing to improved human development, but is also a strategically important element for economic development. Livestock provides food, jobs and income, and its byproducts have multiple uses as inputs to consumer and industrial goods.

46. The coffee export profit tax is currently calculated by multiplying the value as stated in the invoice by 7percent, then the result is further multiplied by 20percent profit tax for coffee export, according to Mr. Sengchanh Khammountha, Vice President of the Lao Coffee Association.

Figure 6.7 Buffalo, Cattle, Goat, and Pig in Lao PDR: 2009 – 18

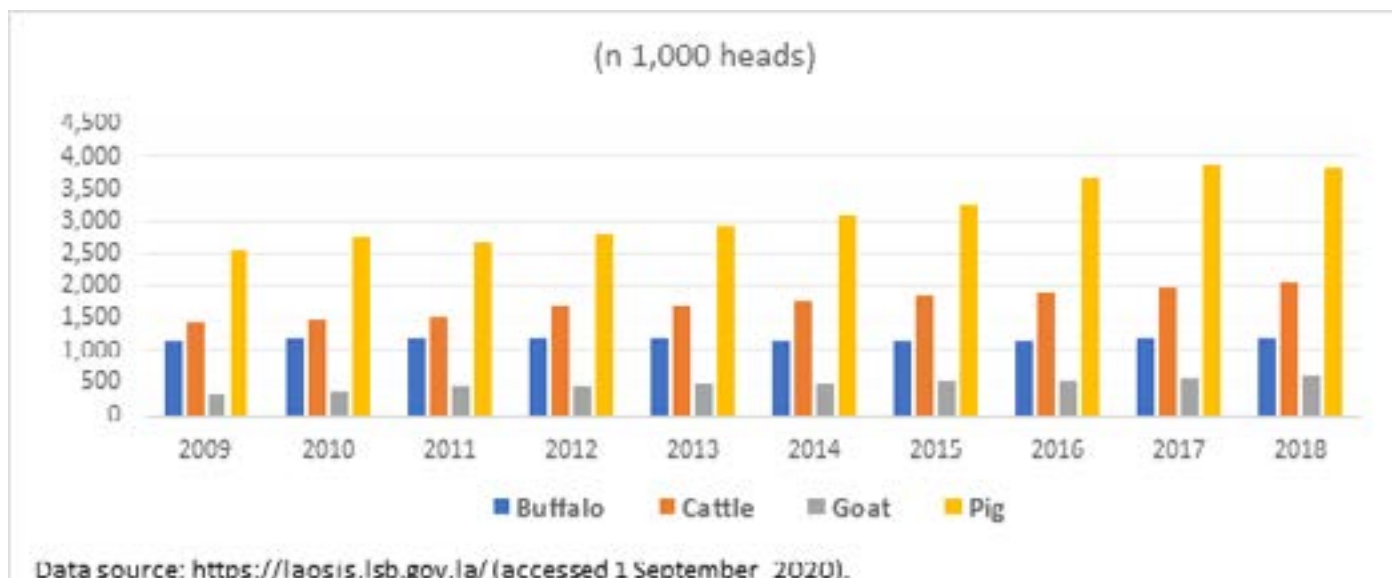
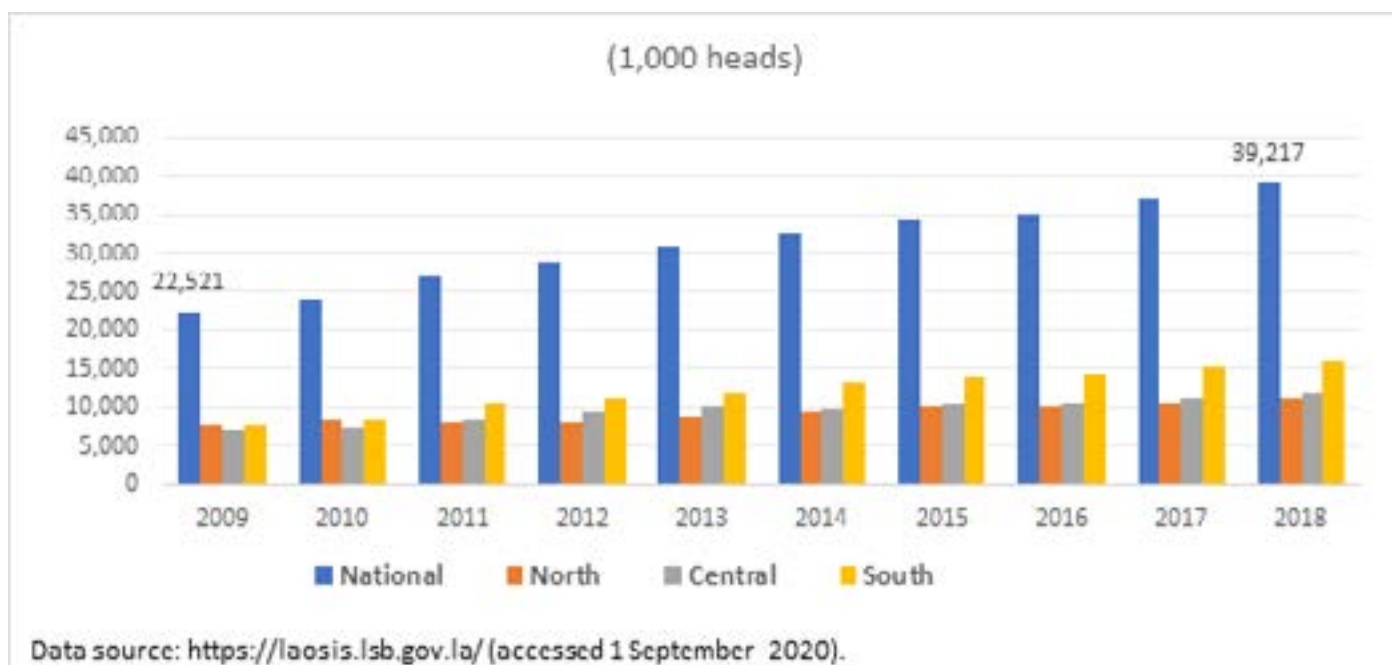


Figure 6.8 Poultry by region in Lao PDR: 2009 – 18



295. Most buffalo and cattle herds are in the central region, goats are mostly in the north and central regions, and pig and poultry, due to recent growth, are mostly in the south. Over the 2009 – 18 period, pig and poultry population in the south has outgrown the north and central regions. There are some noticeable distinctions of cattle farm types across region, as illustrated in Table 6.6. Cattle raising in the south was more commercial than other regions, as 5 percent of cattle in the south were raised in commercial farms, while less than 1 percent of cattle herds in the north and central regions were raised in commercial farms. The south made up just 18 percent of all cattle population in the country, but the region raised 57 percent of all commercial cattle in the country (can be calculated from Table 6.6). Table 6.6 also shows cattle farmer groups formed to benefit from information and resource sharing.

Table 6.4 Types of cattle farming in Lao PDR: 2016

Region	Total Cattle Population	Commercial Farm			Smallholder		Farmers Groups		
		No. of Cattle	No. of Farm	Cattle / Farm	No. of Cattle	%	Cattle	No. of Group	Cattle / Group
North	490,256	4,198	50	84.0	486,058	99.1	7,518	116	64.8
Central	1,053,867	8,196	64	128.1	1,045,671	99.2	9,725	255	38.1
South	337,783	16,447	56	293.7	321,336	95.1			
National	1,881,906	28,841	170	169.7	1,853,065	98.5	17,243	371	46.5

Data source: Calculated from Napasirth and Napasirth (2018).

296. Strong regional growth in demand for meat and animal products. Demand for meat consumption and animal products has been growing in Lao PDR and its immediate neighboring countries and major trading partners, namely China, Vietnam, and Thailand (Napasirth and Napasirth, 2018; FAO, 2005; Millar and Photakoun, 2008). This provides a considerable opportunity for Lao PDR to take advantage of developing the livestock sector, contributing to poverty reduction, especially in the northern mountainous regions of the country as pointed out by Millar and Photakoun (2008), and socioeconomic development in an inclusive and sustainable way. In 2000, per capita annual beef consumption in Lao PDR was estimated at 6.12 kg.⁴⁷ By 2013, it increased to 7.29 kg, higher than that of Thailand, which was 2.56 kg/year.

297. Foreign investment is driving increased productivity in the livestock sector. The entry of the Charoen Pokphand (CP) Group of Thailand in 2007 has contributed to advancing Lao PDR's pig, poultry, and egg production. The company started a feed mill operation in the Capital, plus swine and chicken farming businesses, and a fish farm; later this was expanded to Champasak and other provinces. There are also investments from other foreign investors, including INGOs, sponsored by Lao PDR's bilateral and multilateral developing partners to assist in livestock development.

298. Lack of quality feed, vaccination, and information are key constraints. Main constraints to the development of livestock in Lao PDR are the lack of nutritious feed that causes low productive rates and limits weight gain and a lack of vaccinations to prevent diseases that cause high morbidity and mortality rates (Napasirth and Napasirth, 2018; FAO, 2005). Veterinary service in the country is generally weak and lacking in many rural areas, causing substantial losses in livestock and, hence, income and food supply for many smallholder farmers each year. Natural feed such as grass and agricultural byproducts like rice stalk, cassava and vegetable discards, among others, are low in nutrition (Napasirth and Napasirth, 2018). Domestically manufactured animal feed is far from sufficient to keep costs for animal feed sufficiently low to make animal husbandry, with manufactured feed, competitive and profitable.

299. Need for information on good practices in animal husbandry. Useful information on animal husbandry techniques and on inputs (availability, prices, do-it-yourself) are needed by smallholder farmers. While some information on animal husbandry and other agricultural techniques are available in various forms (pamphlets, leaflets, seminars, websites), they are irregular and are not readily available. There is a dearth of easily and freely accessible information on animal husbandry for smallholder farmers; this a major barrier to more inclusive livestock development.

300. Poor market infrastructure, inferior quality of slaughterhouses, an underdeveloped cold chain, and a lack of access to free information are key constraints to creating value added and quality meat products for export. While modern supermarkets are emerging in Vientiane and several other relatively large cities, most meat is sold in fresh markets. Commonly known as wet market, under a roof without enclosure, meat is often placed on open-top tables without refrigeration. Thus, meat must be sold within the day after the animal was slaughtered, and meat is

47. FAO's estimation for Lao PDR's per capita annual consumption, in 2013, for poultry, pork, and beef was respectively estimated at 4.21 kg, 9.31 kg, and 7.29 kg, cited in Napasirth and Napasirth (2018).

subject to contamination by dirt and flies. In addition, domestically raised beef tends to be chewy, often due to late harvest as well as other factors associated with breeds, feeding and care. As a result, quality beef used in restaurants has been imported. Thus, locally raised beef losses as part of the domestic meat market are not due to variety competition but to poor quality. In addition to market infrastructure, animal slaughterhouses in Lao PDR are generally of inferior quality. Together with the underdeveloped cold chain, due to poor market infrastructure, Lao PDR does not have fresh beef products with proper packaging to prolong meat quality and extend freshness. Thus, beef export from Lao PDR is only in the form of live animals, causing a significant loss of opportunity to add value and develop animal-based products using animal parts and byproducts.

301. A dearth of market information represents a hurdle for smallholder farmers. The government-to-government trade agreement between China and Lao PDR allows for the duty-free imports of certain agricultural products, cattle included, from Lao PDR into China. This has the potential to benefit smallholder cattle farmers providing they understand the market requirements on product quality, market price, and seasonal demand.

302. Enabling farmers to access quality feed, vaccination, and information are key. The country needs to promote the development of agricultural crops as viable agribusinesses which will produce, as byproducts, cheap key raw materials required for manufacturing quality animal feed. A policy that encourages expansion and improvement in private veterinary services is critical to success. Improving the public vaccination service may be necessary for certain areas where the private service is unprofitable,

303. Free and ready access to information is critically important for the livestock development. The relevant infrastructure is a mobile-friendly, online information platform that is freely accessible by the public to provide technical information and inputs (availability, prices, do-it-yourself) that will be helpful for smallholder farmers in animal husbandry.

304. Import regulations increase the cost of animal feed. Lao PDR should eliminate duplicative and redundant administrative requirements and procedures required for importing animal feed. This will reduce both time and direct monetary costs involving feed imports and, hence, feed prices.

6.3.5 Maize

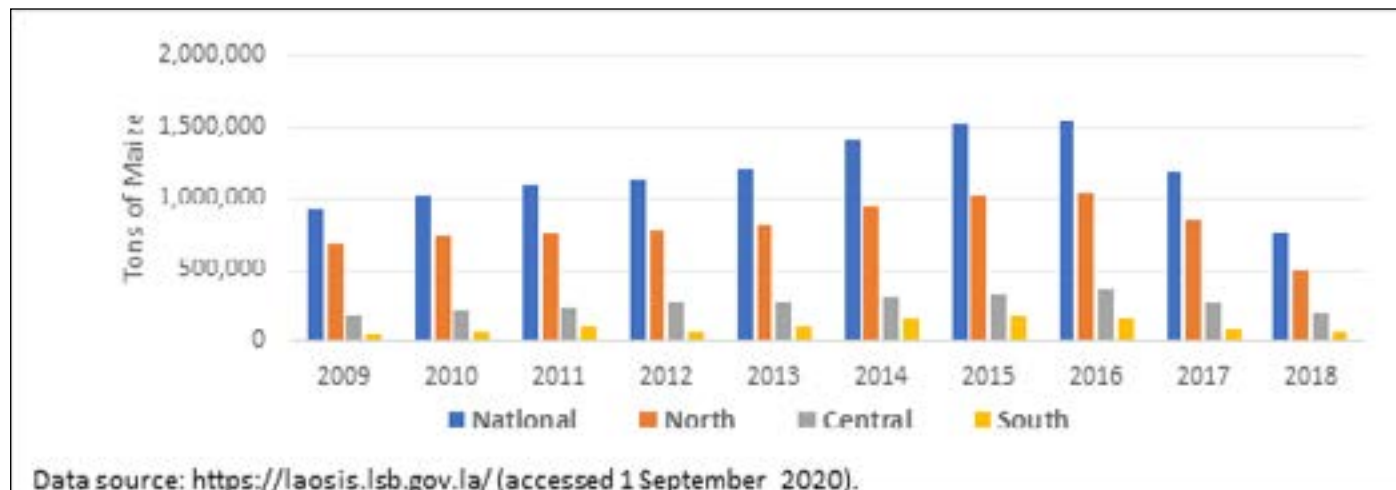
305. Maize is one of Lao PDR's major crops grown by smallholders for food security and cash income. Maize is also strategically important. It is especially significant for the relatively isolated rural communities in the mountainous northern region of the country, where rice shortage results in years with unfavorable weather and alternative income earning crops are either very limited or not grown. Maize is important for feedstock for livestock development.

306. Maize has traditionally been produced mainly for food security and mostly in the north, as the region's natural topography is less suitable for rice production. However, starting in the early 2000s, maize production started to serve dual purposes of food security and cash income (Douangsavanh and Bouahom, 2006; Lao-Swedish Upland Agriculture and Forestry Research Program, 2006)). Its function as a source of cash income is considered by many rural villagers to be highly important. For many households in parts of the north, maize is the only cash income source for paying school fees for children, doing home improvements, purchasing various household needs, and buying rice, among others (Kallio et al, 2019).

307. Maize production grew consistently to 2016 and then declined. As a major region of maize production, the north accounted for roughly 70 percent of the national total output over 2009 – 18, followed by the central region, where 23 percent was produced annually on average over this same period. Maize production has been growing quite consistently until 2016, when total output reached 1.55 million tons. The adoption of a hybrid variety from Vietnam, and export market access to neighboring countries (Thailand, Vietnam, China) made recent growth possible. However, maize production started receding after 2016, down to 0.77 million ton by 2018.

308. **Lao PDR is a net exporter of maize.** The FAO reports that Lao PDR exported \$40 - \$50 million between 2015 and 2018. Given the porous borders, total exports are likely much higher. Commercial maize production in Lao PDR is grown through contract farming, commonly with the “2+3” model, although there were several variations. The “2” refers to land and labor provided by smallholder farmers and the “3” refers to investor’s contribution: capital (often material inputs), technical support (technique, technology), and the market (a guaranteed purchase of output by investor at a fixed price).

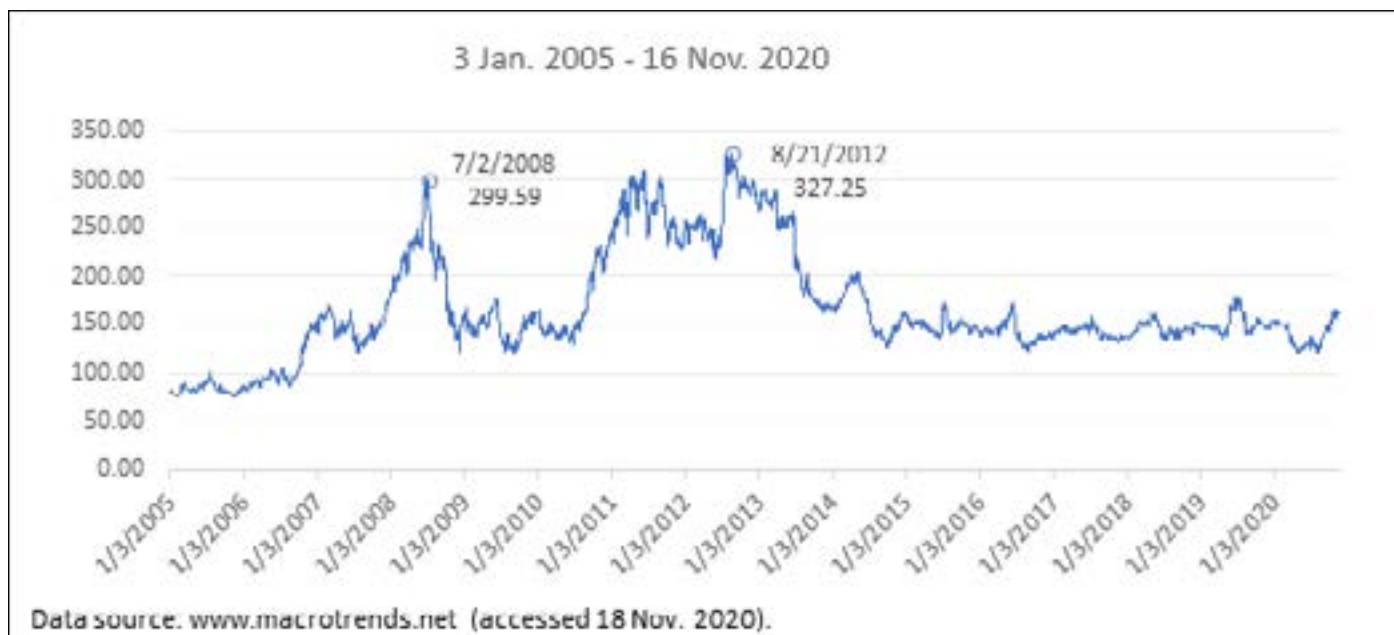
Figure 6.9 Regional Distribution of Maize Production in Lao PDR: 2009 – 18



309. **The GOL promotion maize growth to reduce swidden rice farming, reduce poverty and deliver green growth policy objectives.** Hybrid maize from Vietnam, which provided relatively higher yield than the local-traditional variety, was widely promoted and adopted during this rapid expansion period (2009- 2016). From the farmers’ perspective, maize expansion increased cash income, and provided an opportunity to claim new land; villagers can just mark a land plot in common property outside of the conservation area that was allowed by local authorities for growing maize. Maize was less laborious than growing rice; it can grow on lands unproductive for rice. (Kallio et al, 2019).

310. **Maize production in Lao PDR peaked in 2016 following the price crash in 2012.** The international price decline began late in the third quarter of 2012 after reaching a peak of \$300 per ton. After falling to slightly lower than \$270 per ton in mid-2013, the decline accelerated before bottoming at less than \$130 per ton by the third quarter of 2014. It has subsequently fluctuated below \$180 per ton since (Figure 2), averaging at \$145 per ton between then and November 2020, before increasing to over \$300 in May 2021 and since declining to around \$250. In addition to the earlier 2012 price crash reducing the area under maize, farmers experienced declining productivity after two to three seasons of maize mono-cropping since the land degrades (Kallio et al (2019) identified from sample farmer interviews in three villages in Huaphanh Province).

Figure 6.10 Internationally Traded Daily Maize Price: 3 Jan. 2005 – 16 Nov. 2020

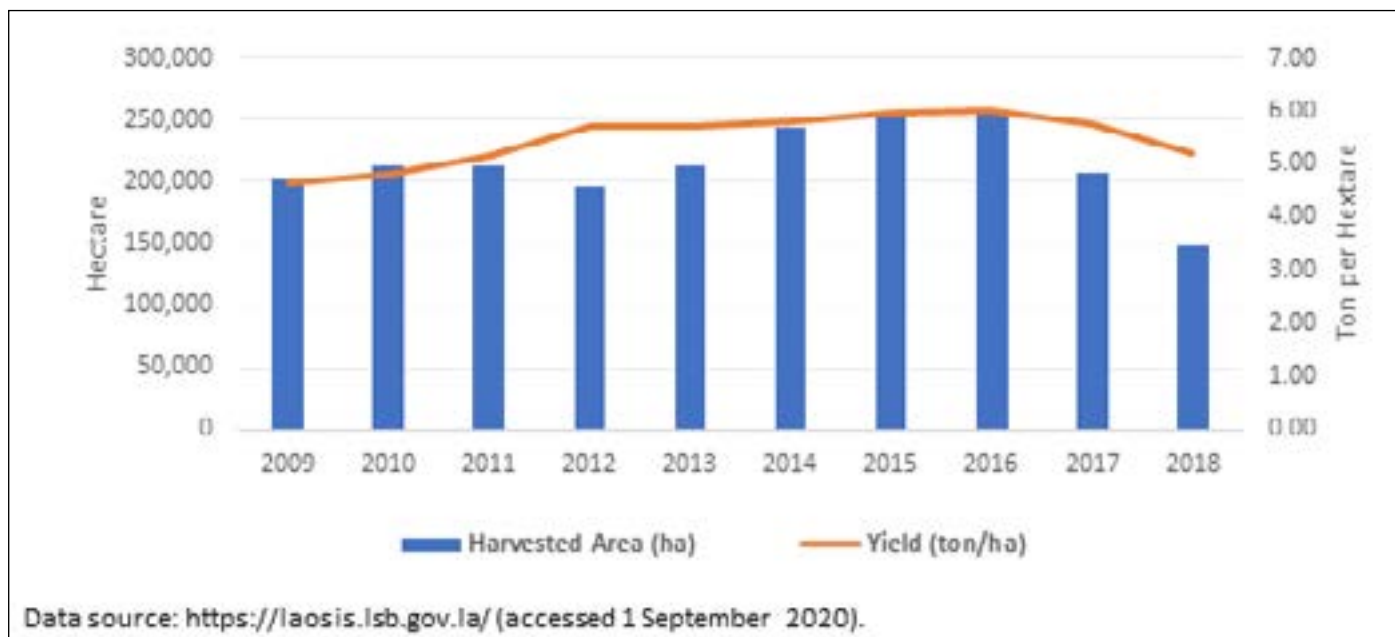


311. Promoting maize monocropping increases vulnerability and is environmentally harmful. Over reliance on expanding maize (or any monocrop) too rapidly, at the expense of traditional crops that have been providing rural villagers livelihood security over generations, will deplete the soil and exposes the smallholder to large downside risks when prices or production drops. High yield and export market access motivated officials were eager to reduce poverty through the officially adopted green growth path to push maize expansion, especially in areas where lands were either used for swidden farming practice or not suitable for rice crop. Although officials had various measures to reduce swidden rice farming practice as an attempt to reduce deforestation, maize expansion had pushed swidden rice farming further into the more distant forest which caused more deforestation. Villagers' daily diet is rice, and the paddy rice area was either limited or unavailable (Vongvisouk et al, 2016).

312. Limited domestic demand for processing, international price fluctuations, and practice of implementing seasonal NTB in Thailand limits the potential for growing maize production in Lao PDR. Smallholder farmers, especially those who took out loans for new planting or expansion, are particularly vulnerable to price fluctuations. Without modern storage facilities and domestic commercial buyers for feed or food processing, Lao PDR maize farmers are exposed to international market fluctuations.

313. Increasing smallholder farmers' education level increases farm output. Contract farming with smallholders effectively transfers technical knowledge and boosts productivity (Chaovanapoonphol, Y. and Somyana, W. 2018). Education is a critical area justifying government intervention; formal education will increase productivity in the future. However, for today's generation of farmers, informal education delivered through contract farming can deliver results.

