



MINISTRY OF INDUSTRY AND COMMERCE, LAO PDR

DEPARTMENT OF PLANNING AND COOPERATION

DIAGNOSTIC TRADE INTEGRATION STUDY

2012

Trade and Private Sector Development Roadmap



JULY 2012



ACRONYMS AND ABBREVIATIONS

ACMECS	Ayerwaddi - Chao Phraya - Mekong Economic Cooperation Strategy	HACCP	Hazard analysis and critical control points
ADB	Asian Development Bank	HDI	Human Development Index
ADS	Ministry of Agriculture and Forestry's Agricultural Development Strategy 2011-2020	IF	Integrated Framework
AEC	ASEAN Economic Community	IFAD	International Fund for Agricultural Development
AfT	Aid for Trade	ITC	International Trade Centre
AFTA	ASEAN Free Trade Area	Khet	Village cluster
AGPC	Association des Groupements de Producteurs de Café du Plateau des Bolovens	Kum baan	Village cluster
ANR	Agriculture and natural resources	Lao PDR	Lao People's Democratic Republic
APB	Agricultural Promotion Bank	LBF	Lao Business Forum
ASEAN	Association of Southeast Asian Nations	LDC	Least Developed Country
CAFTA	China-ASEAN Free Trade Area	LFA	Logical Framework Approach
CBTA	Cross-border Transit Agreement	LIFS	Lao PDR IF Secretariat
CLMV	Cambodia, Lao PDR, Myanmar, Viet Nam	LNCCI	Lao National Chamber of Commerce and Industry
DDFI	Department for the Promotion and Management of Domestic and Foreign Investment	LWU	Lao Women's Union
DP	Development Partner	LYEA	Lao Young Entrepreneur Association
DTIS	Diagnostic Trade Integration Study	M&E	Monitoring and Evaluation
EC	European Commission	M4P	Making markets work for the poor
EIA	Environmental impacts assessment	MAF	Ministry of Agriculture and Forestry
EIF	Enhanced Integrated Framework	MfDR	Managing for Development Results
EITI	Extractive Industries Transparency Initiative	MoF	Ministry of Finance
ES	Enterprise Survey	MoIC	Ministry of Industry and Commerce
EU	European Union	MPI	Ministry of Planning and Investment
FAO	Food and Agriculture Organization of the United Nations	NA	National Assembly
FDI	Foreign direct investment	NAFES	National Agriculture and Forestry Extension Service
GAP	Good agricultural practice	NAFRI	National Agriculture and Forestry Research Institute
GI	Geographic indicator	NES	National Export Strategy
GIZ	Gesellschaft für Internationale Zusammenarbeit (German International Cooperation)	NGPES	National Growth and Poverty Eradication Strategy
GMP	Good manufacturing practice	NIFGS	National Integrated Framework Governance Structure
GMS	Greater Mekong Subregion	NIU	National Implementation Unit
GOL	Government of Lao PDR	NSCEI	National Steering Committee for Economic Integration
GSEU	Government Sub-Executing Units	NSEDP	National Socio-Economic Development Plan
		NTFP	Non-timber forest products
		ODA	Official Development Assistance
		OECD	Organization for Economic Cooperation and Development
		PAFO	Provincial Agriculture and Forestry Office

PBA	Programme-Based Approach	TPSDSG	Trade and Private Sector Development Sub-Group
RTM	Round Table Meeting		
RTP	Round Table Process	TPSWG	Trade and Private Sector Development Working Group
SME	Small- and medium-sized enterprises	TRTA	Trade Related Technical Assistance
SMEDS	Small and Medium Enterprises Development Strategy	UNCTAD	United Nations Conference on Trade and Development
SMEPDO	Small and Medium-Sized Enterprises Promotion and Development Office	UNDP	United Nations Development Programme
SPS	Sanitary and Phytosanitary	UNOPS	United Nations Office for Project Services
SWAP	Sector-Wide Approach	VDCAP	Vientiane Declaration Country Action Plan
TBLI	Triple bottom line investing	WTO	World Trade Organization
TBT	Technical Barriers to Trade		
TDF	Trade Development Facility		
TEC	Trade Executive Committee		