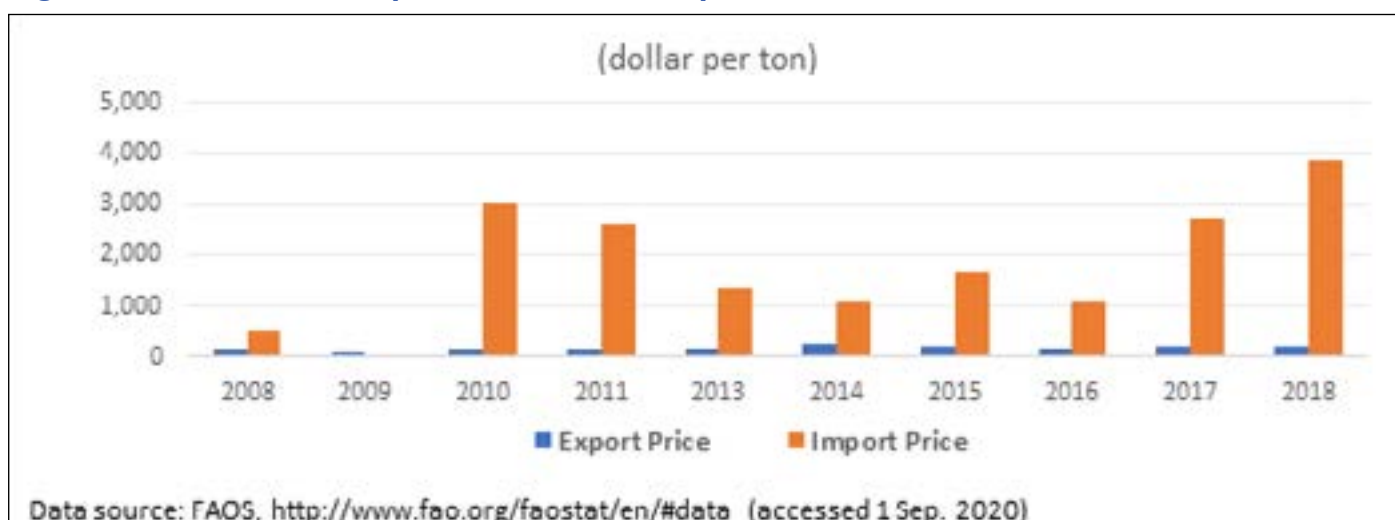
Figure 6.11 Lao PDR's Maize Harvested Area and Yield: 2009 – 18



314. **Maize is complementary as an input to the livestock sector.** Thus, promoting livestock feed production from using domestically produced maize is logical. In addition to livestock feed, a program to promote adding corn into household and restaurant menus and promoting corn-based snacks would help increase domestic maize consumption. In addition to getting the help from culinary schools to include corn in their curriculum, this would need a complementary program to promote star-chefs to create ways to consume corn.

315. **There is a large gap between the export and import prices for maize.** Lao PDR imported a small amount of maize each year. However, given that domestically produced maize has a substantially lower price than imported maize, expensive foreign maize was imported regularly (Figure 6.12).

Figure 6.12 Lao PDR's Export Price versus Import Price for Maize



6.3.6 Oil Crops: Peanut, Sesame, Soybean

316. **Peanuts, sesame, and soybeans have been promoted by the GOL as cash crops for smallholders.** Today, peanut production has largely shifted to the north and peanuts are primarily grown on small plots. Sesame is almost exclusively grown in the north, accounting for 98 percent of the country's total output in 2009, with Luang Prabang Province as the largest producer, accounting for 71.6 percent of the total national output (JICA, 2012)⁴⁸. The main export markets for sesame

include Vietnam, China, and Thailand (JICA, 2012). Peanuts, sesame, and soybean production have grown rapidly since 2009. Figures 6.13 and 6.14 show the trend over the past decade.

317. Oil crops and their by-products are a sound source of protein, excellent animal feed and an ingredient for manufactured animal feed. Currently, Lao PDR imports most of the cooking oil for domestic consumption. Domestic demand for edible oil in Lao PDR has not been growing in quantity and diversity. While FAO reported that Lao PDR imported \$11.8 million in 2018, the actual figure could possibly be 5-10 times higher because most cooking oil is imported informally.

Figure 6.13 Oil Crop Production in Lao PDR: 2009 – 18

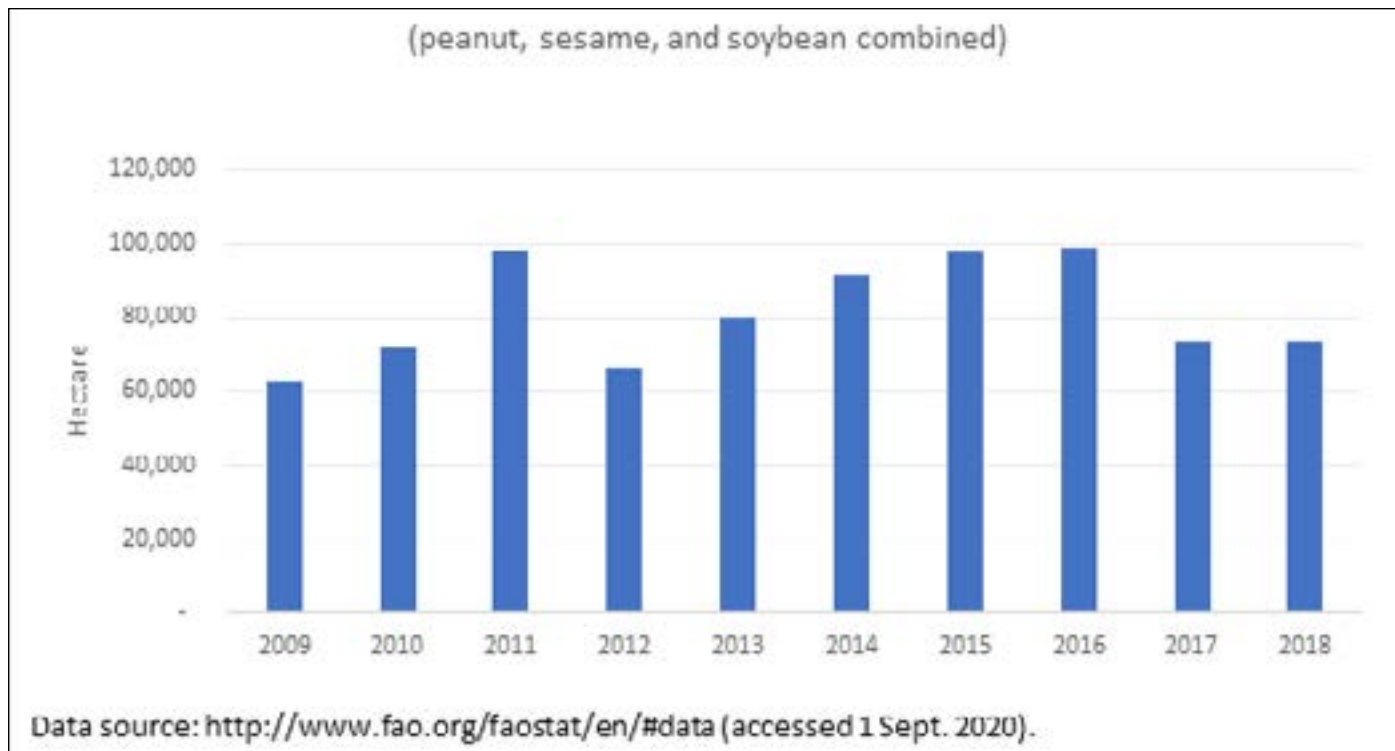


Figure 6.14 Oil Crop Production by Type: 2009 – 18

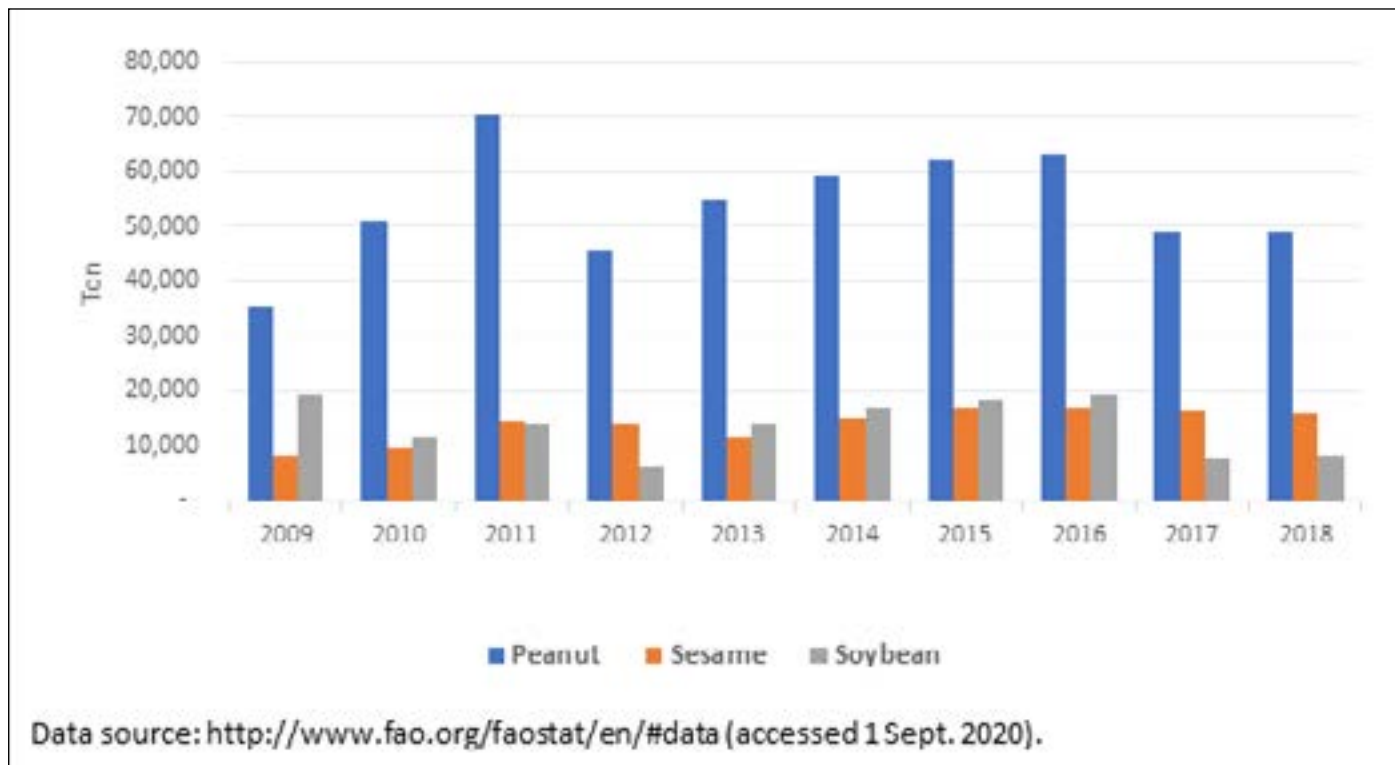
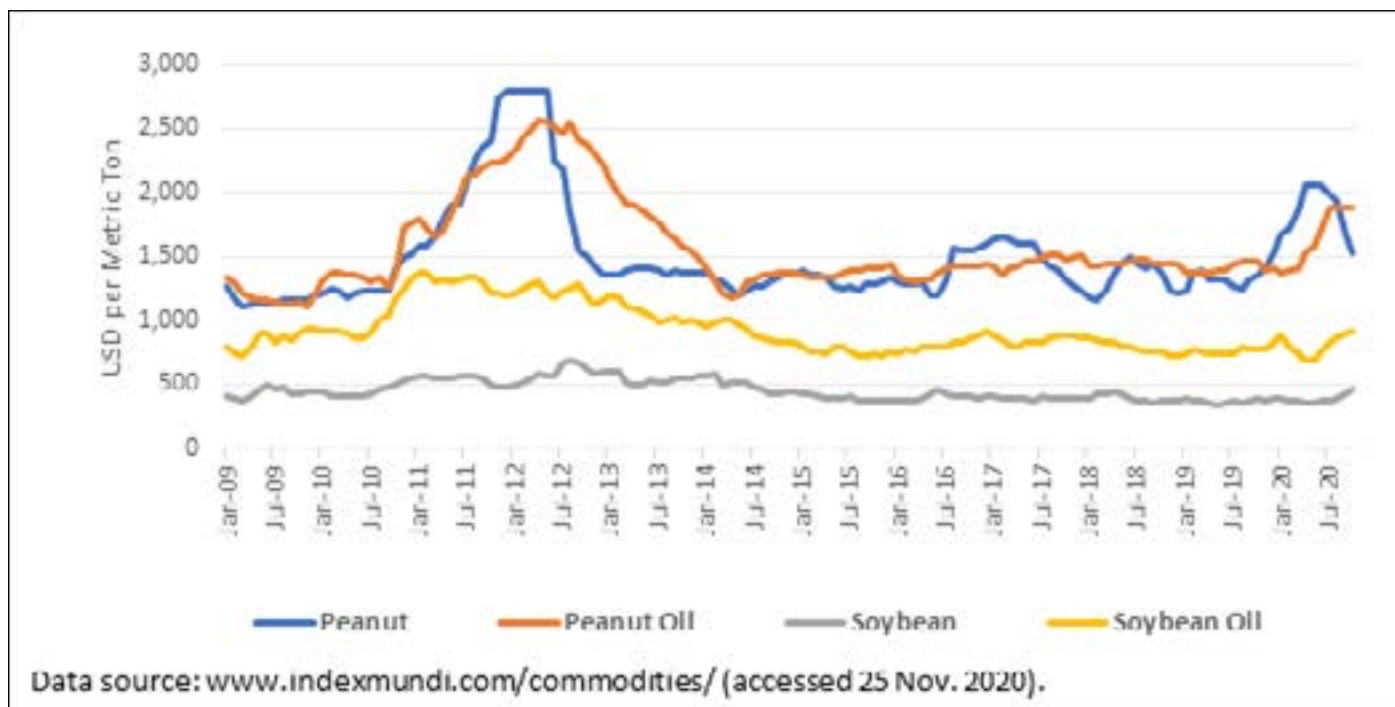


Figure 6.15 International Prices of Peanut and Soybean & Oils 2009 – 2020



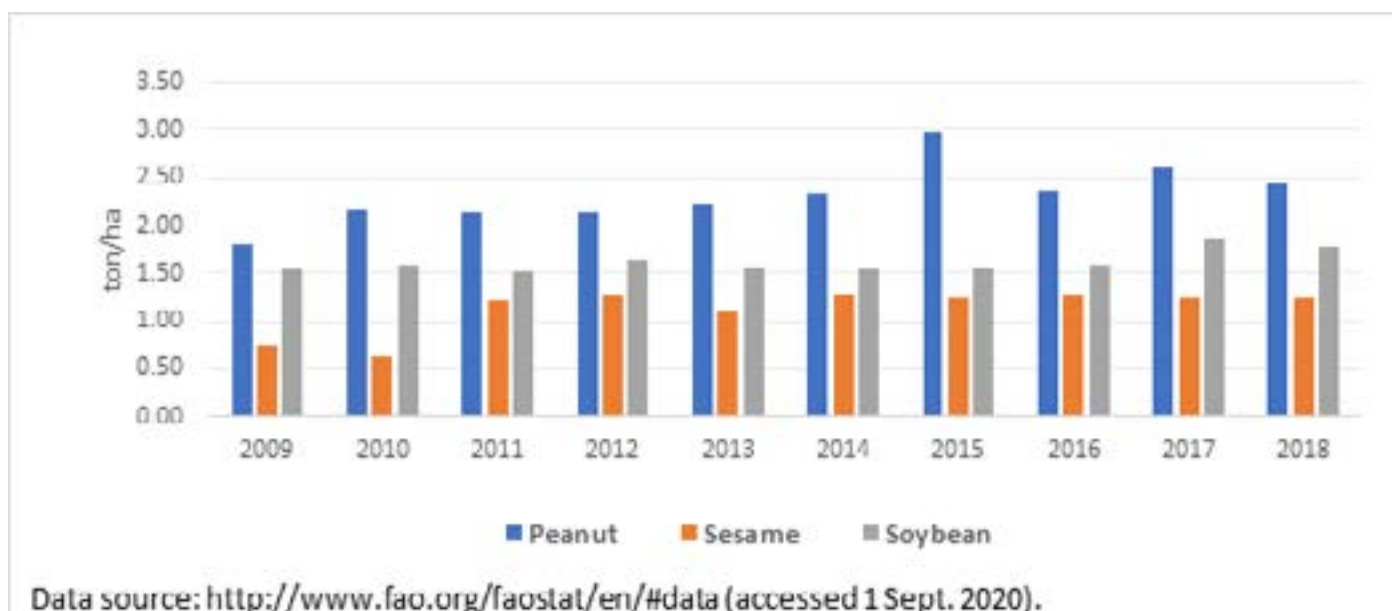
318. **Oilseed yields have increased over the past decade.** Yield has increased for all three oil crop types, with sesame making the highest gain, followed by peanut and soybean. In the decade ending 2018, sesame yields increased by 66 percent (0.75 ton/ha to 1.25 ton/ha), peanuts by more than a third 35 (1.8 ton/ha to 2.44 ton/ha), and soybeans by 15.2 percent (1.54 ton/ha to 1.77 ton/ha).⁴⁹ Lao PDR's yields for sesame and peanuts are relatively high compared to world averages of 0.8 ton/ha for sesame and 1.75 ton/ha for peanuts, in 2018. Soybean yield in Lao PDR is also slightly above the world average of 1.79 ton/ha. The world's top producers achieve more than three tons per hectare: Brazil, 3.39 ton/ha; USA, 3.47 ton/ha.

319. **Farm level constraints include use of inferior varieties and quality challenges.** Strengthening extension services to deliver hands-on technical advice will improve the oil crop yield. Peanuts exported from Lao PDR to Thailand were of mixed/lower grades and varieties, and the Lao PDR peanut export price is approximately half the price for peanuts originating from Myanmar, China, and Vietnam (Ministry of Agriculture and Forestry, 2014). Soybeans also have quality issues resulting in lower prices. Lao PDR farmers grow the small, white sesame seeds that sell at lower prices than the larger black sesame seeds. Switching to growing black sesame seeds and exporting to Japan (including the transportation costs from Luang Prabang to Yokohama via Bangkok) could potentially realize between 27 and 52 percent more revenue for second grade and first-grade black sesame respectively.

48. While JICA (2012) reported that national total output of sesame in 2009 was 14,745 tons, FAO reported 8,250 tons.

49. If comparing between the first five-year average (2009 – 2013) and the second five-year average (2014 – 18), to account for possible seasonal fluctuations or weather effects, sesame gained 26.3 percent, peanut gained 21.6 percent, and soybean gained 6.7 percent.

Figure 6.16 Oil Crop Yields: 2009 – 18



320. **Peanut production in Lao PDR is highly sensitive to internationally traded prices.** Production is primarily for export: raw, fresh, and dried. Lao PDR does not have industrial grade processing of peanuts, soybeans or sesame seeds at a scale that could buffer external market shocks. Thus, peanut production is exposed to international market price fluctuations. Without domestic processing, a steep fall in internationally traded prices is passed through to farmers.

321. **Access to technically sound extension services and online market price information.** Assisting smallholder farmers to produce higher grade output is a priority. Possible approaches include investors/traders providing improved seeds and technical advice under contract farming. There is also a need for the consolidators to improve the quality of sorting and grading requirements. Another approach is to encourage lead farmers who could contract with smallholders to buy their production in return for financing the inputs and dispensing technical advice.

Chapter 7: Tourism

7.1 Introduction

322. Tourism has experienced significant growth since 2012 and is the fourth largest industry in Lao PDR. Recent reports estimate that tourism directly contributes to 4.6 percent to GDP and employs 54,000 workers⁵⁰. It is one of the priorities of the 9th National Social Economic Development Plan (NSED) (2021-2025) and in 2019, Lao PDR adopted a National Green Growth Strategy that prioritizes nature-based tourism.

323. Tourism plays an important role in strengthening of the national economy. It represents an important part of the non-resource sector and supports the economy to diversify its sources of growth beyond hydropower and mining. Beyond Air Travel, accommodations, restaurants, tour operating or ground transport, tourism has strong linkages to other sectors, provides markets for agricultural products; generates many jobs for school graduates—especially for women; catalyzes additional public and private investment for roads, ports, airports, and other infrastructure that are used by both tourists and the local population to access services and markets; and generates taxes and fees to finance infrastructure maintenance and subsidize environmental services.

324. In the period 1990 to 2015 the number of visitors increased every year. Since 2016, the trend has been more irregular but arrivals in 2019, led by the rapid increase from China, increased by 14.4 percent from 2018 to reach an all-time peak of 4.79 million⁵¹. However, when the data is analyzed by length of stay and expenditure there is considerable scope to increase the revenue from tourism.

325. Notwithstanding the setbacks from the COVID-19 pandemic, tourism has the potential to grow back and to contribute significantly to poverty reduction. There are opportunities for creating sustainable jobs and income, respectful of Lao's culture and environment. However, growth of the sector is hampered by several factors including a lack of visibility as an international tourism destination, infrastructure gaps, insufficient supply of skilled human resources, a challenging business-enabling environment and weak communication between public and private sector.

326. The challenges facing the tourism sector identified in the 2012 DTIS remain. Progress has been made; however, the constraints previously highlighted remain and recommendations have not been fully implemented. The DTIS Update 2022 takes stock of the progress made since 2012, identifies challenges facing the sector and makes recommendations on the priority interventions for enhancing the competitiveness and resilience of the tourism industry.

50. ADB brief No. 141 June 2020

51. MOICT Statistical Report on Tourism in Laos 2019

- Improve accuracy of the data, improve data collection method to better calculate the contribution of tourism in the Lao economy. The report raised serious questions over the quality and comprehensiveness of the tourism data. An accurate and comprehensive economic database is essential to inform political decision-makers and enable them to optimize the implementation of policies. This recommendation remains a priority.
- Establish the Lao Tourism Marketing Board (LTMB). The LTMB board was intended to include the public sector and private firms to strengthen the public/private sector partnership, ensure effective ownership and commitment by government and the private sector to the tourism strategy and to market Laos as an international tourism destination. Despite some preliminary meetings, the LTMB has unfortunately never been set up. Its creation is still essential to establish an effective public / private partnership for marketing and tourism promotion. The creation of a new similar entity was agreed in 2020 and now awaits official approval.
- Enhance cross-sectoral coordination. Given the diverse nature of the international tourism industry and the involvement of many government agencies for planning the development of the sector, the study recommended the roll out of a 'train for trade training in sustainable tourism development' to improve officials' tourism industry understanding and to strengthen cooperation between the different government line agencies and between central and provincial levels. While this is a priority of the NSEDP, weak inter agency coordination and a lack of a common understanding among government line agencies constrain effective implementation.
- Review existing tourism laws, decrees, rules, and regulations. Multiple stakeholders interviewed for this report shared their dissatisfaction and recommended the substantial simplification of procedures as well as the alignment of rules with other enterprise and investment promotion laws.

7.2 The tourism sector in Lao PDR

7.2.1 Overview of the market for tourism

327. **Prior to the COVID-19 pandemic the tourism sector had been growing rapidly worldwide for several years and the Asia-Pacific region had experienced the strongest growth in tourism and international visitor arrivals.** Lao PDR tourism arrivals peaked in 2019 at 4.79 million, a 14.4 percent increase over 2018 . It is estimated that there were over 2.35 million domestic tourists in 2019 against 2.8 million in 2018⁵². In 2019 the United Nations World Tourism Organization (UNWTO), expected the number of tourist arrivals, in the Asia and Pacific region, would grow by 5 - 6 percent in 2020. Owing to the COVID-19 pandemic, tourism arrivals plummeted in 2020, with the UNWTO reporting a drop of 22 percent in the first quarter compared to the same period in 2019.

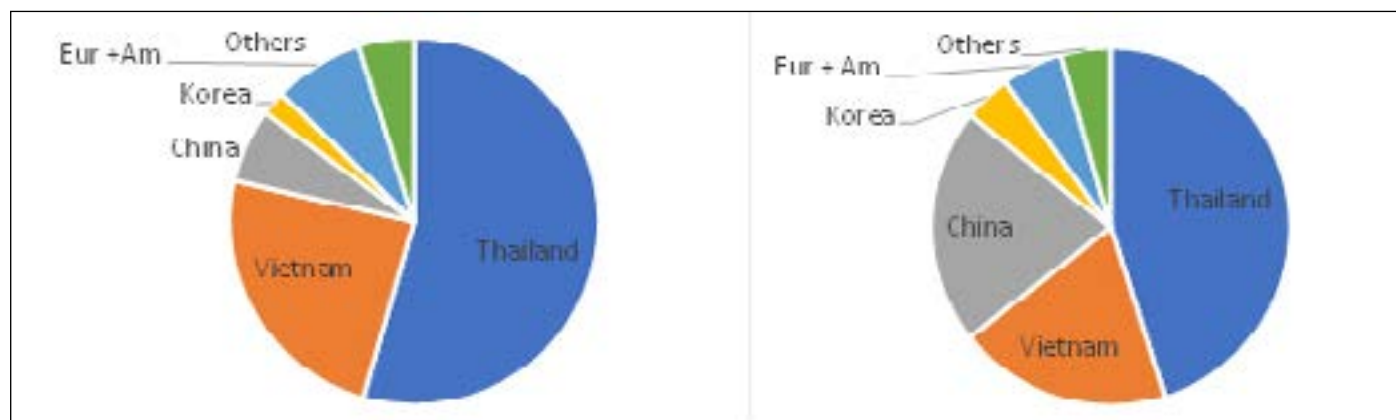
328. **Over 90 percent of total arrivals are from the Asia-Pacific.** In 2019, more than 94 percent of total arrivals are from Asia-Pacific, and two thirds are from ASEAN. Thailand and Vietnam account for virtually all the ASEAN visitors; these are mostly short-term visitors for business, shopping in the border regions, and seasonal workers. The share of visitors from Thailand has declined from 63 percent in 2012 to 45 percent in 2019 as visitors increased from China and other countries. Tourists from Europe and North America accounted for only 5.5 percent of total arrivals in 2019⁵³.

52. MOICT Statistical Report on Tourism in Laos 2019

53. Ibid.

329. Visitors from China have grown rapidly accounting for over 20 percent in 2019. China is the largest and fastest growing source market with the number of visitors doubling between 2015 and 2019. In 2009 the number of Chinese tourists was almost equal to the number of Europeans (125,000). By 2015 there were 2.5 times more Chinese than European travelers and by 2019 this had increased to 6 times⁵⁴. Most of the Chinese tourists arrive by car from the southern Chinese Yunnan province (referred to as “caravan tourism”). The proportion of Europeans and North American declined slightly from 5.6 percent in 2013 to 3.8 percent in 2019 and 2.3 percent to 1.7 percent respectively. There are very few visitors from Africa or the Middle East.

Figure 7.1 Major Tourism Markets by Origin in 2013 and 2019



Source: MOICT Statistical report on Tourism in Laos 2019

330. The opening of the railway link in December 2021 will encourage an increase in the number of Chinese tourists once COVID-19 travel restrictions are lifted. Collectively, regional arrivals from Thailand, Vietnam and China accounted for 85.7 percent of the total arrivals in 2019. Apart from China, South Korea is Lao’s largest market in Asia-Pacific with 203,191 visitors in 2019⁵⁵.

331. Air arrivals comprise only 14 percent of visitors, primarily by Vientiane and Luang Prabang’s airports. The majority (86 percent) of visitors arrive through land borders. They enter primarily from Thailand at Vientiane Capital or Savannakhet, using the Friendship Bridge 1 and 2, and from China at Luang Namtha via the Boten border post.

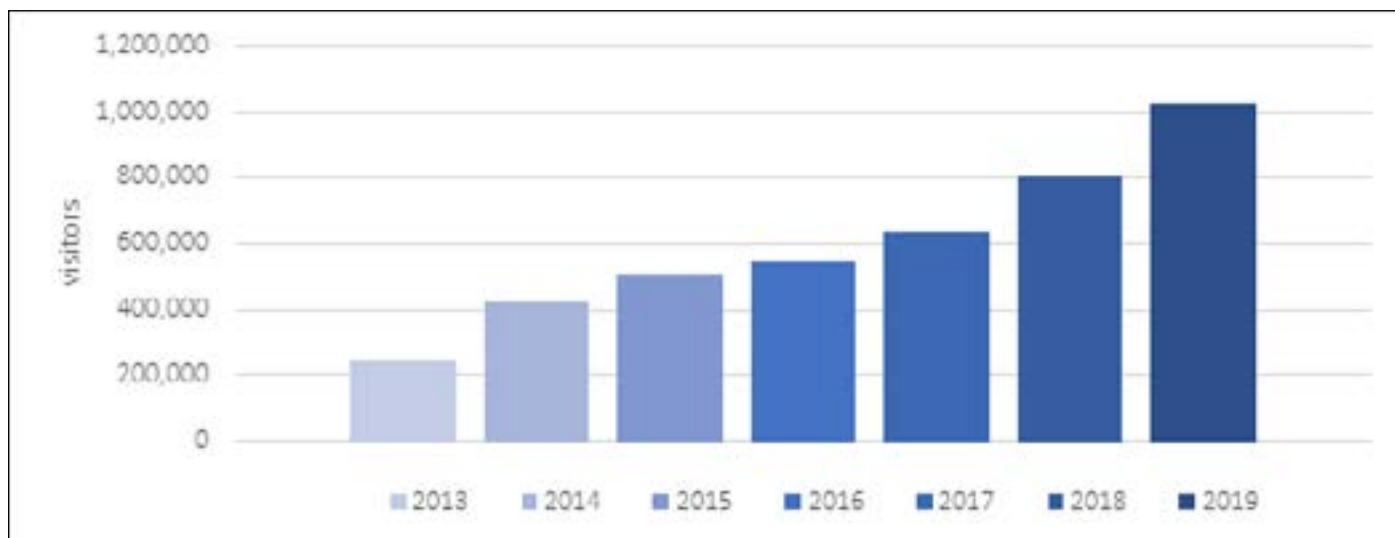
332. Regional tourism accounts for more than 75 percent of visitors. However, these figures should be interpreted against data on the length of stay and the amount spent. There are large disparities between regional and international tourists by average length of stay and expenditure in country. In 2019, international visitors stayed an average of 7.9 days in the country, and although they account for only 13.2 percent of total arrivals, they account for 38 percent of total visitor days (number of arrivals multiplied by average length of stay), and for 50 percent of total expenditure. International tourists spend an average of \$84 per day.

333. Most regional visitors travel for shopping or to visit friends and relatives and stay for an average of two nights. Thai visitors spent an average of USD 46 per day in 2019. Vietnamese USD30 per day, Cambodians USD29 per day, Burmese USD 23 per day. Chinese visitors also stay for a relatively short time, averaging 2.67 days in the country, however, their average spending is much higher at \$76 per day.

334. International visitors were the largest market prior to COVID-19, accounting for 50 percent of all estimated expenditure. Regional tourists from China were becoming increasingly important. With the collapse in international demand, restoring and growing demand from China will be central to revitalizing the tourist sector. China accounted for 21.4 percent of all visitors and for 22 percent of estimated expenditure in 2019, compared to only 6.5 percent of visitors and 4 percent of expenditure in 2013 (see Figures 7.2 and 7.3).

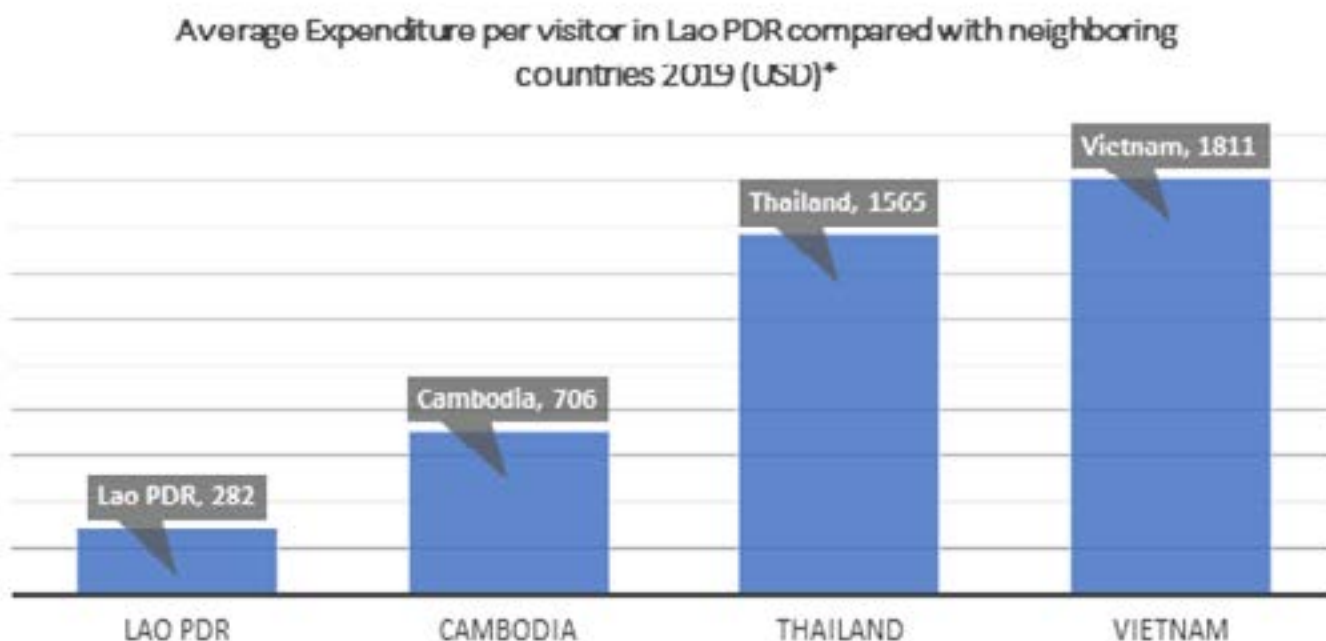
54. Ibid
55. Ibid

Figure 7.2 Visitors from China, 2013 – 2019



335. **The average expenditure per visitor in Laos is considerably lower than in neighboring countries.** In 2019, average expenditure was only \$0.40 in Lao for every Dollar spent in Cambodia, \$0.20 for Thailand and only \$0.15 for Vietnam⁵⁶. Enhancing the visitor experience through improved tourism infrastructure and value-added services has the potential to deliver rapid growth.

Figure 7.3 Average Expenditure per Visitor, 2019



*N.B. *Cambodia: data 2018. Source: MOICT Statistical report on Tourism in Laos 2019), Tourism Authority of Thailand statistic 2019, Ministry of Tourism Statistics Report 2018, Vietnam National Administration of Tourism: Vietnam Tourism Annual Report 2019*

56. Lao PDR MOICT, Tourism Authority of Thailand, Cambodian Ministry of Tourism, Vietnam National Administration of Tourism

Figure 7.4 Largest Countries of Origin by Visitor Expenditure 2019



Source: MOICT Statistical report on Tourism in Laos 2019

7.2.2 Tourism's Contribution to Gross Domestic Product and Employment

336. Tourism accounts in Laos for 4.6 percent of the direct contribution to gross domestic product in 2015. It generates 122,900 jobs, women comprising 50 percent. In 2019, tourism generated USD 934.7 million, which is 13.7 percent of total exports. This made tourism the third largest contributor to export revenue, after minerals and electricity (hydropower)⁵⁸.

Note: There are significant gaps in the figures depending on the sources concerning the share of tourism in GDP or the number of employments in the sector for example. The inaccuracy of the data and data collection methods are often highlighted by the stakeholders. The absence of reliable data for calculating the contribution of tourism in the Lao economy was raised by most of the stakeholders interviewed during the study.

7.2.3 Characteristics of the tourism private sector

334. Lao PDR has a small number of regional travel operators handling tours, and over 500 small locally owned travel agents. There are about 15 regionally active inbound operators and a handful of Laos-specific operators that function as destination management companies, meaning they are responsible for managing the tour operations. Some of the regional inbounds have only an operational office in Lao PDR, and the marketing and management is run from their head offices located in Bangkok, Hanoi, or Ho Chi Minh City. Pre COVID-19, Lao PDR had numerous small local owned travel agencies mostly in Luang Prabang, Vientiane and Pakse, focused on walk-in clients. These are often family run businesses employing 1 to 4 people and mostly reselling day trips and bus or plane tickets. There are 539 registered Lao Travel Agents in 2019 (and increased of 46 percent compared to 2015)⁵⁹.

338. Accommodations and restaurants: In 2019, the country officially has 2,920 accommodations (637 hotels and 2,283 guest houses and resorts) and 55,541 rooms, which represents an increase of 20.4 percent compared to 2014 in the number of accommodations. Vientiane Capital, which receives both tourists and business customers, offers the highest density, followed by the most popular tourist places Luang Prabang, Vientiane Province (including Vang Vieng) and Champassak. The occupancy rate for the whole country in 2019 was estimated at 54 percent⁶⁰, the highest occupancy rate being in the province of Luang Prabang (69 percent).

57. MOICT (2019)
 58. MOICT (2019)
 59. MOICT (2019)
 60. ADB Brief (2020)

339. **Major international hotel brands have begun investing in Lao PDR.** The decision, in the early 2010s, by international brands to invest in Lao PDR in Luang Prabang and Vientiane is a positive indicator that major international hospitality and leisure investors have identified Lao PDR as a growth opportunity. These include the ACCOR group, and IHG. Chinese companies have also invested in the hospitality sector (e.g., the Qube Hotel in Vientiane). Currently, Lao PDR has approximately 20 hotels managed or owned by international hotel brands.

340. **Most tourist accommodation is small-scale and locally owned and managed.** The bulk of Lao PDR's tourist accommodation consists of small-scale, locally owned hotels, guesthouses, and restaurants. Accommodations have an average of 19 rooms, although they are larger in Vientiane with an average of 31 rooms per establishment.

341. **The average tourism / hospitality business in Lao PDR has 15 employees (statistics 2018).** Most firms are either small (6-20 employees) or micro-businesses (fewer than 6 workers). While medium (21-100 staff), large (101-200 staff) and very large firms (over 200 staff) account for just 19 percent of businesses, they represent 60 percent of all employment⁶¹.

7.2.5 Visitors Market analysis

342. **The domestic market was estimated at 2.35 million tourists in 2019.** Almost 90 percent of international visitors come for leisure, 4.6 percent for business and 2.1 percent to visit family⁶². The main demand drivers for international visitors include, nature (55.9 percent), historical tourism (54 percent), temples and monuments (35.8 percent), food (29.2 percent), and shopping (26.6 percent)⁶³. Other interests include 'new destination', adventure, eco-tourism, ethnic groups. The domestic market generates relatively little income, mainly comprising family visits.

343. **Key markets include domestic tourism, neighboring economies, regional tourism, and long-haul tourism.**⁶⁴ The text box below summarizes the key characteristics of the three markets for international tourism.

344. **The Meetings Incentives Conferencing and Exhibitions (MICE) is a potential growth area.** The MICE market (Meetings, Incentives, Conferencing, and Exhibitions) attracts groups of 40 to 200 persons. It can be domestic MICE (Lao companies, Government departments and INGOs & NGO having conferences and events) or International MICE (Multinational companies based in Asia, Europe or America, Thai government departments). They primarily stay 2 or 3 nights in Luang Prabang or Vientiane and mix conferences or meetings with visits and exclusive activities. MICE tours require professional & efficient services and look for secure and safe destination with high-end conference room and dining facilities. The estimated MICE daily-spend per person ranged from \$60 to more than \$200. There are no official statistics on the MICE market but given improvements in accommodation, infrastructure, and connectivity, this represents a promising growth area. The marketing image of Lao PDR as a new destination with great natural beauty and an "unspoiled" authenticity match the aspirations of the MICE market. MICE have the advantage of taking place throughout the year which allows for promotions through the low season. Moreover, private actors in the sector, hotels and DMCs are working together to promote MICE in Laos and have published a 'MICE guide to Laos' in 2019 and 2020.

61. CBI Tourism Value Chain Analysis in Lao PDR, June 2018.

62. ADB (2020)

63. MOICT (2019)

64. ADB/Swisscontact/MOICT Lao PDR Destination Management Plan, 2016-2018.

Text Box 7.2 Categories of International Tourists

Thai weekenders and holiday makers. Arrive by plane /car to Vientiane or Luang Prabang from Bangkok or Chang Mai. They stay in one place or sometimes combine with Vang Vieng. Some travel to the Vegas Casino in Savannakhet, for legal gambling (gambling is illegal in Thailand). On average they stay for 2 nights. Thai groups and budget travelers, arrive by minibus caravan or in large coaches. The majority cross the border at the Friendship Bridge 1 and visit Vientiane, Vang Vieng and Luang Prabang. They spend from 3 to 5 days and are motivated by sightseeing, shopping, nature, and religion. Peak time is the Lao/ Thai New Year in April. Despite relatively low average spending Thai arrivals are the largest source of income.

Chinese car caravans. Family trip or car club members travel in their own vehicles in a caravan of 30 to 100 vehicles. They spend 4/5 nights on average (1 night in Muang Xay, 2 nights in Luang Prabang, 1 or 2 nights in Vang Vieng. They visit waterfalls, the UNESCO site of Luang Prabang, and soft adventure (elephant ride and zip lining). They stay and eat in Chinese owned hotels. Chinese New Year is the peak time. Provincial workshop teams estimate expenditure at USD60 to USD100 daily per person. Chinese large groups by air. Packaged tours, comprising air ticket & accommodation only, generally 3 to 4 nights in Laos, landing either in Luang Prabang or Vientiane, visiting Vientiane, Vang Vieng and Luang Prabang for sightseeing and shopping, mostly during Chinese New Year. Preference is for Chinese owned hotels and Chinese restaurants. Estimated expenditure is between USD70 and USD100 per day. Chinese large coach tours. They travel in 45 seat buses in caravans of 4 or 5 from Yunnan and spend 4/5 nights in Northern Laos, Luang Prabang and Vang Vieng. Their motivations are sightseeing, shopping (Lao Herbal medicine, wooden antiques), nature and soft adventure with a preference for Chinese owned hotels and Chinese restaurants. Peak time is Chinese New Year. Estimated expenditure is USD70 per day.

Regional Tourism from South Korea. Over 200,000 visited Lao PDR in 2019 (2.7fold increase over 2012), traveling mostly in packaged tours groups, but increasing numbers of young Koreans traveling individually, backpacking. They usually stay 4 to 6 nights in Laos, flying in from Seoul or Busan to Vientiane (1 night) or Luang Prabang (2 nights) Motivations are laid-back charm, nature, and cultural heritage. They usually visit in their winter (November-March) and spend USD100 per day.

Long Haul from US, Europe, Japan, UK, Germany, Australia. These markets dropped sharply in 2017 after several years of steady growth. They recovered in 2018/2019 to their level of the early 2010s, before collapsing in 2020 due to the COVID-19 pandemic. Among all the long hauls, USA (61,184) was the largest market in 2019, followed by France (44,416), Japan (41,736), UK (31,976), Germany (25,346) and Australia (24,750). These include, backpackers, mid-top market experiential (individuals/families/small groups), large groups, and luxury river cruises.

345. Air/ Land arrivals split. Most tourists (mainly Asians) arrive by land (89 percent in 2015). The long-haul travelers, mainly Europeans on organized tours, arrive to Lao PDR by air. European free independent travelers and majority of Asian visitors from neighboring countries may opt for one of the 10 international land borders, as car, bus and train trips are generally cheaper than flights.

346. Main tourist destinations. The existing tourist infrastructure is concentrated in a small number of provinces. Vientiane Capital and Savannakhet (Savan Vegas casino) are the most visited (Thai market). Europeans and North American all visit Luang Prabang and its surroundings (e.g., Kuang Sy waterfalls, Pak Ou Caves). Most also visit Vang Vieng, Vientiane and some go to Champassak Province in Southern Laos as well. Access difficulties, long transport times and the lack of quality accommodation accentuate this imbalance.

347. Seasonality. There are significant differences in seasonality in different markets, reflecting the reason for traveling to Laos. Vientiane Wattay Airport shows the high season to be October to December, whereas Luang Prabang airport is January to March. For European, North American,

and Korean visitors the high season is November to April. There is less seasonality in visitors from ASEAN, but the high season is February to June with a peak during Chinese/ Vietnamese New Year in February and Thai/Lao New Year in April⁶⁵.

348. An add-on destination. For almost all international visitor flows, Lao PDR is not seen as a 'stand-alone' destination. This partly results from the absence of direct long-haul flights to Vientiane, Lao PDR, but it is also stems from a lack of knowledge of Tour Operators and travelers. In 2019, 58 percent of international tourists visited Thailand before Laos, and 35 percent visited Vietnam, Cambodia, or China. This has the effect of reducing the number of nights spent in Laos and therefore the average expenditure per visitor which is much lower than in the neighboring countries.

7.3 Regulatory framework

This section outlines the current legal framework, summarizes recent reforms and the ongoing programs supported by international cooperating partners.

7.3.1 Description of the regulatory framework

349. There has been no major change in the past 10 years. The law on tourism was proclaimed in 2005. In 2011, the government upgraded the Lao National Tourism Administration (LNTA) to be a part of Ministry of Information, Culture and Tourism and the provincial levels were also reorganized. The regulatory framework for investment in Tourism was scheduled to be revised in 2021 to become more investor friendly.

350. The Ministry of Information, Culture and Tourism is responsible for tourism policy and regulation. This is a large Ministry with many departments which slows down decision making. It is understood that the Ministry is designing a more streamlined structure. Tourism in its current form includes 3 overarching departments: (i) Development in charge of planning, strategy, and development at national and provincial levels. The department is also working with other ASEAN countries as well as with related Ministries for supporting infrastructure, standards development, statistics. (ii) Marketing responsible for implementing the strategic plan. (iii) Management Department responsible for all tourism regulations, laws, and decrees, and which also issues the tourist licenses for private investments.

351. Despite the lack of regulatory reform, the introduction of the One Door Policy is a positive development. The One Door policy allows investors to have only one contact throughout the application process. This has reduced the time required for obtaining a tourism license at the central level. Unfortunately, the lack of coordination between the central and provincial levels still leads to approval delays.

352. Lao PDR is committed to implementing the ASEAN initiatives liberalizing tourism sector. Both the ASEAN Economic Community (AEC) 2025 Blueprint and the ASEAN Trade in Services Agreement (ATISA) signed in April 2019 commit Lao PDR to streamlining and simplifying tourism regulations that will facilitate regional investment and travel. These agreements aim to improve physical Connectivity with ASEAN Open skies agreement and to harmonize and improve standards in accordance with ASEAN standards. This should improve the quality of services in tourism and facilitate labor mobility. This will also provide clear standards for developing competency-based training and a common assessment system.

65. ADB (2020)

Text Box 7.3 Investment and Licensing Process

Investment in tourism sector is regulated by the decree on Investment Promotion 2011.

The guide to Tourism Investment in Lao PDR 2011 is now outdated. It is very general and lacks much of the detailed information required by a serious investor. The MOICT Management Department is responsible for issuing Operating Licenses: Projects are submitted by investors to the Ministry of Commerce (DERM). After approval, projects are forwarded to the MOICT Management Department which issues operating licenses. In December 2021 MOICT issued two new regulations (No. 985/MOICT and No. 986/MOICT) aimed at fast tracking the approval process.

Types of investment: (i) Wholly domestic or foreign-owned investment; (ii) Joint-Venture between domestic and foreign investors (foreign investors must contribute at least 10 percent of the total capital); and (iii) Joint-business investment by contract (joint-investment between domestic and foreign entities without establishing a new legal entity or branch).

Tourism businesses open for investment: Tourism between countries; Tourism sites; Standard service for tourist transportation; Accommodations (Hotels, Resorts 3-5 Star); Restaurants; Tour service training center; Tourism consulting; Entertainment located in Hotels and Resorts 3-5 Star; Souvenirs; Theme parks for tourism.

Foreign investors are allowed to own 100 percent of restaurants, 3-to 5 Star hotels and resorts and international travel agency. Tourism Businesses restricted to Lao entities: Guesthouses; Tour guides; Domestic tours businesses; and Tour businesses in special areas e.g., hiking, kayaking, rock climbing

7.3.2 Barriers to investment and tourism expansion

353. Concern over the quality and availability of data on tourism. The problem was identified in the earlier DTIS and remains unresolved. The data are not sufficiently accurate and reliable, which makes it difficult to assess the real weight of tourism in the economy. More detailed data⁶⁶ would allow a better analysis of each target market motivation and allow the implementation of a more effective marketing policy. Better statistics would help to improve the sustainable management of the destination by providing tourism stakeholders with an easy and useful approach to measuring and monitoring and enable tourism stakeholders to share and benchmark their progress and performance in the future.

354. Challenging business environment. As noted earlier in the report, the business environment is perceived as complex and opaque. The Lao PDR tourism sector is characterized by multiple operating licenses that are difficult to obtain. While the tourist sector remains a government priority, the various actors do not feel sufficiently supported. Tourism continues to face competition from more remunerative sectors such as hydropower or mining for which the return on investment is more obvious and easier to calculate. Local tourism enterprises in the Lao PDR also mention the lack of access to affordable credit. Many interviewees noted that laws and regulations were not implemented consistently and commented that the regulatory framework created loopholes which enabled some investors to undermine the intent of the legislation.

355. Lao PDR is implementing voluntary national standards and grading and ASEAN standards however these are not widely used. The accommodation ranking system is governed by Decree No. 060 / LNT, date: 26 Feb 2007. The Department of Tourism Management from the MOICT is responsible for approving the ranking of 4-5 stars hotels and resorts when the Provincial Division of Information, Culture and Tourism regulates guest houses from 1 to 3 stars. The certification is valid

66. For example, it would be useful to have data on where tourist stay, eat, shop, how they travel, and how their spending is allocated. This would enable a more targeted marketing strategy.

for 3 to 5 years, however, since it is voluntary it is not widely used by many of the smaller hotels and guesthouses. Accommodation sometimes communicates on an equivalence to international standards that they attribute to themselves. Lao standards and grading systems also exist for restaurants (hygiene standards) and tourist sites (hygiene and safety) but they are not used by the investors for marketing.

356. Both Lao PDR and ASEAN standards are applicable, and ASEAN standards are still being implemented. The additional standards include Green Hotel, Spa Services, Homestay Standard, Community Based Tourism, Clean Tourist City, Public Toilet, MICE Venue. Currently, Lao PDR is implementing the National and ASEAN Standards on Tourism. The Audit and Assessment Processes was agreed among ASEAN country members that each ASEAN country member designates the assessment committees for ASEAN Tourism Standard.

357. Slow implementation of ASEAN open-skies agreements. Full ratification of the ASEAN Open Skies agreement by all ASEAN member states was completed in 2016. This agreement requires ASEAN member states to fully open international airports and to grant third, fourth, and fifth freedom air traffic rights to carriers based in other member states, with no flight frequency or capacity restrictions. However, national legislation and policies constrain implementation⁶⁷. Laos PDR has entered into bilateral agreements with ASEAN partners rather than applying the agreements signed within the framework of ASEAN.

358. Continued shortage of professional and skilled tourism staff. Over the past two decades considerable resources have been targeted to developing skills and capacities in the tourism and hospitality sector. Notwithstanding this commitment the supply of skilled and professional tourism workforce has not matched the growing demand for more skilled human resource requirements, especially in established destinations, while in emerging destinations lack of access to quality skills training remains a challenge⁶⁷. International standard hotels and main Travel Agents face a shortage of qualified local candidates. They prefer to train staff themselves according to their own methods, considering the profiles (and potential) of candidates rather than their existing skills when recruiting. They have a strong corporate onboarding training that all employees follow upon arrival and a people development department to help team members continually improve.