FOREWORD BY THE MINISTER FOR INDUSTRY AND COMMERCE



Lao PDR is on an ambitious path of development, which relies strongly on the promotion of trade and business development as a sustainable engine of growth. Our 7th National Socio-Economic Development Plan (NSED 7) is explicit in targeting increased international integration. Already, Lao PDR has performed well on this front, with exports expanding over four times in value over the course of the last decade. Total trade increased at a robust rate of 20 per cent per year, increasing in value from less than \$1bn in 2001 to over \$5bn in 2011.

Looking towards the future we welcome the dawning of the ASEAN Economic Community in 2015 and Lao PDR's membership of the World Trade Organization.

In this time, many opportunities and challenges will emerge for the country. We need to ensure that Lao businesses are able to supply quality products and services and compete in the global marketplace. This is why it is so important to strengthen our institutions, businesses and people now, through a concrete programme of support and development as envisaged in this document.

This Programme for Trade and Private Sector Development will bring together the key Government agencies, private sector representatives and Development Partners to work towards the common vision of making Lao PDR a more prosperous country, sustainably reducing poverty and ensuring strong and balanced development in the modern world.

I would like to thank the Ministry of Industry and Commerce, with support from the Ministry of Planning and Investment for their leadership in putting together this programme, as well as the active participation of all other Ministries and partners involved. Perhaps more importantly, I would like to stress that trade cuts across all facets of our country and institutions. I would like to encourage all related Ministries and other partners in ensuring a coherent approach to trade and business development as set out in this programme.



Dr. Nam Viyaketh
Minister of Industry and Commerce of the Lao People's
Democratic Republic
Vice Chairman of the National Steering Committee for
Economic Integration

MESSAGE FROM THE VICE MINISTER FOR INDUSTRY AND COMMERCE



I am pleased to launch the Lao PDR DTIS Update (2012) and the resulting Programme for Trade and Private Sector Development. This Programme represents the actions necessary to ensure growth of trade and businesses in Lao PDR and sets out the means to achieve the trade-related targets in the NSEDP 7.

I would like to thank the members of the Trade and Private Sector Development Working Group, including our Development Partners, the private sector and Government Agencies. This group included a high level of oversight provided by Vice-Ministers from the Ministry of Industry and Commerce and the Ministry of Planning and Investment. Furthermore, the technical DTIS Task Team, comprising representatives from key Departments and Development Partner representatives, provided ongoing planning and review of this document. 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 the practical Programme that has been developed following extensive discussion with those involved. This programme truly reflects the vision we have set out in the NSEDP 7 to become a modern and diversified economy, preparing for and meeting the trade-related requirements for graduation from Least Developed Country status.

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 make this programme a success. The Enhanced Integrated Framework (EIF), housed within the WTO, and supported by over 25 Donors and other Development Partners 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 and in other Ministries, agencies and the private sector - all vital to the development of trade - to work diligently in fulfilling this programme to contribute to the sustainable development of Lao PDR.



Khemmani Pholsena (Mrs)
Vice Minister of Industry and Commerce of the Lao
People's Democratic Republic
Head of Integrated Framework Secretariat

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PART I: SUMMARY AND ROADMAP

1. EXECUTIVE SUMMARY

Policy context and macroeconomic background

The economy of Lao PDR is growing rapidly while poverty has fallen significantly in recent years. Mining and hydropower have driven an annual average of 7 per cent GDP growth over the last decade, which is among the highest in the region. Economic growth has helped halve the share of the population below the national poverty line, leaving it at less than a quarter. The Government looks set to achieve the Millennium Development Goals (MDGs) of reducing extreme poverty by half in 2015 and meeting its objectives on child mortality and HIV/AIDS. The World Bank has forecast economic growth of 7.5 per cent during the period 2012-15, broadly in line with the target of the seventh five-year National Social and Economic Development Plan (NSEDP) covering 2011-15. Graduation from Least Developed Country (LDC) status appears possible by 2021.

Although the economy is growing fast, it is becoming less diverse. Mining and electric power exports accounted for some 56 per cent of total exports in 2008, a share which is expected to rise to 67 per cent in 2015 and 77 per cent in 2020. Mining and hydropower now account for more than 80 per cent of total incoming foreign direct investment (FDI), which in turn affects the composition of export growth. Concerns exist over ‘Dutch disease’, whereby resource-driven economic growth makes non-resource exports less competitive.

The trade in goods is concentrated not only by product but by destination, with Thailand accounting for around half of exports from 2005-10, followed by Vietnam, Australia and China. Thailand is the source of three quarters of imports, followed by China, Vietnam and Japan. Services, however, now comprise over a quarter of GDP. As a result of rapid expansion in tourism, services exports have grown about twice as fast as goods exports since 1990.

Many people have not benefited from the resource boom, while natural resource development has in some instances actively worsened poverty through

resettlement and reduced food security. Whilst progress has been made here, more can be done. The proportion of the population living below the poverty line fell from 46 per cent in 1992 to 28 per cent in 2008. The incidence of poverty varies significantly within the country. Nutrition remains a significant problem, with around two fifths of children underweight and a similar proportion stunted. Lao PDR also fares relatively badly on the Human Development Index, at 138th of the 187 countries on the latest Index.

The risk is that Lao PDR will become a ‘rich country with a poor population’, meaning that mining and hydropower increasingly dominate economic activity and revenues are not used to further the ends of development. The efficient use of government revenues can help develop export industries with proven potential. Developing linkage between the resource sectors and the rest of the economy will prove important. Furthermore, resource revenues should be invested in long-term priority areas for development, such as in education, health and basic infrastructure. Evidence from East Asia shows that human development is a prerequisite for economic growth rather than an accompaniment or an afterthought. Furthermore, addressing human development indicators such as health and education would simultaneously support the case for graduation from LDC status as well as trade and economic growth.

In addition to the NSEDP, development strategy is set out in the Party’s four Breakthrough Areas, Vision 2020 and the National Export Strategy, as well as number of important sectoral strategies. Together these documents are part of a continuing move towards the market economy. Concern is rightly expressed about the inequitable nature of growth and the entrenchment of poverty.

The NSEDP and related planning documents show strong vision, correctly recognising the need to diversify sources of economic growth. The Diagnostic Trade Integration Study (DTIS) and

National Implementation Unit (NIU) can act as mechanisms for trade-related economic planning, but greater inter-Ministerial and departmental coordination will be necessary. Development planning should become more flexible and strategic in approach, allowing for unpredictable future events.

Given the impact of resource-led development on the natural environment and the concentration of economic activity and exports, it may be worth moving away from aggregate GDP growth (which does not explicitly account for equity or the environment) towards an alternative measure of development such as China's GDP quality index; Gross National Happiness or the UN Human Development approach. Among the main tasks facing policymakers in the years ahead are the diversification of economic activity into new areas in addition to hydropower and mining, and the establishment of appropriate human development policies as the foundations of long-term economic success.

Trade and private sector development policy

The introduction of the New Economic Mechanism (NEM) in the late 1980s enabled the private sector, domestic and foreign, to play an increasing role in the economy. The latest Lao Expenditure and Consumption Survey (LECS4) showed that about 34 per cent of households operate micro and small businesses; a much higher proportion than a decade earlier.

Yet the relative lack of medium and large enterprises, the limited availability of labour and skills and the general low productivity of manufacturing firms may be further constraining economic growth and diversification. The World Bank Investment Climate Assessment (2011) revealed that total factor productivity for the average manufacturing firm in Lao PDR failed to rise between 2005 and 2009. Labour productivity is lower than in most comparator countries and below the levels suggested by income per capita. Lao PDR's economy is capital-intensive rather than labour-intensive, but it still needs to diversify into new areas and raise productivity in the non-resource sectors, which will partly involve increasing the size of firms and therefore returns to scale.