Text Box 7.4 Tour Guides

Lao PDR regulates tourist guides. An official license issued by the MOICT is required to work as a tour guide, and police checks in tourist places are frequent. The profession is reserved for Lao citizens. Guides can be employed by travel agencies or freelance. Under the ASEAN agreements on the free flow of labor, guides qualified in other ASEAN countries are normally allowed to work in Laos.

Licensed Tour guides are required to meet the following: (i) Lao citizen, at least 18 years of age, reside in the Lao PDR; (ii) no criminal record; (iii) possess a certificate or certificate for attendance of guided tour training in the country or abroad, from an officially approved course; (iv) have knowledge and capability in specific fields, such as in geography, history, foreign language and basic first aid; and (v) honesty, good behavior, and politeness.

The formal 2.5-month training organized by The Institute of Mass Media, Culture and Tourism takes place once a year in Vientiane. In 2019, 66 new guides were trained. The training is academic and insufficiently practical. In interviews travel agents said the training was not always up to date, guides were not trained to adapt to the different tourist profiles, and not sufficiently aware of sustainable tourism practices. Several of the professional travel agents organize additional training during the low season.

Lao PDR has a dearth of quality guides. Their level of general knowledge and their level of language is weak relative to neighboring countries. It is difficult to find a good English-speaking

guide in high season and there is a shortage of French, Spanish, and German speaking guides. Good guides are booked several months in advance.

Due to their small number (956 registered guides in 2018), quality freelance guides normally earn a good living (from \$40 to \$80 per day depending on the language) although the work is seasonal (November to March).

Text Box 7.5 Gender and the Tourism Sector

Female workers account for around 63 percent of the total workforce in Tourism and Hospitality. Women account for 57 percent of workers in the relatively lower paid accommodation and restaurant services. In the higher paid travel services, tourist attractions, and entertainment, men women are a minority with shares of 26, 42, and 45 percent respectively.

Women are mainly employed in low-skilled jobs (housekeepers, waitresses). The supply of graduates from Tourism and Hospitality programs has a higher proportion of women than the overall Tourism and Hospitality workforce. In 2017, 82 percent of graduates were female, and out of more than 1,000 cooking and services course graduates over 94 percent were female. Further, over two-thirds of hotel and tourism graduates were female (Lux Dev LAO029 Tourism and Hospitality Enterprises survey of employment and skills in Lao PDR, 2018).

359. Low-cost Visa available on arrival. Lao PDR visa requirements are not seen as a constraint by tour operators. Lao PDR was ranked 23 over 141 for its visa openness in 2015. ASEAN members⁶⁸ do not require a visa providing they stay less than 30 days. For most nationalities (180), visas can be easily obtained at the main border crossings (visa on arrival), or online for citizens of 150 eligible countries using the Laos eVisa application. The cost of the visa is affordable for different target groups.

360. International accessibility is not seen as a constraint for regional travel. Lao PDR has four international airports (the largest one being Wattay Airport in Vientiane, followed by Luang Prabang airport then Pakse and Savannakhet) and 19 international land entry ports. Road connectivity with neighboring countries is improving and the rail link with China opened in December 2021.

361. Lao PDR has no long-haul flight connections; travelers go via regional transport hubs. There are direct flights to Vientiane from Hanoi, Ho Chi Minh City, Bangkok, Singapore, and Kuala Lumpur. Direct long-haul flights from Japan, Korea, Australia, Europe, and the United States American are not available. This makes it attractive for tour groups and independent travelers to combine Lao PDR with other destinations in the region (e.g., Thailand, Vietnam, Singapore, and Malaysia). Flight costs from neighboring economies to Lao PDR are relatively more expensive compared to similar short-haul regional prices, resulting from relatively higher landing fees and APPS (advanced passenger processing system).

7.3.4 Review of ongoing and past main programs in tourism

362. Only 3.1 percent of workers in Tourism and Hospitality sector hold tourism related qualifications. Human resources development is essential for successful tourism development. Almost half of the workers in the sector are illiterate⁶⁹. In recent years international cooperating partners have prioritized training a skilled workforce in tourism and hospitality through vocational training trades (LuxDev, Swisscontact). The ADB continues to support improving the physical infrastructure, building capacity for public officials on destination planning and management. GIZ assists Lao PDR in regional economic Integration into ASEAN. There are also projects promoting and strengthening the sustainability of tourism in Lao PDR (GIZ, NZAID, PLAN International), and support conservation and eco-tourism (NZAID, WCS).

67. GMS Tourism Working Group, Greater Mekong Subregion Tourism Sector Strategy 2016 – 2025.

68. Also, citizens of Japan, South Korea, Russia, and Switzerland.

69. Lux Dev, Tourism and Hospitality Enterprises Survey of employment and skills in Lao PDR, July 2018.

Text Box 7.6 Impact of Tourism Projects

International Cooperating Partners have provided technical and financial assistance to the tourism sector; however, assessing the long-term impact of the projects is more challenging. In terms of human resources, the skills of employees have improved but the number of qualified employees is still insufficient. Programs are focused on technical training modules (hygiene standards, etc.) suitable for jobs in operational teams (e.g., kitchen, housekeeping) with relatively low skill levels.

Many of the interviewees expressed concern over that project intervention were not sustainable once the external funding ended.

The evaluation report on the Lao National Institute of Tourism and Hospitality (LANITH): After noting the positive results during project implementation the report focused on sustainability and noted⁷⁰ “gaps and weaknesses were identified during the final evaluation that could hamper or even undermine long-term positive impacts of LAO/020. There is a lack of leadership, governance management and marketing capabilities at the Lao National Institute of Tourism & Hospitality faculty (...) LANITH still lacks a clear definition of roles and responsibilities for the teaching staff and director. Furthermore, no adequately designed committee or equivalent management structure is in place that would be able to accompany the further development of the LANITH school and training center after termination of LAO/020. These weaknesses can undermine the mid-term institutional sustainability of LANITH and need, therefore, short-term remedy. However, the greatest concern is related to the financial sustainability of LANITH (...) there is no clear evidence of how the financial sustainability of Lao National Institute of Tourism & Hospitality can be achieved in the long run.”

⁷⁰. Lao/020 Final Evaluation.

Table 7.1 Tourism Projects

Project/ Donor/ Development Agency	Implementing Partner	Project duration and budget	Objectives	Results
LuxDev LAO020 'Strengthening of human resources in hospitality and tourism'	Ministry of Education and Sports, with Lao Hotel & Restaurant Association (LHRA) and Lao Association of Travel Agents (LATA)	2008-2016 8 617 000 EUR	Tourism Human Resources Development	Development of 5 Lao National Institute of Tourism & Hospitality (LANITH) education and training products were developed and more than 3000 people trained: LANITH Diploma LANITH Certificate Passport to Success Executive Training Programme Pheun Than Heng A Sip (Career Foundations)
LuxDev/ SDC (Swiss Agency for Development and Cooperation): Project LAO029 'Skills for Tourism'	Ministry of Education and Sports	2016-2021 15 000 000 EUR	Promotion of Sustainable and Inclusive Growth of the Lao PDR Tourism & Hospitality Sector	In 2019: 5,119 participants completed or enrolled in vocational education and skills development programs. 1897 employees from 750 MSMEs completed upskilling training. The Academy Training Hotel and Restaurant officially launched in Vang Vieng in Nov 2020
Swisscontact/ SDC: Champasak Tourism Business Promotion Project	Champasak Province Department of Information Culture and Tourism (DICT), and Champasak Hotel and Restaurant Association	2013-2016 USD 2 200	Initiating a destination management approach for Champasak province, promoting capacity building of local agencies on market development and value chains	Champasak Province Tourism Destination Management Plan 2016 - 2018, launching of the Southern Laos website www.southern-laos.com and transfer to the Southern Laos Marketing Taskforce
Swisscontact and SDC Mekong Inclusive Growth and Innovation Programme (MIGIP)		2017-2020	Developing the tourism sector, strengthening institutions, structures, and processes in destination management	Results achieved by 2019 95 tourism SMEs increased their income 195 tourism SMEs offer new products to selected visitor flows or improved their existing portfolio 346 tourism SMEs have worked with the destination management strategy and used the tools and channels developed for their own marketing activities 260 tourism SMEs accessed training to improve the quality of service

Project/ Donor/ Development Agency	Implementing Partner	Project duration and budget	Objectives	Results
Swisscontact with founding from Luxembourg, SDC and GOL: Pheun Than Heng A Sip Training program (PTHAS) in Champasak and 8 central and Southern Laos provinces	LANITH and Provincial Hotel and Restaurant Associations	2017-2021	120 training units, to address the issue of low service quality in tourism and hospitality businesses	<p>Expected Results:</p> <p>Upskill 500 staff members of existing tourism and hospitality MSMEs</p> <p>Train 500 people from a disadvantaged background and support them into employment in the tourism and hospitality sector</p> <p>Support 36 national trainers to achieve the ASEAN trainers and assessors' standard</p>
ADB 'GMS Tourism Infrastructure for Inclusive Growth Project' (TIIGP) with MICT in Champasak, Vientiane and Luang Prabang and Oudomxay provinces	MOICT, Departments of Information, Culture and Tourism (DICT) of Champasak, Khammouane, Luang Prabang and Oudomxay Provinces	2015-2020 USD43,57 millions	improve last-mile tourism access infrastructure, improve environmental services in cross-border tourism centers, strengthen institutional capacity to promote inclusive tourism growth, implementation, and knowledge management	<p>(Progress report #21 Jan-Mar 21): Physical progress to date: 91,38percent.</p> <p>Improvements in last-mile tourism access infrastructure and environmental services in cross-border tourism centers are on track.</p> <p>Destination Management Plans have been approved and Destination Management Network (DMN) improved. In total 261 members trained (43percent women)</p> <p>Effective project implementation and knowledge management is on-going</p>
GIZ 'Luang Prabang Handle with care' project in the scope of 'RELATED' project (Regional Economic Integration of Laos into ASEAN, Trade and Entrepreneurship Development. Founded by European Union	Luang Prabang Hotel & Restaurant Association (LHRA) Luang Prabang Travel Agent Association (LUTA)	2016-2019 1,800,000 EUR (EU contribution: 90percent)	Sustainable Destination Development	<p>Improved energy efficiency, water usage and waste management in 70 hotels, guest houses and restaurants</p> <p>Over 30 new handicraft products produced locally and marketed with the Hand-Made in Luang Prabang label</p> <p>ASEAN Tourism Standards improving the quality infrastructure.</p> <p>Improvement of cultural rules and regulations for responsible tourism</p> <p>'Be A Mindful Traveler' campaign for tourists</p>

Project/ Donor/ Development Agency	Implementing Partner	Project duration and budget	Objectives	Results
<p>PLAN International Germany SUSTOUR Laos project Funded by European Union (Vientiane Capital, Vientiane Province and Luang Prabang Province)</p>	<p>Plan International Germany with Lao National Chamber of Commerce and Industry (LNCCI) + ECEAT (European Center for Ecological and Agricultural Tourism).</p>	<p>2020-2024 2,223,857 EUR (EU Contribution: 90percent)</p>	<p>Promoting Sustainable Tourism by Integrating MSMEs into Sustainable Supply Chains and Raising Consumer Awareness</p>	<p>On going</p>

7.4 Changes in global tourism industry and impact on Lao PDR tourism sector

363. **The COVID-19 pandemic is causing a deep crisis in the tourism industry globally.** In Laos, the total closure of borders on March 15, 2020, led to the sudden stop of all tourist activity outside of domestic tourism. Although the borders have now been reopened, international travel remains severely depressed. The COVID-19 pandemic is expected to wane and become endemic in the next 12 months. The challenges identified in this chapter were present before the pandemic. Addressing these constraints will facilitate growing the tourism sector back post-pandemic.

7.4.1 Increase in demand for Sustainable Tourism

364. **Growing increase in equitable and sustainable tourism.** Since the late 1990s there has been a growing awareness of environmental and climate change issues with many tourists requiring a more ethical vacation. This has increased the demand for sustainable tourism, and for ‘authentic’ destinations which offer a unique experience that benefits local communities and has a low carbon footprint. There has also been an increase in demand for holidays that target ‘slow’ tourism, health and wellness, and scenic natural attraction. The focus on reducing stress and “slow tourism” is a positive development for Lao PDR as there is a growing demand from potential tourists in high income countries.

7.4.2 Growing new regional markets

365. **Regional tourism including China will continue to grow.** The rise in living standards and the emergence of a larger middle class in Thailand, China or Vietnam allows a new category of the population to travel. The emergence of new direct flights also facilitates arrivals from Malaysia and Singapore. Laos offers calm and authenticity close to the major Asian metropolises. It is important to understand what these new visitors are looking for when they travel to Laos to set up a specific communication to attract them. Ctrip, the Chinese online travel services provider, reported two major trends in Chinese tourism market: the growth of independent travel and the growth of lower-tier cities as tourism source markets. Ctrip estimated that more than 70 percent of Chinese tourists traveling abroad visited other Asian countries in 2017 and, according to Ctrip, almost half of those Asia-bound travelers will go to countries in Southeast Asia⁷¹. Currently, they mainly visit Thailand; however, with the new rail link there will be increased transit and tourism in Lao PDR. Lao PDR is also preparing to meet the growing demand through the recently launched ‘China Ready’ training program offered by the Institute of Mass Media, Culture & Tourism (IMCT) which targets SME business owners and managers to cater to Chinese tourists.

366. **Lao PDR has a comparative advantage in new trends for high-end adventure ‘off the beaten track’ tourism.** There are increasing number of high-end independent family tourists who wish to ‘avoid big crowds’ to visit under-visited locations. Lao PDR has unique scenery, ‘undiscovered’ historic sites, and important Buddhist temples.⁷²

7.5 Opportunities and Challenges

7.5.1 Lao tourism is at a crossroads

367. **Laos PDR has the opportunity for the tourism industry to rebound from the recent nadir.** Positive factors include: the expressed will of the government to make tourism one of its priorities for the development of the country, the green growth strategy developed in the National Socio-Economic Development Plan and the National Tourism Strategy. The aspiration of long-haul travelers from Europe and North America, and increasingly throughout the world, is to promote more ethical and sustainable tourism. Lao PDR is the image of an authentic and unspoiled destination.

368. **Accompanied by a targeted and effective marketing strategy, this represents a formidable development opportunity for the tourism sector.** There could be a strong potential for growth in case of more promotion of off the beaten track, hidden spots and visiting areas where there is a lot of

71. <https://www.cnbc.com/2017/10/11/china-travel-tourists-embrace-less-conventional-locations-and-tailor-made-trips.html>

72. MOICT Tourism Marketing Strategy, 2019 – 2022.

contact with locals. These characteristics are increasing in popularity among higher income tourists and represent a growth opportunity.⁷³

369. Laos is close to the large Chinese market. The rapidly increasing regional markets have largely been driven by low-cost mass tourism packages. While arrival numbers increase, it does not necessarily translate into significant job growth and sustainable development for the longer term. Also, over time, the quality of the visitor experience will deteriorate, and it will become more difficult to attract a diverse market (including higher end tourists). Increasing the volume of tourists will challenge the capacity of the small number of easy-to-get-to destinations that already suffer from a mounting pressure in the peak season. For example, Luang Prabang may be very close to reaching the limits of its capacity.⁷⁴

7.5.2 Importance of an effective marketing strategy

370. Lao PDR still suffers from a lack of visibility as an international tourism destination. Part of the reasons include limited international promotion, limited funding for international tourism marketing and absence of a clear marketing strategy. Several recent studies (Swisscontact Destination management plan, CBI studies, GMS/ADB Tourism Sector Strategy, QUO Brand Strategy and Culture, World Bank developing Nature based Tourism as a strategic Sector for Green Growth in Lao PDR) have highlighted the strengths that Lao PDR should highlight as USPs (Unique Selling Points) in its communication strategy and the way Lao PDR should take to successfully attract the targeted markets.

371. Lao PDR must 'Go Digital' and maximize the opportunities to increase regional tourism. The MOICT draft National Tourism Strategy 2019-22 prioritizes marketing and recommends two key new marketing initiatives. The most successful Destination Management Organizations around the world are dedicating more than half of their total marketing budget to digital. Laos's tourism marketers must rethink their reliance on brochures, posters, street banners and trade fairs, and must move the bulk of the marketing online by Going Digital⁷⁵. Online marketing can be an advantage for Laos because the inventiveness, the good branding of the destination, can compensate for a lack of budget. Lao PDR must take advantage of the enormous potential of the Chinese market (and regional market in general) and, as a priority, attract millennials who travel individually and seek to escape the stress and pollution of large cities.

372. Lao PDR must differentiate from its neighbors. The main unique selling points identified is the slow, quiet, peaceful, laid-back atmosphere. This is to be linked with the image of authenticity that the country emits. Laos is the destination to live true experiences. This is fully compatible with the objectives of sustainable tourism, the only form of tourism that truly fulfills the objectives of poverty reduction and job creation while preserving the country's natural and cultural wealth.

373. Inadequate public-private partnerships and Tourism Marketing Board. The recent studies on Lao destination branding go in the right direction and show the way to follow. It is now essential that a marketing board allowing a real public private partnership emerges for maximizing private sector involvement in tourism marketing and promotion. Communication between public and private is historically weak and interviewees regret the lack of openness of the public sector. Tourism is a cross-cutting sector that should be run as a commercial business. This requires considerable private engagement and supports it being managed as a business rather than being implemented from a government department. Private experts set up the strategy, submit to the designated Ministry for approval. The analysis of past attempts should be used to understand why such a board is still in place after more than 10 years of discussions. The stake with this entity is to know if the MOICT will accept to be more open which represents, in the public administration's culture, a potential loss of control and to have more confidence in the private sector. The board must have a sufficient budget to carry out its mission. The initial board was supposed to be financed by a USD2 fee levied on each international arrival; however, the measure has not been clearly and uniformly implemented.

73. L'Echo Touristique, 20 October 2020

74. Lao/020 Final Evaluation

75. Lao PDR Destination Management Plan

374. **ASEAN and GSM tourism working group.** Lao PDR should ensure effective participation in the ASEAN and GMS tourism working group to ensure it can leverage the expertise to strengthen its promotion effectiveness and bolster its image. Using the Mekong Forum to promote the country is costless and it allows Laos to benefit from the brand image of its neighbors. This is also a good way to promote multi-country tourism and activities.

7.6 Recommendations

375. The recommendations from the previous study remain relevant and are now more urgent.

376. **Improve tourism statistics.** There are large variations in the estimates of the economic significant of tourism; there are also important market segments where little data is collected. This inhibits designing a tailored marketing strategy to key markets.

377. **Launch a professional marketing campaign promoting sustainable tourism in Lao PDR.** The clear vision of MOICT is to develop a leading sustainable tourism industry that contributes to poor local economic development, and to become one of the preferred regional and global tourism destinations. The main assets and unique selling points (USPs) of Lao PDR include authenticity, Laotian hospitality, and unspoiled natural and cultural resources, and a calm and relaxed atmosphere. It is now necessary to actively promote the destination and capitalize on these USPs. Lao PDR's neighbors are much better known. It is important to raise the country's international profile as a desirable location for tourism. These efforts must be available digitally on the internet to reach the widest possible audience. Today all travelers use internet and mobile apps to prepare their trips and social media also plays an importance role in increasing awareness and disseminating information on travelers' experience.

378. **Tailor communications to target specific markets.** This includes targeting sustainable tourism enthusiasts, people looking for authentic experience away from the crowds and off the beaten track. Increasing the quality rather than the quantity will create more jobs, promote growth, and build a more resilient tourist sector. This includes targeting high-end customers who generate the most income, those who are willing to stay longer, individuals and small groups, Europeans, North Americans, and regional customers. Lao PDR has an opportunity to benefit from the growing importance of these groups over the next 25 years. The regional market, and Chinese in particular, will continue to develop. Lao PDR will need to roll out a targeted strategy to realize a share of this growing market.

379. **An effective marketing campaign requires funding and qualified and experience technical resources.** Lao PDR spends less than its neighbors on investment promotion. Going forward, the GOL will need to ensure this activity is prioritized for funding. It is important for donors, the government, and the private sector to have a clear vision on establishing and implementing a sustainable approach.

380. **Strengthen Public-Private Dialogue.** The limited dialogue between public and private sector is constantly mentioned by the interviewees. An understanding each other's respective needs is key to creating an effective development partnership between the public and private sectors. Private actors are inadequately consulted regarding marketing strategy and its implementation. The professional associations, LATA (Lao Association of Travel Agents) and LHRA (Laos Hospitality and Restaurants Association) have very limited budgets and convening power. Further, only a small number of local businesses are members due to the perception that the professional associations do not represent their interests.

381. **Implement the Lao Tourism Marketing Board.** It is essential that the creation of a Lao Tourism Marketing board bringing together all stakeholders (MOICT and other relevant ministries, Lao National Chamber of Commerce and Industry, professional associations, and private businesses) and discussed for many years becomes a reality. The principle has been validated and implementation is vital. The objective of the Board is to provide 'a mechanism for private sector involvement with the

public sector in an effective public/private partnership for marketing and promotion of Lao PDR as a tourism destination. It maximizes private sector involvement and advice in tourism marketing and promotion so that Lao continues to develop as a successful, competitive, profitable, and growing tourism destination for the benefit of all stakeholders.⁷⁶ Private partners believe that Tourism is a cross-cutting sector, the board should be managed as a business on the model of similar boards in Thailand or Vietnam. The USAID Lao Business Environment project is supporting the MOICT to develop the decree for establishing a national marketing board.⁷⁷

382. Improve the business enabling environment. The business environment is still perceived as complex and opaque with operating licenses difficult to obtain. Private investors need to feel more confident; they do not feel sufficiently supported by the GOL. The current tourism law is too broad and general in scope. It requires more focus and specific detail. The revision of the tourism regulatory framework in December 2021 simplified the procedures and promises to reduce the time required for obtaining a license. It is important to assess the impact of the new regulations to ensure the rules are being applied consistently throughout the country.

383. Increasing human resources is essential. Growing the tourism industry requires more skilled labor trained in tourism and hospitality. Improving skill levels to offer higher quality services would encourage longer stays. It is also important for government officials along with private sector tourist stakeholders to have a greater understanding of sustainable tourism. Government officials within different line agencies and at the provincial level would benefit from dedicated trainings on sustainable tourism. This would allow better coordination and would strengthen the cooperation of government line agencies in the planning and management of sustainable and responsible tourism. Recruiting and training more workers from underrepresented groups is good business. Global research that more diverse businesses are 70 percent more likely to successfully enter new markets and are also more profitable than businesses that do not recruit talent from marginalized and vulnerable groups.

384. Prepare for the post COVID-19 recovery. The tourism sector has retrenched labor during the multiple shutdowns, travel restrictions, and quarantine requirements over the past two years and is now uncertain over the timing of the recovery. While it is not possible to pinpoint the date demand will recover, it is important to note that it will recover. However, when tourism demand recovers there will be opportunities for significant job creation in Lao PDR. Lao PDR can prepare for this through continuing to strengthen the business environment, increasing the number of trained hospitality workers, developing, and launching a marketing strategy that builds on Laos comparative advantage.

385. Post-COVID-19 recovery will require implementing procedures that build international tourists' confidence. This includes having detailed Standard Operation Procedures on health security communicated to all; this may include vaccination requirements, mask wearing, testing on arrival and a tracking system, social distancing in transport hubs including airports, train station, transports, accommodation, and tourist sites. Travelers are willing to accept constraints to ensure their safety. All these measures must be clearly communicated to show that Lao PDR is ready to welcome tourists again, safely.

386. Prioritize regional markets. In the short-term, tourists are expected to prefer short haul travel. The regional market should be targeted as a priority. Bi-lateral negotiations or negotiations within the framework of ASEAN should be accelerated for opening regional bubbles with countries that have few or no cases. To re-attract international tourists, ASEAN or GMS countries should try to adopt common health measures and a common strategy of communication to be more audible at the international level.

76. <https://www.cnn.com/2017/10/11/china-travel-tourists-embrace-less-conventional-locations-and-tailor-made-trips.html>

77. The draft decree would establish a 'Tourism Promotion Board' consisting of public and private sector stakeholders. It is currently under review by the MOICT.



Chapter 8 Manufacturing and Special Economic Zones

387. The GOL prioritizes light manufacturing as a key growth driver. Developing the manufacturing sector is an essential element of the GOLs 10 Year Development Strategy⁷⁸ (2016-2025) and Vison 2030 which aim for Lao PDR to achieve upper middle-income status with innovative, green, and sustainable economic growth⁷⁹. The 9th Development Plan (2021-2025) highlights the importance of strengthening the linkages and coordination between the agricultural and industrial sectors and more effectively utilizing information, communication, and telecommunication (ICT) technologies. The GOL envisages Private Foreign Direct Investment (FDI) will continue to be the main source of inward finance and job creation. The 9th Development Plan envisages this investment will be primarily targeted to the special economic zones (SEZs) and sets a 12 percent annual growth target for manufacturing and handicrafts.

388. The GOL prioritizes promoting jobs creating light industries that will sell into the local market and substitute for imports and industries producing for export as part of a regional or global value chain. The 9th Plan mentions the following sectors: food and beverages, textile and garment, construction materials, agri-processing, forest products, metal and non-metal processing, chemicals, electronics and electrical appliances, vehicle and agricultural machinery and tools, and printing and packaging.