Since the NEM Lao PDR has actively liberalised its trade and investment regime, largely influenced by bilateral and regional trade agreements. The

country's trade regime is relatively open, and since 2000 the country's most-favoured nation (MFN) applied simple average tariff has remained near its current 9.7 per cent, slightly higher than the East Asia Pacific regional average of 9.3 per cent. Improvements to trade policy include attempts to raise transparency, reduce non-tariff barriers (NTBs) and to bring trade legislation in line with the principles of the World Trade Organization (WTO) and Association of Southeast Asian Nations (ASEAN) agreements.

Lao PDR is currently at an advanced stage of WTO accession. At the time of writing the country had completed eight working party meetings and concluded bilateral negotiations on goods and services with all interested Working Party members.

The challenge is not to secure more market access, since many markets are already open to Lao products, but to leverage economic integration as a driver for improving the business and investment regime whilst simultaneously expanding supply-side capacity. Additional advantages of WTO accession include the opportunity to strengthen and improve trade policy institutions and coordination. WTO membership would also give Lao PDR a seat at the multilateral negotiating table and access to the dispute settlement mechanism. An improved intellectual property regime is a potential advantage, but there is a need for funding to help implement the best-practice intellectual property law and regulations being developed for WTO accession with donor support.

WTO accession will bring with it several challenges, including the need to coordinate and implement commitments. Accession is only the start of the process. Awareness of the WTO needs to be increased among society at large as well as among businesses. Service liberalisation and regulation of strategic sectors such as telecoms and transport can carry many benefits for the rest of the economy, but at the same time several service sectors are also subject to well-known market failures. Liberalization must be sequenced with regulatory reforms such as establishing independent regulators, developing prudential regulations, and ensuring universal service. Implementation of General Agreement on Trade in Services (GATS) obligations will require a strong capacity to coordinate government action across different ministries and agencies and

enhance transparency practically across the board. Support for the Legal Sector Master Plan will be necessary, and adequate attention must be paid to the implementation of new reforms.

Graduation from LDC status is likely to lead to a loss of trade preferences (as well as a possible reduction of access to grants and concessionary loans). Lao PDR will accede to the WTO as an LDC and as such will receive special and differential treatment, but these privileges may be lost if it graduates from LDC status.

In addition to WTO membership, trade within ASEAN is of great importance since Lao PDR conducts most of its trade with the region. ASEAN's combined GDP of \$1.8 trillion in 2010 and population of 592 million mean a ready market for Lao products but immediate commercial challenges from liberalisation. In addition to problems of productivity and scale, the Government should address the non-implementation of regional commitments, including: capacity building to tackle any inadequacies in implementing commitments; peer reviews for sharing and learning from best practices, as well as transparency and confidence-building; and using the dispute settlement mechanism already in place to resolve issues in a rules-based manner. The private sector should be actively involved in driving the process forward.

Lao PDR has also signed bilateral trade agreements with Argentina, Belarus, Cambodia, China, India, DPR Korea, Kuwait, Malaysia, Mongolia, Myanmar, the Russian Federation, Thailand, Turkey, Vietnam and the United States. Most of these agreements focus on the provision of MFN treatment because Lao PDR is not a member of the WTO. In negotiating bilateral agreements, the Government needs to be more proactive, taking into account products and services in which the country has a comparative advantage relative to the markets of negotiating partners. The government may also wish to use bilateral trade agreements to address key issues affecting trade performance with neighbouring countries. There is a risk, however, that negotiating and implementing a large number of bilaterals will complicate the trade regime, undermining trade initiatives already under way. Given capacity limitations, it will also be necessary to prioritise WTO and ASEAN ahead of bilateral agreements, since more can be achieved on a multilateral or regional level with the same

amount of negotiating resources.

Lao PDR needs to take comprehensive measures in its trade agreements to improve the productivity of the manufacturing and service sectors by encouraging public and private partnership in skills development. While pursuing the medium- to long-term goal of developing a competitive market economy, there is a need to strengthen public-private policy dialogue at central and provincial levels to identify and to remove specific legal and regulatory obstacles. Trade negotiations should be used to promote and diversify incoming foreign direct investment. For the Ministry of Industry and Commerce (MoIC) to fulfil its export promotion role, a detailed institutional mapping exercise and review needs to be carried out. A National Export Promotion Council, linked to relevant national committees, should be established in order to enact the National Export Strategy (NES).

Mainstreaming trade, poverty, gender and the environment

Trade is not an end in itself but a means towards the objective of enhancing livelihoods for all. In particular, trade has been shown to be a key engine of economic growth, particularly in smaller economies such as that of Lao PDR, and consequently trade does and should continue to take an increasingly central role in Lao PDR's development strategy. This should be further enhanced, as studies show that countries that include trade a key part of their development strategy have grown at a faster rate than those that have not.¹

The DTIS focuses strongly on the need to further mainstream and develop trade as a means to ensure sustainable growth, thus maximising its socioeconomic impacts (such as poverty reduction and gender equality) and environmental sustainability. A key theme that emerges is the need to enhance the diversification of the economy (and exports) into sectors with high social impacts in order to ensure that trade has the maximum impact on improving the livelihoods of the poor. Specific measures are noted throughout the DTIS to boost the direct impacts of Aid for Trade interventions on the poor and disadvantaged, and to take environmental considerations into account, through extensive analysis and making recommendations for future intervention designs to utilise Markets for the Poor (M4P) methodology.

1. Higgins, K. & Prowse, S. 2010. *Trade, growth and poverty: making Aid for Trade work for inclusive growth and poverty reduction*. ODI Working Paper 313. London. UK.

However, it is also recognized that trade can have undesirable social impact unless properly mitigated. The links between trade, the environment and gender mean that more joint work can be undertaken in these areas. The relocation of villagers as a result of new infrastructure, resource or hydroelectric projects, for instance, can have significant social and environmental impacts and affect women more than men. Strategic impact assessments should be conducted on new projects, covering environmental and social impacts and appropriate mitigation measures. Trade agreements also need to be monitored and assessed for their potential environmental and social impact. Regional cooperation can lead to better environmental monitoring, while environmental and gender-related data needs to improve.

In policy and project interventions, gender considerations also need to be considered on their own merits. Women need to be helped to access export markets, which will partly entail strengthening women's groups, farmer's associations and trade unions. Government and development partners should better tailor extension services to female farmers' needs, for example by adopting participatory methods, by focusing on tasks in which female farmers specialize, and by increasing the number of female agents. Women, because of their lower literacy and mobility, are likely to benefit more from Information and Communications Technology (ICT) services. Communication technologies such as mobile phones can support disadvantaged producers and users of goods and services in market negotiations without the intervention of powerful intermediaries.

The modernization and formalization of customs clearance systems could also help overcome some of the difficulties women tend to experience at the border. Typically, border agencies are staffed by men and do not have a culture of working in gender sensitive ways. In addition, women's lower levels of knowledge about border processes can at times fuel extortion.

Trade facilitation

The landlocked nature of Lao PDR affects its ability to participate effectively in the world economy, so it is particularly important that trade facilitation emphasises the quality of its trade and logistics environment. Scope for improvements to trade and

logistics is considerable; and any initiative that will reduce the costs of international trade operations will significantly boost trade performance, enhance national competitiveness and increase the country's reputation as a destination for foreign investment.

Trade procedures at the border are complex. A large array of documentation is needed, customs procedures at the border crossings need to be improved, and processes need to be streamlined. Improvements to transport and logistics are also critical given that being landlocked increases transport costs by up to 50 per cent. Regional cooperation under the Greater Mekong Subregion (GMS) and ASEAN will also prove vital given the predominance of trade within the region, and progress towards process simplification and the implementation of an effective National Single Window (NSW) will be an important driver for the increased visibility, predictability and transparency of trading procedures.