389. Over the past decade the manufacturing sector has experienced rapid growth with investment in electrical and electronic component parts primarily located in SEZs. In the 10 years ending 2019, electronic component exports increased from \$1.6 million to over \$400 million. This was primarily assembly activities including office machinery, camera parts, electronic components, and car parts. In the period 2015-2019, manufacturing exports grew significantly faster than aggregate exports at 80 per cent and 59 percent respectively. Manufacturing exports currently account for a quarter of all exports. Manufacturing accounted for 7.5 percent of value added in 2019.

390. Manufacturing outside of the SEZs is concentrated in beverages, cables, apparel, and furniture. These four sectors accounted for half of the total value added in the national manufacturing establishment⁸⁰ survey (2015); beverages and non-metallic wiring and cables were the largest sectors accounting for 22 and 21 percent of value added respectively. Apparel, wood and furniture, and food processing each accounted for approximately 10 percent of value added, with rubber and plastic at 5 percent, and textiles and fabricated metal each at 4 percent. Most of the manufacturing firms, outside the SEZ, employ less than 50 workers, with 37 percent of all firms employing less than 10 workers. Just over 700 firms (5 percent of the total) employed more than 200 workers. In 2015, only 2.9 percent (378 out of 13,148) of all manufacturing firms outside of the SEZ were engaged in exporting. When this is broken down by share of total production exported, only 1.3 percent were 100 percent exporters, with a further 0.8 percent selling more than half their production for export. Foreign-owned or joint-venture companies accounted for almost 60 percent of the firms producing solely for export.

Firm Level Competitiveness

391. Most Lao PDR firm are low technology, low productivity SMEs. In principle businesses in developing countries may benefit from modern technology, production techniques and management good practices to compete domestically and internationally⁸¹. In practice, most locally owned small and medium sized firms in developing countries operate at some distance from the world frontier. Whereas large foreign owned and joint venture companies linked to global value chains (GVC), sell into international markets and are globally competitive. Improving or upgrading local firms' through enhancing their behavior, operations and performance, and environmental and social due diligence represents important goals for the GOL.

78. National Strategy on Socio-economic Development 2025 which aimed to double gross national income by 2020.

79. Aims to quadruple national income by 2030.

80. This does not include firms located in the Special Economic Zones.

81. This was referred to as the "advantages of backwardness" by Gerschenkron (1962).

392. Increasing SME firm level quality and productivity is a key driver to increasing competitiveness in domestic and foreign markets. The earlier DTIS (2012) highlighted the importance of addressing specific constraints faced by the private sector. Many of the constraints may be addressed by government reforms that improve the business enabling environment and reduce trade costs through improving access to information, eliminating redundant and duplicative requirements, and streamlining procedures, however, SMEs also face specific constraints to accessing inputs (such as labor, capital, imported inputs), accessing output markets (domestic and foreign), and having the know-how or capability.

393. Firm level interventions aim to increase efficiency and profitability, building management know-how is key. Supply side interventions seek to address market failures in firms accessing finance, obtaining suitable labor, and management efficiency (sometimes referred to as capability). Demand side interventions focus on improving access to markets though enabling access to international networks (linkages to GVCs), through promoting linkages, building trust and other interventions. Firm capabilities or know-how is a key determinant of whether a business succeeds and grows. Many entrepreneurs learn from their peers or from having worked at a firm. New entrants may also be mentored by large firms who transfer skills and technology. In Lao PDR there are very few large firms, and apart from the apparel companies most of the larger exporting firms are located on the SEZs. Most of the SME companies produce for the local market and are not linked with larger more experienced firms that can assist with building capability. SMEs can also learn from external trainers and consultants delivering training and advice tailored to the needs of individual firms, rather than delivering cookie-cutter training. Limiting the delivery of advice and know-how to firms that are willing to contribute some of their own resources increases the probability that the training will result in improved performance.

394. Lao PDR Matching Grant Facility targets firm level constraints. The Second Trade Development Facility (TDF-2) financed a matching grant facility to address specific constraints identified by the private sector as key constraints to improving their competitiveness. This is known as the Business Development Facility (BAF) and provides for interventions at the firm-level to improve productivity through strengthening firm capabilities. The BAF began in 2013 and ran for four years. As second BAF (BAF II) began in 2019 and is scheduled to run for 5 years. Common interventions include business support and business development services, mentoring, networking, enabling access to modern technology. This complements demand side policies and programs that target reducing trade costs through simplifying NTBs, reducing tariffs, and improving market access through trade agreements.

395. BAF II supports individual firms to increase their skills and experience so they can grow and become more competitive. BAF II provides both pro bono direct consulting services to any Lao PDR firm and provides matching grants to enable firms to purchase specialized business development services to promote their growth. BAF II is broadly sector agnostic and operates nationwide, and at least 40 percent of the grantees are women-led firms. By the end October 2021 over 215 grants had been approved, 124 had been disbursed, and BAF II had carried out 1,230 one-on-one company assessments. Most of supported firms understood the services on offer when they approached the BAF II, considered their advice on business strategy helpful, and rated the support as medium to high quality. Grants were used to improve branding and marketing (27.6 percent), ICT and internal work processes (19 percent) and improve production efficiency and competitiveness (19 percent). Most of the consulting services are provided by Lao-owned companies. The Impact Assessment Survey of BAF II made six recommendations for improving and increasing the reach and impact. These are listed below. The draft Trade and Private Sector Roadmap recommends expanding the matching grant scheme to address these recommendations and explore opportunities to promote commercial relationships with Lao based exporters to facilitate on-the-job knowledge and technology transfers. BAF II consultations could potentially be expanded with assessment and guidance to businesses on complying with international standards for responsible business practices to facilitate market access.

Text Box 8.1 Recommendations from the BAF II Impact Assessment

1. Assign Lao as the default language on the BAF website
2. Establish satellite office in economic hubs outside Vientiane Capital
3. Create more strategies to disseminate information on the BAF program to 'hard-to-reach' businesses
4. Develop quotas for target businesses (i.e., firms outside Vientiane, micro-enterprises)
5. Improve and expand the pool of Business Development Services providers
6. Improve the business acumen of BAF supported firms

396. **Since 2000 the GOL has prioritized the development of Special Economic Zones with the goal of attracting foreign direct investment (FDI).** The government has designated 13 SEZ; however, only a small number are currently active. To date, investment has been concentrated in low value-added activities that have been outsourced to take advantage of lower labor costs, from neighboring economies, primarily Thailand and China. The first SEZ was developed at Savannakhet and aimed to attract domestic and foreign investment along road No. 9 from the Friendship Bridge in Savannakhet, to Vietnam. The basic infrastructure was provided by the Government. In 2010, the Prime Minister issued a Decree on Special Economic Zones which established two new government bodies to lead the development and management of SEZs. In 2016 these bodies were placed under the direct supervision of the Ministry of Planning and Investment (MPI) and the National Committee for Special Economic Zones.

Table 8.1 Lao PDR Special Economic Zones

No.	SEZ	Location	Size (km ²)	No. Firms	Type	Est/Up-graded
1	Savan-Seno	Savannakhet Province	9.54	74	Industrial	2003
2	Boten	Luang Namtha	16.40	14	Trade & Logistics	2003/2012
3	GOLDen Triangle	Bokeo Province	30.00	59	Tourism & Urban	2007/2014
4	VITA Park	Vientiane Capital	1.10	38	Industrial	2009/2010
5	Phoukyo	Khammuan Province	48.50	16	Industrial	2010
6	Savsettha	Vientiane Capital	10.00	9	Industrial	2010/2011
7	Thatluang	Vientiane Capital	3.65	13	Tourism & Urban	2011
8	Long Thanh	Vientiane Capital	5.58	4	Tourism & Urban	2008/2012
9	DongPhosv	Vientiane Capital	0.54	2	Trade & Logistics	2009/2012
10	Thakhek	Khammuan Province	10.35	18	Trade & Logistics	2012
11	Champasak	Champasak Province	8.00	8	Industrial	2015
12	Luang Prabang	Luang Prabang Province	48.50		Tourism & Urban	2016
13	Xiengkhuang	Xiengkhuang Province	261.96		Trade & Logistics	

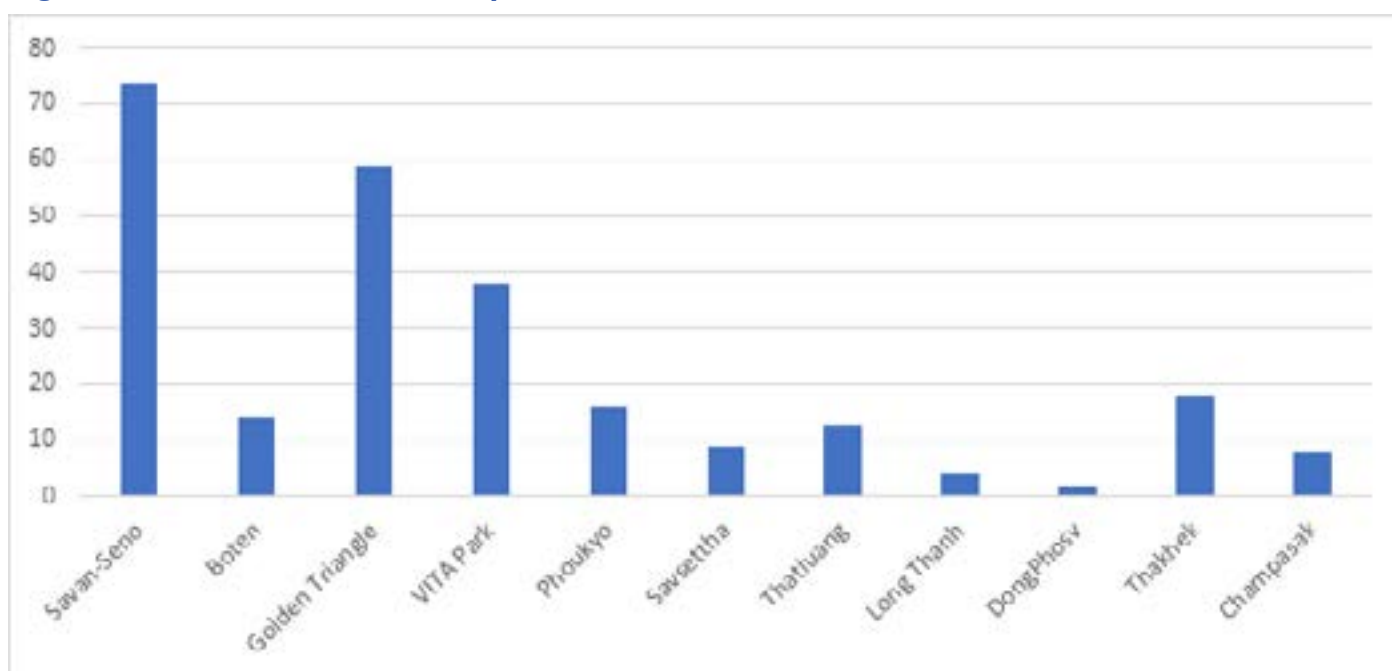
Note: Number of enterprises established 2003-2015. Luang Prabang and Xiengkhuang are approved as SEZ but not yet developed. By 2019 Savan-Seno had 103 firms employing 5,000, Bokeo had 81 firms with 7,963 foreign workers, and Luang Naptha 2,520 foreign workers.

Source: SEZ Promotion and Management Office, Ministry of Planning and Investment, and IOM (2019).

397. SEZs aim to create jobs, transfer skills and technology, contribute to government revenue and advance economic growth. There are 11 SEZs in operation (see Table 8.1). By 2019 the SEZs contained 380 firms and were employing approximately 20,000 workers (IOM Special Economic Zones, 2019). Over half of the jobs created were filled by foreign workers, with Lao employees totaling 9,000, approximately 0.5 per cent of the total labor force⁸². These firms had a registered capital of \$8 billion which reflected that investment proposals submitted to the MPI are much larger than the ex-post investment. In 2016, aggregate investment in SEZs was \$1.6 billion with private investors accounting for approximately 80 percent. During the first decade, zone developers accounted for almost 80 percent of the investment; however, from 2015-2016 this declined to 40 percent and private investors only accounted for 39 percent. Just under 30 percent of the private investment was in manufacturing, 38 percent in services and 34 percent in trade and logistics. In the period 2003-2016, the five largest investors originated from China (58 percent), Thailand (20 percent), Vietnam (11 percent), the United States (9 percent) and Japan (1 percent). Investors are heavily concentrated in two SEZs, namely Savan-Seno and the Golden Triangle.

398. Most of the SEZs are in or near the capital Vientiane, although zones have been established in six other provinces. Approximately 75 percent of the companies established in the zones are foreign owned. Two of the SEZs are close to the border with China; Bokeo and Luang Namtha have been developed and managed by Chinese investors and account for most of the foreign labor employed in the SEZs.

Figure 8.1 Number of Firms in Special Economic Zones 2019



Source: SEZ Promotion and Management Office, Ministry of Planning and Investment

399. Institutional weaknesses undermine the rationale for SEZ. The justification for Lao PDR adopting SEZ include creating jobs, diversifying production, attracting foreign investment, and technology transfer, through simplifying and streamlining procedures and regulations within the designated zone. SEZs require clearly defined policies, rules, and guidelines. In Lao PDR existing legislation lacks transparency and clarity in multiple areas. There are no specified policies on the private utilities required in each SEZ; it is not clear who monitors implementation and there is no discussion on how the investigative and oversight framework will operate. The intent is for the SEZ to offer One Stop Shop services (OSS) but the specific services are not defined. The SEZ application process is onerous involving multiple agencies and multiple approvals. The Ministry of Natural Resources and Environment issues SEZ land use certificates and is responsible for land use and zoning rules. The major challenges facing the SEZ program are listed below.

Text Box 8.2 Challenges with the Lao PDR SEZs

- Program lacks strategic focus
- Large number of SEZ across multiple locations-many not located at nodal points (too remote)
- Inability of Lao PDR to allocate required public investment for access roads and utilities infrastructure or pay compensation for people losing their land
- Skill constraints within the Lao PDR labor force
- Inadequate legal framework and regulatory overload (confusion over mandates)
- Inconsistent implementation and lack of clarity on monitoring and evaluation
- Widespread use of concessions limits financing options and restricts competition

400. **Onerous, time-consuming application process for SEZ status.** The application process is time consuming. The investor submits the project proposal to the OSSU. Following assessment by the OSSU, it is sent for review to the local administration authorities, the investment promotion and protection committee, and the Ministry of Planning and Investment. Following endorsement by the local authority, it returns to the investment promotion and protection committee who note the approvals and send it back to the MPI for final approval.

401. **The 2016 revised Investment Promotion Law identifies nine priority sectors as eligible for incentives (shown in the text box 8.3).** In addition to these priority business sectors, the IPL allows for investments above a certain size or in a specific zone, and concession investments to receive incentives. The IPL also allows for an additional “special incentive” that may be required for a specific project. The primary incentives offered by the IPL include tax exemptions and reduced profit tax, exemption from customs duties for imports of inputs, zero-rated VAT for these imported inputs, zero-rated VAT for selected domestic raw materials, and exemption of export duties/taxes for the export of raw materials.

Text Box 8.3 SEZ Priority Sectors

1. Modern technology, scientific research, R&D, innovation, environmental-friendly and efficient use of natural resources and energy
2. Clean toxic-free agriculture, seed production, animal breeding, forestry development, environment protection, activities promotion rural development and poverty reduction
3. Environmentally friendly agro-processing, handicrafts
4. Environmentally friendly and sustainable ecotourism and cultural tourism
5. Education and sports, human resources and skills development, vocational training
6. Modern hospitals, pharmaceutical and medical equipment factories, traditional medicine production and treatment
7. Public infrastructure addressing urban traffic congestion and over-populated residential areas, infrastructure supporting agriculture and industry, cargo transportation, transit and international linkage services
8. Policy banks and micro-finance institutions focusing on poverty reduction and communities with limited access to finance
9. Modern commercial centers promoting domestic products and world-renowned brands, exhibition centers and fairs for domestic products.

402. Existing policies and reporting requirements constrain competitiveness. Businesses in SEZ must report monthly rather than quarterly or annually. Developers and investors are licensed and required to submit monthly reports as well as tax filings. They are also periodically subjected to 'certifications' to ensure they are compliant with their license requirements. The tax and duty benefits are dependent on the company receiving the 'certification.' As the SEZ are controlled by customs it is not clear why each entity is required to submit a master list of imports for annual approval.

403. Are Lao PDR SEZs addressing existing investment climate constraints? Successful SEZs provide quality utility infrastructure and streamlined customs procedures. The procedures and reporting requirements currently in place are not consistent with international leading practices. Further, Lao PDR also faces a shortage of skilled laborers.

404. Lao PDR SEZ would benefit from benchmarking against leading global SEZ Institutional Practices. Currently most of the SEZ are not following international leading practices. There is a lack of clarity between the regulatory and development and operation governance functions. New SEZ legislation is required: to ensure a clear separation of responsibilities between the regulator and the developer/operator; to establish a single, autonomous regulator with authority over most of the OGAs within the zone; to ensure the regulatory has broad powers and the authority to discharge its mandate. This would assist with using the SEZs to demonstrate the benefits of fast-tracking improvements to the investment climate and infrastructure challenges, which build support for nationwide reforms.

405. Lao PDR would benefit from a detailed assessment of the impact of existing incentives on job creation and export diversification. Setting up SEZ requires scarce government resources and is an attempt to by-pass the existing weak business-enabling environment through offering incentives to foreign investors. The government has generous tax incentives (Law on Investment Promotion 2017). Virtually all the FDI has benefited from import duty waivers on capital goods, imported inputs and raw materials, and a tax holiday⁸³ with the duration depending on the type of activity, size, and location. Lao PDR has successfully attracted some foreign investment in export-oriented manufacturing; however, job creation remains very modest and there are few linkages to the rest of the economy. A detailed evaluation of how SEZs are contributing to Lao PDR's development goals will facilitate implementing more effective policies, regulations, and administrative practices.

Apparel/Garments

406. Apparel/Garments The first garment factory dates from 1984. The sector grew relatively rapidly to over 100 factories by 2014 with 40 firms focused on producing for the European Union (EU), Japan and United States export markets where they benefited from preferential access as a less developed economy. Significant investment in the Lao PDR garment sector was much smaller relative to investment in the same sector in the neighboring economies of Cambodia and Vietnam. When surveyed, businesses identified multiple challenges including a shortage of both skilled and unskilled labor, low labor productivity, high transportation costs, poor infrastructure that resulted in delays during the rainy season, and an unfavorable tax regime for sub-contractors. Several EU members, the USA and Japan have introduced legislation mandating environmental and social due diligence on apparel imports. Lao PDR's garment businesses will be required to adopt these practices into order to continue exporting to these markets.

407. Apparel factories employ 26,000 workers and are mainly located outside SEZ in Vientiane and the surrounding area. Almost 80 factories are foreign owned and producing clothes solely for export markets; the remaining 20 factories produce clothing parts (rather than complete garments). The sewing factories cut make and trim (CMT) imported fabric and cloth into garments. Seven factories are owned by Lao investors; the major foreign investors are from Japan and Thailand. Fifty

83. A recent review of tax holidays using a panel data set covering 51 countries over the period 1985-2014 finds that their effect on FDI is minimal and declined over time. Further tax holidays did not translate into real capital accumulation or economic growth. Further revenue losses from tax incentives reduce the funds available for expenditure on health and education. This is very significant for economies facing serious budget constraints. (Stausholm, 2017).

firms manufacture exclusively for export and 28 firms sell into both domestic and foreign markets. The major export markets include the EU⁸⁴, where products enter duty free under the Generalized System of Preferences, and Japan. Within the EU, Germany is the major market for non-knitted men's suits (the largest clothing product), followed by the UK. Virtually all these companies invested in the 1990s and early 2000s and are located outside the SEZ. Since 2015, several Japanese investors have located in SEZ and have begun producing safety clothes, and boots for exports. While export values have remained broadly constant over the past decade, their share of total exports has declined to 6 percent.

408. Shortage of skilled labor. The factory owners are member of the Association of Lao Garment Industry (ALGI) which is affiliated to the Lao Chamber of Commerce and Industry. The ALGI has identified a shortage of available workers with minimal skills as a key constraint to expansion. In 2015, a MOIC survey identified 30,000 people who had previously worked at sewing factories and had either left or been retrenched. ALGI noted that many of the former employees were retrenched because they did not have the minimal education required for on-the-job training. However, there is some evidence that firms have replaced permanent wage labor with temporary labor or piece work to reduce costs. Further, job retention remains a challenge as experienced sewers can obtain higher paying jobs in neighboring Thailand; prior to COVID-19, approximately 0.25 million Lao nationals were working in Thailand where the minimum wage is more than twice the going wage in Lao PDR.

409. Low productivity and a weak business-enabling environment has eroded competitiveness. Prior to the recent devaluation following the worsening debt situation the large infrastructure investments and mineral exports resulted in "Dutch disease", which increased the price of imports. The challenging business enabling environment, high transport and logistics costs, and the absence of tax or customs incentives for sub-contractors (indirect exporters) decrease competitiveness.

Wood Products

410. Lao PDR has a comparative advantage in producing wood; however, exploiting this natural resource must be sustainable. Lao PDR's tropical climate and topography has resulted in virtually the whole country being naturally forested with multiple tree varieties, including high value-added hardwoods. Until recently, virtually all the production of unprocessed natural wood was exported to neighboring markets. In 2016, the GOL (Prime Minister's Order No.15) began to limit wood supply to the processing industries and imposed an export ban on half processed and unfinished wooden products to discourage illegal logging. Lao PDR is also enforcing a ban on logging on natural wood to allow the natural forests to recover from earlier unsustainable overlogging. In 2021, the MOIC issued a revised list of wood products eligible for export aimed at encouraging higher value-added products. To encourage sustainable growth, the list also included semi-finished items originating from sustainable plantation wood.

411. Areas for sustainable plantation wood remain small; future growth relies on new private sector land concessions. Currently land being cleared for infrastructure development is providing the raw wood; however, this is neither a reliable nor sustainable source. The development of large-scale infrastructure, including dams for hydroelectric power and rubber plantations, resulted in large scale deforestation with timber exports increasing in parallel with FDI. This is not a sustainable source of wood. The processed wood industry will be constrained until additional sustainable plantation wood comes available. The shortage of raw wood and the export ban limit the growth of this sector in the short and medium term. In the longer-term, growth will depend on the increased availability of sustainable plantation wood.

412. Importance of more accurate data and recording on plantation resources, timber use and exports, improved silvicultural practices and knowledge, and effective enforcement of existing legislation governing wood exports. The illegal export of wood remains a concern. The MOIC reported wood and wood products exports to China in 2014-2015 valued at \$28.5 million, while China (reported

84. The EU data covers the period 2016-2019 which include the UK. The UK left the EU on January 31, 2020.

to the UN COMTRADE) imported \$498.6 million from Lao PDR⁸⁵. There is a similar disparity on the exports to Vietnam with the MOIC recording exports at \$ 69.8 million while Vietnam records imports of \$404.4 million⁸⁶. The sheer scale of the difference between recorded exports and imports by neighboring countries indicates widespread illegal logging. The current laws address forest preservation; however, effective, and consistent implementation remains a challenge. To date, only small-scale violators have been exposed; however, the volume of exports requires heavy equipment that is only available to large companies. Lao PDR has limited accurate information on the extent and nature of plantation resources; this is a constraint in developing the sector⁸⁷. Australian Aid carried out a teak inventory for Luang Prabang Province which estimated the merchantable volume at 570,000 cubic meters; however, most of the trees were small and of poor quality, located on small plantations sourced from unknown seedstock and managed by large numbers of owners with limited silvicultural experience.

413. Establish a stable support system for the long-term management of sustainable forests. Ensuring effective traceability certification for production, processing, and distribution requires a long-term national policy for forest management, transparent plans for forestation and logging, guidelines for felling (trimming), planting, planting areas, tree species, regulations governing forest preservation, and technical training on wood processing.

Food Products

414. Agricultural exports doubled over the past decade to account for 10 percent of the total. Most of the agricultural exports are fruits and vegetables, with limited export of value-added food products. There are few large-scale food processing firms in Lao PDR. Three of the largest food processing firms, include Beer Lao employing over 700 workers, and, DAO Coffee and DAO Food each employing around 200 workers. The food processing firms primarily produce for the domestic market.

415. Increased commercial production of cash crops drives poverty reduction. Since the last DTIS (2012) many smallholders have moved from subsistence rice growing towards cash crops to sell in the market. Many of these smallholders work in cooperation with traders from Thailand and Vietnam and produce for export. The increased cross-border trade in cash crops over this period went hand in hand with a reduction in poverty levels in the northern and southern border provinces. (Poverty Profile in Lao PDR, 2020).

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86. In 2015 the World Wildlife Fund reported that the total value of 'Made in the Lao PDR' wood products was several times higher than the total value of exports recorded by Lao PDR Customs Department (Smirnov, 2015).