Enhanced sanitary and phytosanitary standards (SPS) can also contribute to trade development. The Asian Development Bank (ADB) estimates that the benefits of increased SPS capacity in Lao PDR may be as much as US\$10 million per year. The Government should consider increasing operational funding and the number of professional staff to the level necessary to make adequate use of capacity creation under ongoing projects. It should also strengthen SPS coordination by developing the effective functioning of the SPS and Technical Barriers to Trade (TBT) enquiry points. Development partners may wish to consider providing support for the improvement and implementation of a legal and regulatory framework harmonized with WTO principles and the systems of ASEAN/GMS countries, as well as providing sustained support for SPS over the long run. Other recommendations include: preparing a national strategy for laboratory development; supporting quality management in SPS laboratories; expanding SPS support for export promotion to new product-market combinations; modernizing SPS services with the introduction of ICT; and supporting the engagement of private sector and consumer organizations in the development agenda for SPS.

The potential for increasing and diversifying trade by tackling TBT is also significant. The Ministry of Science and Technology (MST) is currently in the

process of adopting a TBT/Quality Infrastructure Strategy and Action Plan that details further required interventions, including further work to upgrade the legal and regulatory framework for Technical Barriers, and capacity development for the TBT enquiry point and for staff in certifying units and laboratories in international principles of conformity assessment and certification.

Business environment

Trade policy is central to the external and internal trading environment, and an efficient business and investment environment is critical to promoting the growth of the private sector and trade. Over the past few years Lao PDR has become a better place to do business for both domestic and foreign firms. However, gaps still exist between policy and implementation, and without reducing this gap the potential of key economic sectors is likely to go unrealized. The country performs poorly in international benchmarking exercises, which generally identify taxation, access to finance and an inadequately educated workforce as the three top constraints to growth. Fewer than 5 per cent of firms identify corruption as a problem, although about 40 per cent of firms report having to make informal payments. This may, however, be due to differences in understanding informal payments and corruption. Given the increasing reliance on the service sector for employment and growth as well as backbone services for the broader economy, continued reform and efficient regulation will be necessary. However, given the extent of reform requirements, effective prioritisation and sequencing is necessary.

The taxation framework is undergoing major change through the recent Unified Investment Promotion Law, Implementation of VAT Law, and revision of the Tax Law. Overall the new legal framework has introduced a number of significant growth-friendly policy changes. However small- and medium-sized enterprises (SMEs) in services and the retail trade complain more about tax rates and tax administration than larger manufacturing enterprises. The Tax department is working on improvements to the SME taxation regime. A dedicated SME Tax Unit needs to be established at the district level to facilitate tax registration and dissemination of information. In addition simple accounting toolkits should be developed to encourage SMEs to gradually move to a standard accounting-based tax regime. More public

outreach should be conducted on the features and benefits of VAT among SMEs.

In the medium term improving access to finance will require further improvements to financial infrastructure including payment systems, credit information bureaus and collateral registries, as well as improvements to laws and regulations related to secured lending. A specialized risk-sharing facility or credit facility for SMEs should be set up.

In collaboration with the public sector, industry associations in the garment, construction and tourism sectors have begun short-term practical training courses for their workers. This type of initiative needs to be further supported. A comprehensive labour market study would identify the causes of mismatch between demand and supply, explore disincentives to skills upgrading and look at options for improving labour market information. Links between vocational educational institutions and the business community need to be improved.

A number of other business constraints exist, including regulations on business entry, investment policy and incentives, industrial zones, property rights, competition, consumer protection and infrastructure. The labour law and labour policy increasingly present constraints to foreigners working in Lao PDR for extended periods, and raise the cost of hiring staff. Labour policy needs to be looked at as a matter of priority. Access to business development services like market and technology information, technical and management training, standards upgrading and market access can be improved by the establishment of an Enterprise Competitiveness Challenge Fund. More generally, the availability, quality and usage of (international and domestic) trade statistics will improve the basis for increasingly effective policy making.