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Lao PDR Tourism Websites

www.tourismlaos.org

<http://www.ecotourismlaos.com/>



Annex A Trade and Private Sector Development Roadmap 2012 Status in 2021

Table 1: Lao PDR DTIS Update - M&E Framework with Indicators on Goal and Outcome Levels

<p>Pillar Outcome</p>	<p>Conducive domestic and international trading and investment environment created through promoting international and regional trade integration; improving trade facilitation; SPS, TBT, and the business enabling environment</p>	<p>Implementation status review and outcomes (since 2012/13, unless specified)</p>
<p>Interventi on Area 1.1</p>	<p>1.Trade Policy: Implementation of the AEC, and beyond WTO Accession</p> <p>Outcome level change: Legal and other commitments to international agreements, such as WTO and ASEAN implemented, with enhanced support systems in place including monitoring, communication and capacity building</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Level of implementation of commitments made in international trade negotiations, particularly WTO and AEC • Number of new laws and particularly implementing decrees developed and enforced • Enhanced knowledge and awareness of public and businesses on challenges and opportunities of the AEC and WTO accession (GIZ enterprise survey) • Functioning monitoring system for the implementation of WTO accession, AEC and other bilateral trade agreements, which informs policy making and implementation 	<ul style="list-style-type: none"> • Lao PDR improved its WTO commitments by ratifying the Trade Facilitation Agreement on 29 September 2015. The country also deepened its commitments in regional economic integration through implementation and/or engagement in ASEAN agreements. While there has been progress have been made many interventions remain in progress and some have not been implemented. • AEC implementation started since 2016 and evaluated annually and is a work-in-progress; DFTP, MOIC, currently developing 2021-25 plan to implement the AEC Blueprint commitments. • The dissemination workshops on opportunities and challenges associated with the WTO and AEC membership commitments implementation were organized extensively at both central and local levels, reaching out to more than 500 individuals in public and private sectors and academia. • The monitoring system for implementation of commitments is built and incorporated in the NSCEI, LBF, and TPSWG.

1.1 Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
<p>1 Leverage WTO and ASEAN accession to support domestic reform programs, which emphasizes competition, sound regulation and policies to widen access to services in key service sectors such as financial, telecommunications, and the transport sector</p>	<p>DFTP, MOIC and relevant agencies</p>	<p>TDF II, GIZ, LUNA</p>	<p>Partially completed. DFTP, MOIC, which has the mandate to deliver recommendations, reported that tasks were completed in 2013 with accession to WTO include abolishing “Medium Price” for imports; establishing independent telecom regulator, trading rights (started by DFTP and completed by DIMEX), safeguard laws for domestic industry, anti-dumping laws, and trade policy review.</p>
<p>2 Increase public and business awareness about opportunities and challenges arising from WTO accession, AEC and other trade agreement implementation through publication of guidebooks, bulletins and workshops and seminars</p>	<p>MOIC and relevant agencies</p>	<p>TDF II</p>	<p>Partially implemented. DFTP, MOIC, which has the mandate to deliver recommendations, organized seminars at both the Vientiane Capital (central level) and in provinces (local level), published brochures and distributed in a website managed by MOIC as well as those belonging to chambers of commerce, and spoke on issues at various meetings and seminars as guest speaker. Some awareness workshops were held with the assistance of the USAID LUNA II.</p>
<p>3 Improve systems of monitoring and overseeing the progress of AEC and WTO measures implementation by regularly organize the consultative meeting among stakeholders from both public and private</p>	<p>DFTP, MOIC</p>	<p>TDF II</p>	<p>National Steering Committee for Economic Integration (NSCEI) was the key mechanism for monitoring and overseeing the progress of AEC and WTO measures implementation. This function has shifted to private sector business forum held annually. For timely dissemination of progress, organized seminars in provinces in all three regions and published progress</p>

<p>sectors of each core measures to ensure the regular feedback. In addition, the overall progress of the AEC blueprint implementation should be disseminated to the public on a timely basis.</p>			<p>update on AEC blueprint implementation in MOIC website (http://www.moic.gov.la/?lang=en).</p>
<p>4 Continue the revision or development of required laws and implementing regulations (including but not limited to</p> <ul style="list-style-type: none"> • Revision of the manufacturing law, standards law, customs law, • Development of competition law, law on law making, • Implementing regulations for SME law, new tax law <p>In the above and as well as in supporting recently revised legislation and regulations as part of the WTO accession process there should be capacity development of relevant institutions, effective on the ground</p>	<p>MOIC and relevant agencies</p>		<p>All these legislations have been developed. However, institutional capacity building was lacking, leading to poor implementation.</p> <p>USAID LUNA II has provided technical support to raise the capacity of the MOJ, MOIC, and other relevant government ministries/agencies on law making, making law making more inclusive with the official e-gazette, making laws accessible by the public worldwide.</p> <p>USAID LUNA II, in June 2014, sent three officials to attend a U.S. Patent and Trademark Organization Workshop on IP Administration for ASEAN members in Washington D.C. The Project worked with the SPC in drafting IP Enforcement Guidelines that meet TRIPS (WTO Trade Related Intellectual Property Rights Agreement) requirements. The Project has also sent officials from the Supreme People's Court (SPC) and MOST for a study tour in the Philippines on enforcement models of other WTO member countries.</p>

<p>implementation and public awareness built, including training of the judiciary in areas such as intellectual property.</p>			
<p>5 Strengthen inter and intra-ministerial coordination in trade negotiations and implementation. This could include reform of the current NSCEI structure with the WTO Accession Secretariat becoming a broader Trade Policy Secretariat (including AEC related matters). It is important to actively address the non-implementation of international and regional commitments through enhancing coordination mechanism among sectoral agencies, necessary capacity building, introducing peer review process, and using the dispute settlement mechanism to resolve issues in a rule-based manner.</p>	<p>DPM, MOIC</p>		<p>The WTO Accession Secretariat has been integrated into NSCEI to focus on legal reforms required for implementing WTO membership commitments. NSCEI was comprised of Deputy Ministers from all relevant ministries as key members, chaired by Deputy PM. Under this structure, ministry can call for meeting. Now, ministry may call for meeting and department heads can call for meeting as necessary to improve the timeliness of issues for discussion and allow for greater inclusion.</p>

6	Develop and implement regulations on self-certification of origin under AFTA framework.	DIMEX, MOIC	DIMEX completed the ASEAN Wide Self-Certification (AWS) of origin in December 2020. However, some businesses still do not want Self-Certification of Origin. With regard to the electronic Form D, DIMEX informed that it has been put into practice (in exchanges of information with other ASEAN member countries) since December 2019. However, some private businesses still preferred the paper version. Thus, technical assistance and capacity building needs appear to exist.
7	Rationalize bilateral negotiations based on potential market access opportunities for Lao products and establishing coordination mechanisms with major trading partners at both central and local levels to facilitate consultations on trade promotion measures and dispute resolution.	ETCD, DPC, MOIC	<p>Economic and Trade Cooperation Division, Department of Planning and Cooperation, MOIC, reported that trade cooperation with China is on the increase, and cooperation with Vietnam and Thailand continues.</p> <p>With China, cooperative plan includes 1) industrial zone development; 2) standard center; 3) free trade zone; 4) trade exhibition for SME; 5) strengthen trade through ecommerce; 6) improve business environment; and 7) ICT for trade. ICT and e-filing are being implemented and are current priorities. On the Mekong-Lancang context, a five-year cooperative plan is being developed to be completed and start implementation in 2021.</p> <p>With Vietnam, Lao PDR as agreements on border trade, common control area – to avoid double checking on each side of the border. Has done 11 meetings on border trade; 2020 postponed due to COVID-19, and meetings in 2021 will be virtual-based. Cooperation with Vietnam, with the cooperation committee at</p>

			<p>MPI, mainly on health, education, transport, mining, and electricity.</p> <p>With Thailand, developed strategic cooperation plan and considered transitioning to a cooperative project. Before, worked on a year-by-year basis, but now has 3-year plan. The 2021-23 cooperative plan include: 1) product development; 2) value adding in agricultural products; 3) capacity building on custom transit—how to facilitate flows, increase transparency, etc. Lao-Thai committee meets yearly to discuss trade issues.</p>
<p>Consider reorienting units of the Foreign Trade Policy Dept. along functional lines (trade in goods, services, rules of origin and etc...) to enhance coordination in trade negotiations.</p>	<p>DFTP, MOIC</p>	<p>TDF II</p>	<p>DFTP has functionalized divisions, reoriented units based on sectoral functions—e-commerce, WTO, etc. With consolidations, currently, there are 5 divisions, reduced from 6; each division and units within division has clearer description of responsibilities. DFTP has 29 personnel, inadequate for all responsibilities; lacking personnel for specialized work, including international trade laws, economic research and strategic plan development.</p>
<p>2. Business Environment</p> <p>Outcome level change: Enhanced business environment with equal opportunities for all businesses and improved consumer protection</p> <p>Indicators:</p> <p>A. Increase in new business penetration rate</p> <p>B. % SMEs with access to formal bank</p>	<p>II. New business registration with MOIC increased 90,160 units in total over 2013-20 and 45.4% of which are women-owned (46.8% if considered domestic investment only) The number of registrations increased gradually from 10,000+ to 11,000+ annually (averaging 11,167 annually over 2013-18) and jumped to 15,101 in 2019 but plunged to 8,060 in 2020 due to COVID-19 impact.</p>		

Table 2: M&E Framework Pillar 1: Conducive trade and investment environment established

<p>Pillar Outcome</p>	<p>Conducive domestic and international trading and investment environment created through promoting international and regional trade integration; improving trade facilitation; SPS, TBT, and the business enabling environment</p>	<p>Implementation status review and outcomes (since 2012/13, unless specified)</p>
<p>Interventi on Area 1.1</p>	<p>1. Trade Policy: Implementation of the AEC, and beyond WTO Accession</p> <p>Outcome level change: Legal and other commitments to international agreements, such as WTO and ASEAN implemented, with enhanced support systems in place including monitoring, communication and capacity building</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Level of implementation of commitments made in international trade negotiations, particularly WTO and AEC • Number of new laws and particularly implementing decrees developed and enforced • Enhanced knowledge and awareness of public and businesses on challenges and opportunities of the AEC and WTO accession (GIZ enterprise survey) • Functioning monitoring system for the implementation of WTO accession, AEC and other bilateral trade agreements, which informs policy making and implementation 	<ul style="list-style-type: none"> • Lao PDR improved its WTO commitments by ratifying the Trade Facilitation Agreement on 29 September 2015. The country also deepened its commitments in regional economic integration through implementation and/or engagement in ASEAN agreements. While there has been progress have been made many interventions remain in progress and some have not been implemented. • AEC implementation started since 2016 and evaluated annually and is a work-in-progress; DFTP, MOIC, currently developing 2021-25 plan to implement the AEC Blueprint commitments. • The dissemination workshops on opportunities and challenges associated with the WTO and AEC membership commitments implementation were organized extensively at both central and local levels, reaching out to more than 500 individuals in public and private sectors and academia. • The monitoring system for implementation of commitments is built and incorporated in the NSCEI, LBF, and TPSWG.

1.1 Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
<p>1 Leverage WTO and ASEAN accession to support domestic reform programs, which emphasizes competition, sound regulation and policies to widen access to services in key service sectors such as financial, telecommunications, and the transport sector</p>	<p>DFTP, MOIC and relevant agencies</p>	<p>TDF II, GIZ, LUNA</p>	<p>Partially completed. DFTP, MOIC, which has the mandate to deliver recommendations, reported that tasks were completed in 2013 with accession to WTO include abolishing “Medium Price” for imports; establishing independent telecom regulator, trading rights (started by DFTP and completed by DIMEX), safeguard laws for domestic industry, anti-dumping laws, and trade policy review.</p>
<p>2 Increase public and business awareness about opportunities and challenges arising from WTO accession, AEC and other trade agreement implementation through publication of guidebooks, bulletins and workshops and seminars</p>	<p>MOIC and relevant agencies</p>	<p>TDF II</p>	<p>Partially implemented. DFTP, MOIC, which has the mandate to deliver recommendations, organized seminars at both the Vientiane Capital (central level) and in provinces (local level), published brochures and distributed in a website managed by MOIC as well as those belonging to chambers of commerce, and spoke on issues at various meetings and seminars as quest speaker. Some awareness workshops were held with the assistance of the USAID LUNA II.</p>
<p>3 Improve systems of monitoring and overseeing the progress of AEC and WTO measures implementation by regularly organize the consultative meeting among stakeholders from both public and private</p>	<p>DFTP, MOIC</p>	<p>TDF II</p>	<p>National Steering Committee for Economic Integration (NSCEI) was the key mechanism for monitoring and overseeing the progress of AEC and WTO measures implementation. This function has shifted to private sector business forum held annually. For timely dissemination of progress, organized seminars in provinces in all three regions and published progress</p>

<p>sectors of each core measures to ensure the regular feedback. In addition, the overall progress of the AEC blueprint implementation should be disseminated to the public on a timely basis.</p>			<p>update on AEC blueprint implementation in MOIC website (http://www.moic.gov.la/?lang=en).</p>
<p>4 Continue the revision or development of required laws and implementing regulations (including but not limited to</p> <ul style="list-style-type: none"> • Revision of the law, standards law, customs • Development of competition law, law on law making, • Implementing regulations for SME law, new tax law <p>In the above and as well as in supporting recently revised legislation and regulations as part of the WTO accession process there should be capacity development of relevant institutions, effective on the ground</p>	<p>MOIC and relevant agencies</p>		<p>All these legislations have been developed. However, institutional capacity building was lacking, leading to poor implementation.</p> <p>USAID LUNA II has provided technical support to raise the capacity of the MOJ, MOIC, and other relevant government ministries/agencies on law making, making law making more inclusive with the official e-gazette, making laws accessible by the public worldwide.</p> <p>USAID LUNA II, in June 2014, sent three officials to attend a U.S. Patent and Trademark Organization Workshop on IP Administration for ASEAN members in Washington D.C. The Project worked with the SPC in drafting IP Enforcement Guidelines that meet TRIPS (WTO Trade Related Intellectual Property Rights Agreement) requirements. The Project has also sent officials from the Supreme People's Court (SPC) and MOST for a study tour in the Philippines on enforcement models of other WTO member countries.</p>

<p>implementation and public awareness built, including training of the judiciary in areas such as intellectual property.</p>			
<p>5 Strengthen inter and intra-ministerial coordination in trade negotiations and implementation. This could include reform of the current NSCEI structure with the WTO Accession Secretariat becoming a broader Trade Policy Secretariat (including AEC related matters). It is important to actively address the non-implementation of international and regional commitments through enhancing coordination mechanism among sectoral agencies, necessary capacity building, introducing peer review process, and using the dispute settlement mechanism to resolve issues in a rule-based manner.</p>	<p>DPM, MOIC</p>		<p>The WTO Accession Secretariat has been integrated into NSCEI to focus on legal reforms required for implementing WTO membership commitments. NSCEI was comprised of Deputy Ministers from all relevant ministries as key members, chaired by Deputy PM. Under this structure, ministry can call for meeting. Now, ministry may call for meeting and department heads can call for meeting as necessary to improve the timeliness of issues for discussion and allow for greater inclusion.</p>
<p>6 Develop and implement regulations on self-certification of origin under AFTA framework.</p>	<p>DIMEX , MOIC</p>		<p>DIMEX completed the ASEAN Wide Self-Certification (AWSC) of origin in December 2020. However, some businesses still do not want Self-Certification of Origin. With regard to the electronic Form D, DIMEX informed that it has been put into practice (in</p>

<p>7 Rationalize bilateral negotiations based on potential market access opportunities for Lao products and establishing coordination mechanisms with major trading partners at both central and local levels to facilitate consultations on trade promotion measures and dispute resolution.</p>	<p>ETCD, DPC, MOIC</p>		<p>exchanges of information with other ASEAN member countries) since December 2019. However, some private businesses still preferred the paper version. Thus, technical assistance and capacity building needs appear to exist.</p>
			<p>Economic and Trade Cooperation Division, Department of Planning and Cooperation, MOIC, reported that trade cooperation with China is on the increase, and cooperation with Vietnam and Thailand continues.</p> <p>With China, cooperative plan includes 1) industrial zone development; 2) standard center; 3) free trade zone; 4) trade exhibition for SME; 5) strengthen trade through ecommerce; 6) improve business environment; and 7) ICT for trade. ICT and e-filing are being implemented and are current priorities. On the Mekong-Lancang context, a five-year cooperative plan is being developed to be completed and start implementation in 2021.</p> <p>With Vietnam, Lao PDR as agreements on border trade, common control area – to avoid double checking on each side of the border. Has done 11 meetings on border trade; 2020 postponed due to COVID-19, and meetings in 2021 will be virtual-based. Cooperation with Vietnam, with the cooperation committee at MPI, mainly on health, education, transport, mining, and electricity.</p> <p>With Thailand, developed strategic cooperation plan and</p>

			<p>on a year-by-year basis, but now has 3-year plan. The 2021-23 cooperative plan include: 1) product development; 2) value adding in agricultural products; 3) capacity building on custom transit—how to facilitate flows, increase transparency, etc. Lao-Thai committee meets yearly to discuss trade issues.</p>
<p>8 Consider reorienting units of the Foreign Trade Policy Dept. along functional lines (trade in goods, services, rules of origin and etc...) to enhance coordination in trade negotiations.</p>	<p>DFTP, MOIC</p>	<p>TDF II</p>	<p>DFTP has functionalized divisions, reoriented units based on sectoral functions—e-commerce, WTO, etc. With consolidations, currently, there are 5 divisions, reduced from 6; each division and units within division has clearer description of responsibilities. DFTP has 29 personnel, inadequate for all responsibilities; lacking personnel for specialized work, including international trade laws, economic research and strategic plan development.</p>
	<p>2. Business Environment</p> <p>Outcome level change: Enhanced business environment with equal opportunities for all businesses and improved consumer protection</p> <p>Indicators:</p> <p>A. Increase in new business penetration rate</p> <p>B. % SMEs with access to formal bank loans (% women owned) (ES)</p> <p>C. Reduction in percentage of firms highlighting access to skilled labour as one of their top three constraints (WB ES).</p>		
	<p>II. New business registration with MOIC increased 90,160 units in total over 2013-20 and 45.4% of which are women-owned (46.8% if considered domestic investment only) The number of registrations increased gradually from 10,000+ to 11,000+ annually (averaging 11,167 annually over 2013-18) and jumped to 15,101 in 2019 but plunged to 8,060 in 2020 due to COVID-19 impact.</p> <p>III. In 2018, 20% of small firms (5-19 employees) had accessed bank loans, while 45% of medium-sized firms (20-99 employees) and 80% of large firms (100+ employees) accessed bank loans (WB ES 2018). In Lao PDR, only 6% of investment in fixed assets was financed by banks, while it was 10% in East</p>		

	<p>D. Simplified taxation regime for SMEs introduced; increase in number of firms paying taxes based on accounting rules</p> <p>E. Strengthened alternative dispute resolution</p> <p>F. Ensure equal level playing field for all businesses, especially in key service sectors, with increased independence and effectiveness of the regulatory agencies</p> <p>G. Increase in number of business environment issues resolved through PPD</p> <p>H. Increase in demand driven skill development initiatives under PPP)</p> <p>I. Improved SMEs' access to information</p>	<p>Asia & Pacific and 13% in Lower Middle-income economies (WB ES 2018).</p>
1.2 Interventions	Agency	Outcome at 2021 (Implementation since 2012/13)
1 Further regulations on business entry for both domestic and foreign investors through full implementation of the Enterprise Law and Investment Promotion Law.	MOIC and MPI	Enterprise Law of 2013 and Investment Promotion Law, amended in 2016 govern all business activities in Lao PDR
2 Reduce gaps between laws, regulations and implementation through incorporating good practice in law making process into Law on Law Making that is under preparation, and making laws, regulations	MoJ and other relevant ministries	The electronic Lao Official Gazette (http://laofficialgazette.gov.la/) was launched on 11 October 2013 to publish all new legislations for public comments in the law-making processes as well as all new laws at the central and provincial levels 15 days prior to their enforcement. With the continued assistance of the USAID LUNA II, the MoJ was enabled to fully operate the LOG by December 2014, and 248 pieces of national legislations (79 Decisions, 42 Decrees, 10

<p>easily accessible by public through establishing centralized database of all laws, PM Decrees and regulations and instructions</p>				<p>Instructions, 83 Laws, 31 Orders, and 3 Ordinances) were posted in that year.</p>
<p>3 Improve taxation regime for SMEs through establishing dedicated SME Tax Unit at district level; develop detailed instructions for presumptive tax system; develop simple accounting toolkits for presumptive taxation regime to facilitate graduation of more SMEs to accounting based tax regime</p>	<p>MoF</p>	<p>PFMSP, SME Taxation Project</p>	<p>No (or cannot find) information on taxation regime for SME. In the Lao PDR's Reform Memo for the Doing Business 2021, three areas of tax reform were specified: (1) corporate Income Tax payment frequency reduced from 4 to 2 time a year; (2) corporate income tax reduced from 24% to 20%; and (3) Vehicle tax rate revised from LAK200,000 to LAK50,000 – 500,000. Paying tax has been easier with the introduction of electronic tax payment system. However, the annual tax report system remains overly complicated and costly, discouraging most SMEs from adopting accounting-based tax regime.</p>	
<p>4 Improve contract enforcement and dispute resolution through revision of outdated contract law, building capacity of Lao Bar Association and strengthening role of mediation and arbitration functions of economic arbitration board in resolving commercial disputes</p>	<p>MoJ, MOIC</p>	<p>LUNA</p>	<p>LUNA II assisted LNCCI to develop capacity to provide business dispute resolution service, as private sector service allowed by the Law on Resolution of Economic Dispute, in addition to government service through MOJ Center for Economic Dispute Resolution.</p>	

<p>5 Strengthen protection developing institutions implementation of the Consumer Protection Law (establishment of consumer protection association, price monitoring and forecasting system, building capacity of regulatory functions of trade inspection unit)</p>	<p>MOIC</p>	<p>EIF II</p>	<p>Although some TA has been provided through GIZ implemented regional program, necessary institutional infrastructure for consumer protection is still inadequate and weak.</p>
<p>6 Ensure equal level playing field for all businesses, especially in key service sectors, which lacks independent regulatory agency through adoption of modern and comprehensive competition law and policy</p>	<p>MOIC and relevant ministries</p>	<p>TDF II</p>	<p>TDF II completed the regulatory assessment of services trade and investment, which identified laws, regulations, and administrative practices as main limiting factor to the services sector in Lao PDR. TDF II provided support to the Ministry of Post and Telecommunications in the drafting of regulatory instruments, particularly on the framework of competition, interconnection, licensing regime, and spectrum management, and all have been endorsed during project duration. TDF II also provided an evaluation and technical support to the MOF in improving the regulatory and monitoring framework for insurance services. The evaluation report also includes policy recommendations, draft of regulations, and the establishment of the Insurance Association. TDF II support to the Lao Public Accountant Services that resulted in the adoption of Bylaw of the Lao Chamber of Public Accountants and Auditors, Regulation on Lao CPA, Ministerial Decision on Code of Ethics for Professional Accountants, and others that increase professionalization of Lao professional accountants towards ASEAN standard.</p>

7	Improve inter-ministerial cooperation in removing constraints to the movement of goods within and between provinces	MOIC, others		Accomplished through the National Steering Committee for Economic Integration (NSCEI), which comprises of Deputy Ministers from all relevant ministries as key members, chaired by Deputy PM.
8	Improve efficiency and effectiveness of public and private dialogue to address business environment constraints through strengthening capacity of LNCCI and other business membership organizations in service delivery, management, and policy advocacy (issue identification, issue research and position development, dialogue facilitation and results assessment)	LNCCI, MPI and MOIC	TDF II	Carried out through the Lao Business Forum, an annual event, which gathered issues of concern from the private sector business leaders or representatives through the semi-annual meetings of the various Trade and Private Sector Working Group (TPSWG).
9	Build capacity of BMOs in identification and analysis of business environment issues and support PPD at national level and selected provinces	LNCCI, MOIC	TDF II	Increasing number of development partners have been working with LNCCI, Provincial Chambers of Commerce as well as selected industry associations in improving their capacity in policy advocacy as well as delivery of business development services to their members. However, largely due to low membership fees being collected, most of the BMOs are facing financial sustainability issues.

<p>10 Rationalize investment incentives through conducting a comprehensive review of all incentives provided in various laws</p>	<p>MPI, MoF</p>	<p>PFMSP</p>	<p>An “Investment Reform Map (IRM) for Lao PDR, A Foundation for a New Investment Policy and Promotion Strategy” (January 2020) conducted by the World Bank Group examined existing investment incentives and offer recommendation on investment incentives framework along with other policy and reform action plan. However, there is no clear commitments to rationalize existing incentive regime.</p>
<p>11 Attract targeted quality investment through developing a National Investment Facilitation and Promotion Strategy, including specific activities in investment facilitation, servicing, investor outreach and marketing activities in targeted markets</p>	<p>MPI, MOIC</p>		<p>The government has established the Investment Promotion and Management Committee, under the Decree No. 05/PMO, to serve as the country’s main promotion and approval authority for investment under “Control list” and those involve concessions, including Special Economic Zones. In addition, a One-Stop Service Office was established at MPI, MOIC, and SEZs. However, as pointed out in the WB’s (Jan. 2020) Investment Reform Map for Lao PDR, A Foundation for a New Investment Policy and Promotion Strategy, the one-stop service at each ministry/agency as is sends a message to investors that business registration to start a business is complicated and confusing.</p>
<p>12 Further streamline licensing procedures for manufacturing sector through revision of existing manufacturing law and implementing relevant regulations</p>	<p>MOIC</p>	<p>Legal and regulatory reform project</p>	<p>PM Order No. 03 issued in January 2020 designates MOIC to lead the reform agenda on operating licenses. Two task forces have been set up for implementation: an inter-ministerial task force established in January 2021; an MOIC licensing task force led by the Permanent Secretary’s Office established in November 2020. Under the former, DERM agreed with the Investment Promotion Department (IPD) under the Ministry of Planning and Investment (MPI) to enhance collaboration in monitoring and supporting licensing reform by line ministries. A risk-based approach to regulate the OL system could be used within MOIC and would also be applied outside MOIC. DERM reported that the Ministry of Public Health and Ministry of Natural</p>

			<p>Resource and Environment might adopt a risk-based approach. Through the MOIC licensing task force, DERM has strengthened its leadership role to supervise and facilitate dialogue between three MOIC departments (DIMEX, DIH and DIT). The task force adopted an implementation plan with time-bound reform targets, regular dialogues and reporting on progress. It is reviewing the list of activities and corresponding OL to be streamlined within MOIC based on Ministerial Decision No. 0044 and the activities' risk level. All MOIC administered licenses and four sectors in the priority list for streamlining have been identified as of "particular interest to women".¹ The selection process is scheduled to be completed by August 2021, including reform priorities. The Inventory of Business Licenses information portal² was launched in January 2021 providing key information on 359 formalities including 149 business operating licenses.</p>
13	Improve compilation of statistics for manufacturing sector to assist in assessing health of the sector and formulation of appropriate support policy	MOIC	<p>Statistical Capacity Building Project</p> <p>DOIH, with the assistance of the UNIDO under the Strengthening of Industrial Statistics in Lao PDR Project, conducted a "National Manufacturing Establishments Survey 2016" and published the report in June 2018.</p>
14	Improve investment attractiveness in manufacturing sector through review of existing regulations on industrial zones/estates and develop appropriate	MOIC	<p>A PM Decree on PPP was issued in Dec. 2020 to attract private investment into infrastructure and other concession-based investment projects.</p>

¹ The four sectors include 1) agriculture, forestry & fishery; 2) human health and social activities; 3) accommodation and food; and 4) construction, transport and logistics.

² <http://bned.moic.gov.la/en>.

<p>policy to attract private investment based on PPP principle</p>			
<p>15 Promote cash flow-based SME lending through provision of technical assistance to selected commercial banks interested in penetrating to SME market and establishment of risk sharing facility with support from donor agencies</p>	<p>Commercial banks</p>		<p>Extensive discussions between SME promotion agency and the central bank about establishment of risk sharing facility, including credit guarantee to promote lending to SMEs. Relevant public sector agencies have preliminarily agreed to conduct feasibility study for establishing credit guarantee facility in the country.</p>
<p>16 Accelerate development of National Payment System, expand coverage of CIB and improve its efficiency, and set up registry of non-movable assets</p>	<p>BOL, MoF</p>		<p>Over the past few years, Lao PDR has made continuous efforts to improve the depth of credit information. These include establishment of credit information bureau (CIB) in 2012 to provide credit information to commercial banks and financial institutions; development of an online, unified, notice-based collateral registry system under the Ministry of Finance and adoption of related regulations during 2013-2016 to facilitate use of movable assets as collaterals by SMEs. These reforms have made significant contributions to improving Lao PDR's ranking under Getting Credit Indicator from 167 in DB2013 to 70 in DB2016. Furthermore, BOL took decisive steps to improve quality and coverage of information as well delivery of services of the CIB by establishing Lao Credit Information Company (LCIC) as an independent commercial entity in 2019 based on the revised Decree on the Credit Information, No.224/BOL. Since its establishment, the LCIC made important decision to expand the coverage and improve quality of credit information by establishing partnership agreements with six public agencies and five public utility companies, including electricity, water supply</p>

<p>17 Improve rural enterprises' access to financial services through promoting mobile banking and e-banking by developing relevant regulations</p>	<p>BOL</p>		<p>and three telecommunication companies to collect credit information of individual persons, legal entities for developing its Credit Scoring and Credit Rating. The new Credit Scoring and Credit Rating products are expected to be launched in the next year or two.</p>
<p>18 Support ongoing practical initiatives led by industry associations (garment service center, hospitality training institute, training programs between construction association and NTC)</p>	<p>Industry associations, MOIC</p>	<p>TDF II</p>	<p>Digital financial services (e.g., savings, credit, insurance, and payment facilities through electronic devices) are at a very nascent stage in the Lao PDR. Mobile “top ups” and utility bill payments through a formal bank account, the internet or cell phones are the only digital financial activities currently prevalent in the Lao PDR. Moreover, in current circumstances, no fintech startup can pose any threat to incumbent formal financial institutions. The Banque Pour Le Commerce Extérieur Lao (BCEL) and other financial institutions are preparing for the adoption of digital financial services. BCEL has a mobile application (app) to facilitate cardholders’ payments and transactions. BCEL and UNITEL plan to launch a mobile app through which people can deposit money that can be used as e-money (i.e., transfer money via the mobile app). The Central Bank of Lao PDR is preparing to launch branchless banking.</p> <p>With the support of TDF II, the garment service center (GSC) has gained interest from the industry and experienced some success in providing training to raise labor skills. However, its operational sustainability is facing some challenges due to the relatively small size of the Lao garment industry and factories are located scattering across a large area, making it impractical for workers in factories located far-away from the GSC to attend the training.</p>

<p>19 Conduct an in-depth study on situation of labor market and skills development needs of the private sector and develop medium term mechanism to develop appropriate skilled workforce to support sectors that Lao PDR has comparative advantages</p>	<p>MOLS W</p>		<p>With support from development partners, several labor force surveys were carried out in the past few years. The key challenges found relate to the quality of work (i.e., the prevalence under-employment and of vulnerable employment) as well as low productivity and earnings. At the same time, employer surveys and other evidence confirm that employers also struggle to find the skills they need. This points to a “lose-lose” situation wherein weak human capital stifles economic diversification and emergence of a modern formal sector, while youth find limited prospects for decent jobs and are often ill-equipped to function productively in modern sector jobs that do exist. Appropriate medium to long term strategy for developing skilled work force have been developed through closed collaboration between Ministry of Education and Ministry of Labor.</p>
<p>20 Reduce information gaps on labor market through developing labor market information system</p>	<p>MOLS W</p>		<p>The <i>Lao PDR Labor Force Survey 2017</i> by the Lao Statistics Bureau, MPI, with the assistance of the ILO, which is the latest comprehensive labor survey in the country, reveals that Lao PDR has a structural labor problem. The survey reports a relatively low labor participation rate of 40.8% and high unemployment rate of 9.4%. Due to a new labor force definition used, this new result cannot be compared with the earlier labor survey result, which shows high labor participation rate and low unemployment rate. In the 2017 survey, individuals engaged in owned-use production (the subsistence agriculture) and do not seek employment during off season are considered outside of the labor force, which effectively reduces the size of the labor force and, hence, labor force participation rate. Given a constant labor market condition, this also effectively raises the unemployment rate, because of the smaller labor force, which is the denominator in the unemployment rate formula (Unemployment rate = Number of</p>

21	Improve availability quality and relevant content of information on websites for SMEs by localizing popular websites for SMEs such as smetoolkits.org	MOIC	TDF II	Unemployed Individuals divided by the Total Number of Individuals in the Labor Force). With the initiative of DOSMEP, SME Service Center has been established, with the assistance of GIZ, and located in LNCCI. Along with this, a website SMElao.com was created to provide information useful for SME.
22	Improve macroeconomic management through improving compilation of relevant data, including trade and industry data	MPI, MOIC, MOF, BOL	Statistical Capacity Building Project	Trade and industry data, as well as other important data for macroeconomic management including government revenue, prices, exchange rates data are collected, analysed, and reported on a regular basis by the BOL, MOF, MPI, and MOIC. Lao PDR's macroeconomic management is focused on price and exchange rate stability with a limit set for exchange rate fluctuations of 5% annually.
23	Promote use of alternative measures of development to include income distribution, social and environmental dimensions	MPI, MOIC		Sustainability, green growth and quality of human resource are central objectives of NSEDP IX adopted early 2021. The challenge is how to ensure effective execution of the defined measures to achieve above objectives.
24	Timely adopt necessary measures to mitigate potential impact of resource boom on competitiveness of manufacturing and service sectors through closely monitoring of key macroeconomic indicators	MPI, MOIC, BOL, MOF		The Lao PDR entered 2021 with significant development challenges because of its overreliance on natural resources, low resilience to shocks, and competitiveness deficits. COVID-19 exacerbated these challenges by limiting the country's attractiveness as an investment destination and exposing the growth model as vulnerable to shocks

such as movement of real exchange rate; change in real wage vs productivity growth and others			
<p>3. Trade Facilitation</p> <p>Outcome level change: System of more simple, transparent, and cheaper import, export and transit procedures and processes developed and implemented with involvement of the private sector</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Annual website hits on the Lao Trade Information Portal target: 200,000 • Average number of days to clear direct exports through customs (ES) target: reduced from 7.5 days in 2009 to 3.8 days in 2017 • Average number of days to clear direct imports through customs (ES) target: reduced from 10.6 days in 2009 to 5.3 days in 2017 • Lao National Single Window operational • Increased dialogue and constraints addressed through the National Trade Facilitation Secretariat 	<p>The Lao Trade Portal achieved a total of 428,760 visitors on 31 December 2018 (661,971 on 25 May 2021), exceeding the target of 200,000.</p> <p>Average number of days to clear direct exports through customs slightly reduced to 7.15 days in January 2019, short of the 3.8 days target.</p> <p>Average number of days to clear direct imports through customs reduced to 3.2 days in January 2019, exceeding the original 5.3 days target.</p> <p>Lao National Single Window experimented at the Vientiane-Nongkhai customs check point in 2020.</p> <p>Increased dialogue and constraints addressed through the National Trade Facilitation Secretariat with increased frequency of meetings at technical level to resolve issues raised by the private sector.</p>	<p>Intervention Area 1.3</p>	<p>Outcome at 2021 (Implementation since 2012/13)</p>
1.3 Interventions	Agency	Funding/Project	

1 Strengthen the capabilities of the National Trade Facilitation Body	NTFC	TDF II	National Trade Facilitation Road Map developed (2017-2022) and National Trade Facilitation Committee (NTFC) set up in 2018 to replace a lower-level secretariat to lead trade facilitation reforms (WB, DIMEX). Training was conducted on laws and regulations, followed by evaluations once every three months on progress after training. More frequent meetings at technical level to resolve issues raised by the private sector, which reduced the frequency of meetings for formal decisions.
2 Mainstream Trade Facilitation across relevant line ministries	NTFC	TDF II	Inter-ministry agreements are in place for the NTFC, which comprised of 7 ministries and chaired by the Minister of MPI.
3 Work towards the simplification, harmonization and modernization of trade and customs procedures	NTFC	TDF II	Partially completed, as National Single Window has been experimented at the Vientiane-Nongkhai check point with two goods: fuel and automobiles. The ASYCUDA (Automated Systems for Customs Data) has been installed in 11 major international border check points. The Lao Trade Portal is one of the achievements in moving towards simplification, harmonization, and modernization of trade and customs procedures. Regarding to the implementation of the ASEAN Trade Facilitation Work Programme and related programmes, it is a work in progress for all ASEAN member countries. In Lao PDR, relevant Government agencies have been continually working on the Work Programme which held annual meetings.
4 Continue developing additional functionality of the Lao Trade Portal to reduce	MOIC	TDF II	Lao Trade Portal (LTP) was maintained, updated, and upgraded. The annual number of visitors at the end of 2018 had more than doubled the target number of 200,000. Tariffs and 384 NTMs, classified based on UNCTAD classification, were catalogued,

transaction cost related to import and export				mapped, and published on the Lao Trade Portal, increasing transparency and efficiency in international trade. Later, 442 standards (including 400 ISO and IEC standards) were published on the LTP, making LTP national standards stock up to date for the first time since 2014. More than 13,000 HS Codes, which are important for traders, were uploaded, and the latest update (2018) of Lao tariff schedule was also uploaded on the LTP.
5 Implement WTO, ASEAN, GMS and Bi-lateral trade commitments	MOIC	TDF II		National Trade Facilitation Secretariat (NTFS) established, which later upgraded to National Committee for Trade Facilitation, to lead and coordinate the implementation of the National Trade Facilitation Strategy and Action Plan, which includes implementing Lao PDR's commitments under the WTO, ASEAN, and GMS.
6 Develop private sector capacity to trade efficiently in compliance with rules and regulations	MOIC	TDF II		Conducted through various forms, including LBF, private sector working group coordinated by LNCCI.
7 Provide for the right equipment and facilities to ensure the smooth and efficient administration of trade and customs procedures	NTFC	TDF II		Provided computers for customs service. Currently planning to provide distance meeting equipment; laboratory equipment for inspection; developing a more efficient database software to replace the current Excel system.
8 Adopt revised customs law to be consistent with WTO principles	Customs			<i>Custom Law No. 81</i> was approved by the National Assembly and is expected to be implemented in 2021.

<p>9 Complete automation of customs clearance procedures in major checkpoints</p>	<p>Customs</p>	<p>The ASYCUDA (Automated Systems for Customs Data) installed in 11 major international border check points. The system benefits exporters and importers with digitized single-window clearance.</p>
<p>10 Fully implement Valuation rules and risk-based inspection in line with WTO requirements</p>	<p>Customs</p>	<p>Developed risk management system by using colour code to differentiate risk types for food, drug and agricultural products.</p>
<p>11 Design and commence implementation of the National Single Window under guidance of expanded trade facilitation secretariat</p>	<p>NTFC</p>	<p>Lao National Single Window (LNSW) core system has been developed and experimented at the Vientiane-Nongkhai check point in December 2020 with two goods: fuel and automobiles. A legal framework to support the implementation of the LNSW has been developed and an administrative decision was issued by the Ministry of Finance in January 2019. It is still not linked with ASEAN single window system and more work remains.</p>
<p>4. National Quality Infrastructure</p> <p>Outcome level change: Quality Infrastructure capacities in place for enhanced application of SPS and TBT standards including legal requirements and regulatory bodies, resulting in enhanced quality of products in line with international standards</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Number of people with increased knowledge of food hygiene practices 	<p>TDF II</p>	<ul style="list-style-type: none"> • Legal and regulatory framework harmonized with WTO principles and systems of ASEAN/GMS countries is in place and institutions with trained staff are established for Intervention Area 1.4 systematically testing SPS and quality of import and export products, although improved human capacity is still needed. • Standardization, metrology, accreditation, conformity assessment and related activities are conducted by relevant bodies under DOSM. • Through various project assistances, staff training and laboratory development to raise institutional capacity were conducted, but staff with the required specialized skills and knowledge and facilities required for testing and certifying

	<ul style="list-style-type: none"> • System for systematically testing the phytosanitary and quality of import and export products in place • Legal and regulatory framework for Quality Infrastructure (including SPS and TBT) improved, implemented, and harmonized with WTO principles and systems of ASEAN/GMS countries • International standards in the areas of conformity assessment and certification applied by relevant agencies 		<p>products remained inadequate. Development agencies working in this area in Lao PDR need to be synergized through good facilitation.</p>	
Interventions		Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
1	Increase operational funding and numbers of professional staff to levels necessary to make adequate use of capacities being created under present on-going projects	SPS Task force	GMS SPS project	Funding has been depending on projects; human capacity has been raised to some level and still need additional staff with the required specialized skills. Especially since the spread of the pandemic in 2020, available funding has been diverted to focus on dealing with the Coronavirus pandemic.
2	Strengthen SPS coordination by establishing a SPS unit in DOP (Department of Plantation, MOAF)	SPS Task force		Two points of contacts and responsibilities are assigned to two key ministries: MOAF (for plant and animal health) and MOH (for human health).
3	Provide on-going support for improvement and implementation of a legal and regulatory framework harmonized with WTO principles and systems of ASEAN/GMS countries	SPS Task force	TDF II	Project completed work begun in TDF-1 on key SPS legislation, leading to the adoption of three laws on plant protection, livestock and veterinary matters, and food safety. Ministry of Public Health completed, in June 2018, the regulatory reforms to bring Food Safety Law in line with WTO SPS commitments.

4	Sustain support for solving gaps in basic SPS capacities	SPS Task force		<p>The basic principles of the WTO SPS Agreement have been integrated into Lao PDR's national laws and regulations. Relevant institutions/agencies, including laboratories, have received equipment and technical assistance in training of officials and laboratory staff from various agencies and projects including UNIDO, EIF, TDF, ARISE Plus Lao PDR, LANITH, World Bank, USAID, EU, German PTB and GIZ, ADB, and New Zealand Aid through ASEAN.</p>
5	Prepare a national strategy for laboratory development	SPS Task force	EIF II	<p>Lao PDR has developed a number of laboratories including a laboratory of food and drug within MOH; laboratories of Plant Protection Centre of DOA, MOAF; laboratory for testing food and agricultural product quality at Champassak University in Champasak Province; and a microbiology laboratory at Souphanouvong University in Luangprabang Province.</p>
6	Expand SPS support for export promotion to new product-market combinations	SPS Task force	GMS project	<p>SPS support for export has included wood and wood products and coffee.</p>
7	Assess directions, modalities and priorities for ICT based systems in SPS services	SPS Task force	GMS project	<p>Lack information</p>
8	Design and implement a modular investment program for ICT in SPS services	SPS Task force	GMS project	<p>Lack information</p>
9	Support the development of private sector and consumer organizations, and their	SPS Task force	GMS project	<p>Lack information</p>

engagement in the development agenda for SPS			
10 Increase operational funding and numbers of professional staff to levels necessary to make adequate use of capacities being created	MOST		Additional staff with specialized skills and knowledge remains inadequate.
11 Establish a TBT Enquiry Point (EP) based on good international practices and tailored to the requirements of the Lao economy and its trading partners	MOST	LUNA	TBT Enquiry Point was established at DOSM, MOST, in 2014, with Multilateral Trade Policy Division, MOIC, as notification authority. USAID LUNA II held a workshop in February 2015 with 35 officials from 10 ministries attended to learn the procedures of the Preparation, Adoption and Application for Technical Regulations included in the code of practice. However, ITC Mission (2020) reported that DOSM could not update data and expressed the need for reviewing and improving data reporting and updating system and procedures.
12 Conduct empirical assessments of obstacles for trade and gaps in protection of safety of consumers caused by gaps in TBT capacities			This is inclusive in the assessment conducted with the assistance of the ARISE Plus Lao PDR project on the level of implementation of the ATIGA and related ASEAN Economic Community Blueprint 2025 commitments.
13 Design and adopt a strategic plan for the development of DOSM and TBT functions			Completed in 2012. Department of Standardization and Metrology (DOSM), Ministry of Science and Technology (MOST), is the coordinating body for all standardization matters and conformity assessment including product certification.
14 Upgrading of the legal and regulatory framework for TBT	MOST	LUNA	All completed.

15	Training for Government staffs in certifying units and laboratories in international principles of conformity assessment and certification	MOST		Trainings were conducted as part of ARISE+ Lao PDR Project's Quality Champion program (on-going).
16	Prepare a national strategy for laboratory development			Stated in #5
17	Support quality management in TBT laboratories			TBT laboratories have received technical assistance in training of officials and laboratory staff from various agencies and projects including UNIDO, EIF, TDF, ARISE Plus Lao PDR, LANITH, World Bank, USAID, EU, German PTB and GIZ, ADB, and New Zealand Aid through ASEAN.
18	Support the development of private sector and consumer organizations, and their engagement in the development agenda for TBT			Lack information
19	Selectively implement other elements of the strategic plan			Lack information

Table 3: M&E Framework Pillar 2: Competitiveness

<p>Pillar Outcome</p>	<p>Improved competitiveness and quality of agribusiness, manufacturing, and service sectors (supply capacity)</p>	
<p>Interventi on Area 2.1</p>	<p>1. Firm Level Competitiveness</p> <p>Outcome level change: SME firm level quality and productivity support measures leading to enhanced competitiveness of the business sector, and particularly SMEs in domestic and international markets enhanced</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Percent of firms with internationally recognized certificates (e.g., ISO, HACCP, Fair Trade, GMP) (ES) • Percent of firms using emails to interact with clients/suppliers (ES) • Amounts of demand-driven requests for technical assistance from the business sector • Increased survival rates for existing and new product-destination-market combinations • Increased firm level productivity (benchmarked against regional countries) 	<ul style="list-style-type: none"> • Use of online media among MSMEs in Lao PDR including popular apps such as Messenger, WhatsApp, LINE has visibly increased in recent years, especially since the coronavirus pandemic started in early 2020. • It was found that firms with more experience and with familiar markets tended to have a better survival rate. • The competitiveness of SME in manufacturing sector in Lao PDR, based on unit labor cost as reported in WB Enterprise Surveys, in 2018 has improved compared to 2012, but has deteriorated compared to 2016.

Interventions	Agency	Funding / Project	Outcome at 2021 (Implementation since 2012/13)
<p>1 Establish matching grant facility to support small projects which respond to specific constraints that the private sector sees as their priorities for improving their competitiveness in domestic and international markets</p>	MOIC	TDF II	<p>BAF (Business Assistance Facility) provided matching grant to support individual firms in building their skills and experience to increase their competitiveness.</p> <p>BAF I was established in October 2013 and completed in March 2017; it had assisted 208 firms with 34% women-owned.</p> <p>Among them, 30 beneficiaries were evaluated to have 20 percentage points higher performance than “control group of similar firms”, with 16% average growth rate (WB). BAF program achieved all of its targets, including the gender target, in terms of the number of businesses supported and the performance of businesses supported.</p> <p>BAF II began its full operation in May 2019 and BAF Web portal was active within the first three months of operations. By the end of 2020, 691 companies had registered on the BAF II website, up from 514 at the end of June 2020.</p>
<p>Intervention</p>	<p>2. Sector Specific Interventions</p> <p>Outcome level change: Enhanced sector support and PPD leading to increased employment and incomes of the poor in key agricultural, manufacturing and service sectors</p> <p>Indicators:</p> <ul style="list-style-type: none"> Strengthened Public-Private Dialogue mechanisms and BMOs at the national and provincial levels Frequency of public-private consultation mechanisms (EIF O2.3) 		
<ul style="list-style-type: none"> Public-Private Dialogue mechanisms and BMO at the national and provincial levels enhanced through the LNCCI and its provincial chapters. Public-private consultation through the TPSWG, as part of the annually organized LBF, has commonly been organized on a quarterly basis. Better trade facilitation, as well as the abolition of import license for small, hand-held tractor for use by smallholders, combined with increased agricultural commercialization has allowed more farmers to access new agricultural technologies. Combined export value of major agricultural products (rubber, banana, coffee, cassava, maize, rice, and watermelon) increased from \$157.6 million in 2014 to more than \$512 million (FAO and other sources of data combined). 			

	<ul style="list-style-type: none"> • Number of poor people with increased incomes through market development programs • Number of farmers able to access new agricultural technologies • Increase in crop value of (x) USD in key agricultural exports • Increased average spending per tourist • Number of tourism establishments with active social and environmental improvement programs • Number of graduates of vocational training courses • Existence productive sector strategies for key sectors integrating the trade dimension (EIF O2.2) 	<ul style="list-style-type: none"> • Number, average spending, and average length of stay of international tourists respectively increased from 471,867, \$81/person/day, and 7.2 days in 2012 to 632,297, \$83.64/person/day, and 7.93 days in 2019
Interventions	Agency	Funding/Project
Agribusiness		Outcome at 2021 (Implementation since 2012/13)
1 Develop product specific development strategy for traditional and emerging agricultural products identified in the DTIS update, including coffee; tea,	MOIC, MAF	TDF I, EIF II NIU has, in 2020, commissioned a consultant to study rice, vegetables, coffee, livestock, and edible oil crops, which provides recommendations on development strategy for DTIS update. ICT studied (published in February 2021) investment potential for coffee and wood processing with selected export markets which offer tariff advantages Lao PDR can use to attract FDI, and a Lao PDR's Coffee

maize; cassava; sugarcane; rubber, livestock and others			Sector Export Roadmap 2021 -2025 has been drafted. ERIA (Economic Research Institute for ASEAN and East Asia), together with MOIC, studied and recommended development strategy (2020-25) for some specific agricultural products and food processing, as well as for garments, wood processing, handicrafts and artisan crafts, and information technology.
2 Conduct research on and disseminate post-harvest technologies for smallholders based on socio-economic and agri-ecological conditions and suitable methods of technology transfer and train agribusiness enterprises in price differentiation for quality products	MAF		Extensive support in this area has been provided by major donors such as ADB, IFAD, World Bank, EU, France, Germany, and others.
3 Develop and apply criteria for selecting agribusiness investors, including land concessionaires to attract quality investment	MAF, MPI, MOIC		No progress in this area.
4 Develop appropriate incentive regime to promote contract farming between large investor and smallholders	MAF		DFTP working on domestic support framework for agribusiness.

5	Conduct feasibility study for establishment of coffee institute aimed to develop specialized technical personnel to support sustainable development of the sector	MOIC, MAF	EIF II	National Agricultural and Forestry Research Institute, LCA facilities, and laboratory of the coffee research center are capable of doing specialized coffee research.
6	Facilitate border trade in agricultural products by improving trade logistics especially distribution center in major border checkpoints (for example, Lao Thai border in Champasack province)	MOIC, MAF	EIF II	No progress in this area
7	Promote establishment of local producers/traders' association to improve efficiency of their dialogue with public sector at local as well as central level (for example, establishment local association of producers/traders of fruits and fresh vegetables in Boleven plateau should be encouraged)	MOIC, LNCCI	TDF II	LNCCI, in collaboration with and guidance of the MOIC, has assisted provincial chamber of commerce chapters in capacity development and in assisting the establishment of farmers associations to work with the local chambers of commerce, such as LCA, LHA, etc.
8	Facilitate access of local exporters to high value regional and global markets	MAF, MOIC	TDF II	Lao exporters are currently obtaining product quality certification from neighboring countries (Thailand, Vietnam). Laboratories for quality and safety standards were established and staffed under the DOSM,

by promoting adoption of industry best standards already used in major neighboring markets (China, Thailand, and Vietnam)				although staff with specialized skills are inadequate. With the WTO and ASEAN conformity implementation commitments, this will move Lao PDR towards achieving industry best standards already used in major neighboring countries.
Tourism sector				
1 Improve reporting and statistical methods especially in relation to: tourism-related direct and indirect employment; tourism's contribution to GDP incorporate input/output modelling; regional arrivals; provincial arrivals, and spending by market	MOICT			Tourism statistics are collected and reported annually by the MOICT. Information in this annual report include number of visitors and their origin, duration of stay, spending, rooms availability, occupancy rates, survey on visitors' attractions. No other information found.
2 Strengthen the composition and membership of the Lao Tourism Marketing Board	MOICT			No progress. MOICT is currently reviewing existing structure with TA from USAID funded project
3 Roll out UNCTAD's Sustainable Tourism component of their Train for Trade program to key government actors and line agencies at the center and provincial levels	MOICT , MOIC			Did not happen
4 Facilitate private investment in tourism sector through	MOICT			No progress

adopting more transparent licensing regimes for businesses in tourism sector				
Textile handicraft				
1 Promote good practice in weaving to improve productivity (training, adoption of new looms/equipment)	MOIC, LHA	TDF II	A lot of community-based development projects, including EIF project provided training and advice to weavers.	
2 Improve design capacity through promoting establishment of private design school	MOIC, LHA	TDF II	With the assistance from JETRO, the “Gift Project” was begun in 2015 to improve design capacity of the Lao handicraft sector. No information on whether TDF II has been involved.	
3 Strengthen the Lao handicraft association in policy advocacy as well as promoting Lao handicraft sector domestically and internationally	MOIC, LHA	TDF II	LHA has been working on this with the support of JETRO since 2001. No information on whether TDF II has been involved.	
4 Promote production of domestic silk through expanding scope of existing project using value chains approach to promote local production	MOIC, LHA	TDF II	INGOs were quite active in this area, however, increase in supply of domestic silk has not been observed.	
5 Develop long term Lao silk development strategy			Handicrafts strategic development plan is integrated in the five-year national development plan, but it is unclear and lacks sufficient details (stated in ERIA’s (undated) report titled “Development Strategy of Five	

		Selected Sectors in the Lao People's democratic Republic (2020 – 2025)).	
Garment sector			
1	Continue supporting the Garment Training and Service Centre and explore scope for providing services in areas of certification	MOIC, ALGI	TDF II TDF II supported the GTSC with customized advisory and standard training program for line supervisors from the garment industry and sewing operators from the general public. However, the GTSC faced challenges in financial sustainability from fees earned due to “the small size of the highly fragmented garment industry”.
2	Improve the industry image and industrial relations through implementing relevant elements of Cambodia' Better Factories Project	MOIC, ALGI	TDF II TDF II provided technical assistance for labor standard improvement and for MOLWs labor inspection capacity development needed to improve working conditions in factories. Working conditions improved in most of the 12 pilot factories.
3	Support producers in meeting growing demand for quality and social standards (support for improving quality system (ISO), certification program (WRAP, SA 8000)	MOIC, ALGI	TDF II The approval of the Ministerial Decree 4277, which mandates the use of labor inspection checklist, and introduction of the labor inspection toolkit with information in seven key areas of labour law have created a strong systematic base to improve labor inspection and compliance. However, working conditions can be further improved.
4	Continue efforts to reduce overall cost of doing business through: <ul style="list-style-type: none"> ○ Reviewing existing fiscal regime ○ Improving logistics and trade facilitation (reduction inland 	MOIC, ALGI	TDF II Conducted through simplification of Custom clearance procedures. However, shippers have complained about inconsistent enforcement.

<p>transportation cost between Vientiane and Port in Bangkok, and expenses associated with customs clearance at border checkpoints); Review Labor Law</p>				
<p>5 Develop medium to long term sector development strategy</p>			<p>A study by ERIA, <i>Development Strategy of Five Selected Sectors in the Lao People's Democratic Republic (2020 – 2025)</i>, offers recommendations on development strategy for garments, agriculture and food processing, wood processing, handicraft, and artisan crafts, and “Information Technology in the Heavy Use of Cheap Electricity”.</p>	
<p>Wood processing industry</p>				
<p>1 Improving readiness for and compliance to the EU Timber Regulation and Timber Legality Assurance systems by promoting industry certification systems (FSC CoC, ISO 9001, 14001 etc.)</p>	<p>MOIC, Associations</p>	<p>TDF II</p>	<p>JICA supported two Japanese companies to disseminate and demonstrate their wood processing and furniture making technologies to raise Lao PDR’s wood products “acceptable to world market, including Japan”. No information on whether TDF II has been involved.</p>	
<p>2 Facilitate establishment of strategic partnership between Lao wood processors and leading processors in neighboring countries to improve productivity of Lao PDR wood processors</p>	<p>MOIC, Associations</p>	<p>TDF II</p>	<p>The “Dissemination and Demonstration Project Relating to the Promotion of Exports from Lao PDR Utilizing Japanese Wood Processing Technology” brought two Japanese companies (Takada Seizaisho and Legnatec), with the support of JICA, to cooperate with existing domestic companies for wood processing and furniture making in Lao PDR. No information on whether TDF II has been involved.</p>	

3	Facilitate access to working capital for secondary wood processors to increase value added of wood exports	MOIC, Associations	TDF II	ITC with funding from EU and JICA are currently working with wood processors to improve their productivity, which could eventually improve their access to necessary working capital.
4	Carry out an assessment of all plantation crops by species and conduct production forecasts giving the volumes that can be expected to be harvested by size or diameter classes for periods of five years until 2020	MAF, MONRE	SUFOR D	World Bank and KFW have been financing activities in this area.
5	Relax temporarily and restrictively the ban on foreign investment in secondary wood processing based on natural forests	MAF, MONRE	SUFOR D	No progress
6	Improve and extend the system of competitive bidding for log quota allocations	MAF, MOIC, MONRE	SUFOR D	Logging has been banned over the past few years.
Intervention Area 2.3	3. Leveraging the resources boom			<ul style="list-style-type: none"> An incentive system for resource-based companies to offer on-the-job training in support services is an integral part of a vocational school program supported by ADB, SDC, and Germany.
	Outcome level change: Offshoot industries developed from the mining and hydropower industries Indicators:			

	<ul style="list-style-type: none"> Incentive system in place for resource-based companies to offer on-the-job training in support services Number of people employed in offshoot industry disaggregated by vulnerability criteria 			
Interventions		Outcome at 2021 (Implementation since 2012/13)		
1 Conduct study on opportunities for value addition to mining industry	MOIC, MEM	No progress		
2 Provide technical and vocational training for service industries supporting mining and hydropower industries	MOIC, MEM	ADB, SDC, and Germany have been very active in upgrading vocational education system, which could also cover selected service industries for mining and hydropower sectors.		
3 Develop incentive system for resource-based companies to offer on-the-Job training in support services	MEM, MOF, MOIC	Efforts are being made through above mentioned programs.		
4 Implement pilot BDS project for offshoot activities	MOIC	No progress		

Table 4: M&E Framework Pillar 3: Aid-for-trade governance and implementation framework

<p>Pillar 3 Outcome</p>	<p>Improved Aid for Trade governance framework for mainstreaming trade and private sector development</p>	
<p>Interventi on Area 3.1</p>	<p>1. Sustainable Trade</p> <p>Outcome level change: Trade growth benefits the poor through better integration into production processes with gender, poverty and environmental considerations systematically included and addressed in the sector.</p> <p>Indicators:</p> <ul style="list-style-type: none"> • TPSD policies effectively informed and responsive to poverty, gender and environment • Enhanced participation of women in the economy (measured through increased proportion of women owned businesses (ES)) • Percentage of full-time female workers (ES) • Application of Markets for the Poor approach in activity design • Foreign and domestic investment proposals that adopt a triple bottom line approach to investment 	<ul style="list-style-type: none"> • Over 2013-2020, women owned domestic business registration increased 38,244 units, accounting for 46.8% of all domestically owned business registration (MOIC). • Female accounted for 46% of full-time employees in 2018, 43% of firms had female top managers, and 36% had female participation in ownership (WB ES 2018)

Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
1 Incorporate principles of making market work for the poor (M4P) in developing and implementing all sector specific support measures to enhance impact on poverty	MOIC	TDF II	The microfinance funding program, which works with four selected MFIs allows eligibility for both registered and unregistered micro and small enterprises engaging in crops, livestock, and household industry.
2 Implement gender specific interventions in sectors which women predominate namely, agribusiness, tourism, textile handicraft and garment sectors	MOIC, Assoc.	TDF II	NIU gender advisor completed draft of gender strategy for LCT project. The Gender Action Plan for LCT officially launched at the first TPSWG meeting held in June 2020. Specific gender intervention is reflected in the 112 BAF II's matching grants approved by NIU, for which 68 (or 60.7%) are women owned businesses, with the total grant value of \$466,769 or 51.9% of the \$900,000 approved grants.
3 Encourage investment in female enterprise start-ups and enterprise expansions by targeting entrepreneurship training to the above-mentioned selected sectors in which women predominate	MOIC, LWU	TDF II	TDF II worked with LWU on promoting women-owned or women-led enterprises. Most SME development projects have been successfully mainstreamed gender dimension in their interventions.
4 Work with selected micro-finance institutions to increase the access of entrepreneurs, in the above-mentioned sub-sectors, by facilitating the linkage	BoL, MOIC		Under DOSMEP, initiated in early 2019 and started in early 2020, 4 MFIs were selected; each received LAK 500 million, plus LAK 40 million in technical assistance (training). Cropping, livestock, and household industry, both registered and unregistered enterprises are eligible.

<p>between these organizations and entrepreneurs in these sectors</p>			<p>The Fund has a Management Board from four Ministries + LNCCI, which meets every three months with an annual meeting; an ad hoc meeting is possible—in 2020 did all four quarterly meetings plus an annual meeting. The Secretariat has been effective; Board must approve all decisions; an internal audit is required.</p>
<p>5 Adopt a 'triple bottom line' approach that promotes positive social and environmental impact while seeking financial return in large investment projects</p>	<p>MOIC, MAF</p>		<p>DOSMEP has worked on a 'triple bottom line' approach that promotes positive social and environmental impact, which will be included in the 2021 – 2025 development plan.</p>
<p>6 Develop legislation on control of chemicals and hazardous substances to mitigate risks from operations of polluted chemical industry</p>	<p>MOIC</p>		<p>DOSMEP has been working with MONRE on laws and regulations to protect the environment from chemicals and hazardous substances uses in production as well as other environmental impact from production processes.</p>
<p>7 Strengthen inter-ministerial cooperation between MOIC and MAF to address trade and investment related issues of concern to each agency by establishing a high-level working group</p>	<p>MOIC, MAF</p>	<p>TDF II</p>	<p>Formal coordination structures have not been established</p>

<p>Interventi on Area 3.2</p>	<p>2. Capacity Development</p> <p>Outcome level change: Sufficient institutional and management capacity built to formulate and implement trade related strategies and Implementation Plans (EIF Outcome 1)</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Shared vision on trade development support in Lao PDR amongst public and private sector stakeholders and development partners (DTIS and Action Matrix completed and periodically reviewed)¹ (EIF O1.2) • A Quality and Up-to-date trade strategy developed and implemented (EIF O1.4; O1.6) • Number of people trained in trade related areas • Number of people reached through communication channels (workshops, website, publications) (Impact: Awareness of WTO, ASEAN, Trade Information Portal) • Number of MOIC officials using e-mail regularly 	<ul style="list-style-type: none"> • 265 technical and middle level officials, including 79 females, from various relevant border agencies at the central and provincial levels were trained under the Trade Facilitation Capacity Building Program. Additionally, 6 national trainers also received training and now can conduct training in Local languages. • Completed a comprehensive review of the implementation of the Trade Facilitation Strategic Plan for 2011-2015 • Trade Facilitation Roadmap 2017-2022 endorsed in August 2017, which led to the establishment of 17 Technical Implementation Units (TIU) in key line departments
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¹ LTIS and Action Matrix must be coherent within MoIC (NES, DOSMEP) and aligned with NSEDP IIV and plans of related line ministries (MoFA, MoF, MAF, MPI, NAST, Mining and Energy, NTA)

Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
1 Develop and implement communication strategy for the TPSD program	MOIC	TDF II	AFT communications strategy was developed in 2015. This strategy is currently being updated by NIU. TPSWG meetings held quarterly to discuss issues of concern by private businesses. From these meetings, issues are organized, prioritized and which are then channelled to the LBF, an annual event. In 2020, due to COVID-19 impact, three of the four planned TPSWG meetings were held. Quarterly NIU-IA meetings, quarterly BAF Task force meetings, semi-annual project progress review meetings, and annual Program Executive Committee meetings were organized to monitor project implementation progress and seek policy guidance.
2 Institutional support in developing MOIC as the lead agency on trade. Evolving processes to be pro-active in line with forthcoming changes in the system and structure of the economy and external environment.	MOIC	TDF II	TDF II continued to support capacity building for departments and agencies under MOIC to take a leading role in policy and regulatory reforms leading to trade and private sector development. Tasks and responsibilities required to implement TDF II are integrated into MOIC's departmental responsibilities through NIU, which serves as technical secretariat for policy dialogue between government and development partners under TPSWG. Most of the support mission wrap up meetings were chaired by Senior Officials of MOIC. From 2012 at request of MOIC, Government upgraded Trade and Private Sector Sub-Working Group to full Working Group. It has evolved into formal platform for dialogue between Government and Development Partners on trade and private sector development issues in the country. From Mid-2015, MOIC was assigned to act as Government Focal Point for PPD under the Lao Business Forum.
3 Develop and implement a coordinated training program	MOIC	TDF II	TDF II continued to support capacity building for officials across departments and ministries involved in the project.

<p>for officials, to be implemented by the Government as well as various external partners, focusing on appropriate and systematic skills development of staff.</p>			
<p>4 Develop and maintain a user-friendly and accessible electronic database of all trade and PSD related studies, reports and presentations</p>	MOIC	TDF II	Lao Trade Portal, under DIMEX, collects and publishes trade and trade related information, including tariff, NTM, national and international standards, import and export procedures, etc.
<p>5 Modernization of ICT and systems processes for MOIC and related provincial offices, including undertaking and implementing an ICT modernization plan</p>	MOIC	TDF II	MOIC ICT strategy was developed with support from TDF II and most of proposed action plan has been implemented with technical and financial support from China Aid.
<p>6 Improve the quality of trade policy formulation, by elevating the policy dialogue at TPSWG, through a better understanding of trade policy formulation/cycle, reducing the number of overlapping strategies and plans, make them more action-oriented and increase the inter-ministerial coordination</p>	MOIC, MPI	TDF II	The TPSWG has been operating according to its TOR since early 2012. More recently, the collaboration between the SWG and other PSD coordination structures such as LBF, National Trade Facilitation Committee, and Investment Promotion Committee has led to the implementation of PM Order No. 02 and No. 03 on Doing Business Reform, and One Stop Shop for investment approval has been strengthened.

7	Active participation, support to and development of the Trade and Private Sector Development Working Group in discussing key policy areas as well as developing and implementing the Roadmap as a shared vision for trade and PSD in Lao PDR.	MOIC	TDF II	TPSWG prepares annual progress report to the Roundtable Process. It collects feedbacks from its members on important government policies, including PPD, implementation of Investment Law, trade impact of LDC graduation, draft NSEDP and others.
Intervention Area 3.3	<p>3. Trade Mainstreaming</p> <p>Outcome level change: Mainstreamed trade through improved national trade related planning and coordinated consultation and implementation structures (EIF Outcome 2)</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Increased use of National Steering Committee for Economic Integration (NSCEI) and sub-structures • Improved trade related knowledge and information (Number of people trained) • Increased focus on trade in the National Socio-Economic Development Plan and planning process (EIF O2.1) 			<ul style="list-style-type: none"> • NSCEI and NTFS serve as mechanisms for inter-ministerial coordination, but coordination needs strengthening. • Trade has been mainstreamed in the NSEDP.
Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)	
1	Alignment of the TPSD Program (DTIS)	MOIC, MPI	TDF II	Very limited progress in this area.

<p>implementation and future updates) with government budget, PIP and aid cycles. Support to the MOIC annual and 5-year action plan preparation</p>			
<p>2 Commissioning studies in the lead up to NESDP VIII on key sectors (strategies) or crosscutting issues and those related to LDC graduation</p>	<p>MOIC, MPI</p>	<p>TDF II</p>	<p>A lot of relevant research and studies were commissioned by ongoing TRTA.</p>
<p>3 Promote trade policy-making as an inclusive process with outreach programs to SMEs, CSO and provincial levels, support Public-private Dialogue at sub-national levels (Busan Partnership for Effective Development Co-operation on the participation of non-state actors)</p>	<p>MOIC, MPI</p>	<p>TDF II</p>	<p>The PPD, which is an integral part of the annual event LBF, has gained interest and importance as a policy making mechanism that channels private sector inputs into policy and policy making processes that includes SMEs through their memberships in the LNCCI, which has chapters in provinces. However, this has been organized in the capital and attended nearly entirely by firms with operations offices or representative offices in the capital.</p>
<p>4 Strengthen and rationalise inter-ministerial coordination of various high and technical level structures related to trade</p>	<p>MOIC and PCD</p>	<p>TDF II</p>	<p>NSCEI and NTFS serve as mechanisms for inter-ministerial coordination. However, The Lao PDR Competitiveness and Trade Project Mid-term Review (December 2020) points out that coordination needs strengthening.</p>
<p>Interventi on Area 3.4</p>	<p>4. Aid-for-trade governance framework Outcome level change: Functioning governance framework trade</p>		<ul style="list-style-type: none"> • NIU was integrated into the DPC, which was created in 2012, and strengthened with resource and government personnel and specialists.

<p>development, that is well resourced and makes use of a programmatic approach based on the principles of the Vientiane Declaration and a shared vision across public and private sector stakeholders (EIF Outcomes 3 & 4)</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Effective and efficient administration of AFT through enhanced capacity of NIU and GSEUs staff to implement AFT projects • Program (Roadmap) of government and donor-supported activities (EIF O3.1) • Frequency of Trade and Private Sector Working Group meetings (EIF O3.4) • Number of projects supervised by the Trade Executive Committee (TEC) • Existence of joint donor initiatives in the trade area (EIF O3.4) • Trade and private sector development program established based on the Action Matrix (EIF O4.1) • Existence of government budget for the implementation of trade related matters (EIF O4.2) • Number and value of projects funded by donors related to the DTIS Action Matrix (EIF O4.4) • Increased value of trade-related assistance channeled through the ODA division/NIU of MOIC 	<ul style="list-style-type: none"> • TPSWG meetings were held annually and chaired by either MOIC Minister or DG of DPC. Later, TPSWG meeting's frequency was increased. In 2020 four was planned but, due to COVID-19, three meeting were held. • Number of projects supervised by the TEC increased. • Government allocated a matching budget for the implementation of trade related matters. • Number and value of projects funded by donors related to the DTIS Action Matrix increased (from X to X figure) • Value of trade-related assistance channeled through the ODA division/NIU of MOIC increased (from X to X figure)
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Interventions	Agency	Funding/Project	Outcome at 2021 (Implementation since 2012/13)
1 Resource and strengthen the NIU in the number of government officials and specialist staff dedicated to the unit and supporting implementing agencies	MOIC	TDF II	NIU was created in 2006 under the IF and thereafter reinforced and staffed under TDF I. TDF II project continued to support with financial and personnel resources required to perform its tasks and function effectively, but as it continues to be predominantly funded externally, there were only four government officials assigned to NIU.
2 Evolve the National Integrated Framework (AFT) Governance Structure to fit closer to on-going government and inter-departmental systems and be more flexible for priority project implementation.	MOIC	TDF II	<p>Later, while it has continued to be mainly funded externally, NIU was integrated into the DPC, which was created in 2012, attaching to FAD. While NIU's responsibilities are fully integrated across the divisions within the DPC, its key role is mainly in finance, procurement, and project management.</p> <p>The establishment of the DPC is primarily to plan, manage, and supervise ODA that enters MOIC. Thus, with NIU integrated into it, DPC has a strategic role in the overall AFT mobilization, management, supervision, and in mainstreaming of Trade and Private Sector Development across ministries. DPC also has a lead role in inter-ministerial coordination in Trade Policy Reform and Trade Negotiation and in overseeing the coordination of Trade and Private Sector Development issues with the private sector and development partners.</p>
3 Ensure adequate training of government and project staff in project related and implementation skills, together with systems to access international specialist advise			TDF II financed technical assistance to support NIU's technical role in program formulation, implementation support, and monitoring and evaluation. TDF II also provided continued technical assistance where necessary to ensure that NIU can carry out its core fiduciary functions effectively.

4	Support and strengthen the TPSDS and sub-structures		To strengthen the TPSDS, IF Secretariat disbanded to eliminate duplication. WTO Secretariat, since its role in accession negotiation has been completed after Lao PDR gained WTO membership in 2013, converted to Legal Reform Sub Committee under the NSCEI to focus on implementation of commitments. National Trade Facilitation Secretariat was created under DIMEX and later upgraded to National Committee for Trade Facilitation (NCTF) under the Chairmanship of the DPM. TPSWG meetings was held annually and chaired by either MOIC Minister or DG of DPC. Later, TPSWG meeting's frequency was increased. In 2020 four was planned but, due to COVID-19, three meeting were held.
5	Develop and implement a shared vision for the trade sector based on a validated DTIS update: DTIS Road Map and M&E Framework	MOIC	Lack information
6	All major trade and PSD projects should report to the Trade Executive Committee (TEC) as a high-level Steering Committee to ensure alignment and effectiveness in the program and reduce administrative burdens.		All TRTA projects developed after the DTISU 2012 were required to adopt single governance structure and report to single program steering committee under Trade Executive Committee (TEC), which changed to Program Executive Committee (PEC).
7	Increase the use by DPs of, and resources available to in-country multi-donor trust funds and implementation		In-country multi-donor trust fund established in 2008 has continued with second phase established in 2013, and third phase established in 2019, which will continue until 2024.

through the AFT governance structure		
Interventi on Area 3.5	<p>5. Monitoring and evaluation</p> <p>Outcome level change: A functioning monitoring and evaluation system that serves the needs for information on project and program levels and enhances results-based management</p> <p>Indicators:</p> <ul style="list-style-type: none"> • Timely available monitoring information and statistics inform management decision-making at the ministry and project level • Implementation of the DTIS and outcomes concerned is evaluated annually in terms of both results and process issues on a programmatic level • Roadmaps developed and reviewed as part of a broader M&E plan which covers programs for Trade and Private Sector Development in Lao PDR • Sufficient financial and human capacity resources dedicated to monitoring and evaluation at the level of individual initiatives as well as on the overall programmatic level, in line with the expected methodological rigor required. 	

Interventions	Agency	Financ e/Proje ct	Outcome at 2021 (Implementation since 2012/13)
1 Review experience of other developing countries in setting-up programmatic approach for the trade sector	MOIC	TDF II	The review was conducted in 2015 and some revisions were made to strengthen effectiveness of PEC and project review committee.
2 Develop and implement an M&E plan including structural aspects of roles and responsibilities, data gathering and management, data analysis, use of information and building of capacities required	MOIC		NIU, with the help of and M&E specialist, has guideline for M&E, which includes standard templates for periodical project progress reporting, propose specific monitoring plan, M&E information management system, and others.
3 Assess the opportunities for the application of impact assessment methodology to M&E of selected parts of the results chain	MOIC		Not implemented.
4 Assess the opportunities for results -based financing making use of good practice so far	MOIC		Not implemented.
5 Develop the organizational and individual staff capacities required to monitor the implementation of trade initiatives on the level of the interventions and to intermittently evaluate the	MOIC		NIU recruited a full time M&E officer in since 2019.

outcome and goal level changes of the M&E framework				
6 Earmark sufficient financial resources for monitoring and evaluation on the level of individual initiatives as well as on the overall programmatic level, in line with the expected methodological rigour required	MOIC		M&E functions have been integrated in project/component Focal Point. For complicated large project, a specific M&E strategy has been developed and monitored by dedicated M&E Officer.	
7 Enterprise survey (to be tailored to Roadmap requirements and conducted): The next one is planned for 2021 and one more should be conducted before the end of the next program cycle			Conducted by the World Bank.	
8 Doing Business updated annually			Conducted by the World Bank, last issue 2020, cancelled in 2021.	
9 Logistics Performance index is updated every year			The report is prepared by the World Bank every two years.	
10 Time release study. (to be undertaken in 2012, 2014, and 2016)	MoF/WB		The Time Release studies were carried out in 2016, 2019, 2020.	

11	LECS updated in 2012			Lao National Statistical Bureau under MPI has been conducting LECS once every five years, and the latest survey for 2017/18 has been completed and reported.
12	Sector statistics (manufacturing, tourism...) should be collected regularly (at least once a year)	Relevant Agencies		Tourism data is collected and reported annually by the MOICT
13	Enterprise registration data will be updated every month			DERM is responsible for enterprise registration and regularly compile data.
14	Project specific impact studies against program indicators			Not implemented
15	Undertake regular firm-product-market analysis			Not implemented



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