Leveraging the resource exports boom

Given the currently minimal developmental linkage between the resources sector and the rest of the economy and concerns over long-term economic growth, development of the tradable non-resource sector is essential. Rapid mineral and electrical energy export growth require policies to support diversification, regulatory transparency and conservation measures, fiscal policies to smooth revenue swings from commodity price volatility, and trade policies to support sectors

targeted by the NSEDP 7.

In the short to medium term, the best opportunities for the development of domestic activities to service mining companies are machinery maintenance services and the training of technical personnel in a wide range of capacities, including business services, accounting and safety standards. In the long term, possibilities exist in high-value agricultural activities like organic fruit and vegetable cultivation and in the agro-processing industry whose products are in demand by local mining companies. Large hydroelectric power projects are likely to create greater opportunities for the creation of offshoot industries from mining.

One important way to diversify electricity exports is by grid-to-grid power trading within the GMS. The GMS Planning Group, which is made up of the planning departments of GMS national utilities, has completed a regional system planning for 500 kV and 220 kV links among the grids of different GMS countries.

The possibility of adding value in the mining industry through downstream activities has been a subject of discussion between the Government and the mining companies. Among the most important prerequisites are: (a) the availability of particular inputs for smelting operations; (b) sufficiently large smelting and refining processing activities to make the operations economically viable; (c) proximity to markets for semi-fabricated products of copper; and (d) the ability of smelters to operate on small margins. For the first requirement, Lao PDR has the necessary inputs for sustaining high-value additions to mining operations; namely electricity and water from the Mekong River and its tributaries. For the third requirement, the planned construction of the high-speed railway link to China could provide the country with a comparative advantage for bulk shipments to that market. Further analysis will be needed to assess the viability of developing downstream activities in the sector.

A comprehensive strategy for hydropower and mining development should be put in place and environmental regulations enforced. National and local public sector institutions need to be strengthened to better manage the growing number of hydropower and mining projects. The risk from volatile fiscal revenue flows caused by price swings in international mineral markets

must be mitigated.

While the social impact of resource development is positive in the form of increased revenues and the creation of some skilled jobs, communities often suffer from the replacement of farms and forests. Communities are weakened from the loss of indigenous agricultural knowledge that may undermine food production capacity. Cumulative impacts thus threaten rural livelihood systems and long-term food security. The promotion of hydropower, mining and agricultural land concessions have significant environmental consequences. Mining risks polluting local food products. Natural resource exploitation can also encourage deforestation. To help offset these risks it would be worth the Government participating in one or more programmes related to carbon offset and carbon trading: the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD); the Forest Carbon Partnership Facility (FCPF) and Forest Investment Program (FIP) hosted by the World Bank.

The Ministry of Planning and Investment (MPI) should require investment in hydropower and mining to adhere to policies such as the Extractive Industries Transparency Initiative (EITI). Similarly, MPI should require agribusiness investors producing commodities for export to develop business plans consistent with the Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods, and Resources; a code of conduct formulated by the FAO, the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank Group.

Promoting non-resource exports

World Bank research in Lao PDR finds that export promotion support activities should focus on helping existing exporters with a strong track record of exporting a given product to diversify into additional markets. Resources should be directed towards activities with the highest returns, since firms that specialize in a limited range of products are more likely to sustain those flows. Reducing the marginal costs of entering new markets for these firms therefore carries low risks but potentially high returns. The analysis also shows that in-market support should be provided for firms that

have already discovered a new destination but may require support to remain in that market.

Only limited export promotion support should be aimed at new firms trying to export to new markets for the first time, and that support should aim primarily at existing industries that have already achieved some initial success but which require further support. It is likely that new industries will develop in future years – something which the Government can do little to predict. One of the best ways to pave the way for entrepreneurial discovery is to improve the business environment and to enact appropriate private sector development activities, particularly for exporters. Policymakers may wish to provide targeted public goods (such as core infrastructure, research, productivity and skills training, and assistance towards compliance with international standards) to specific sectors.

Adopting the Making Markets Work for the Poor (M4P) approach would assist the Government to achieve its trade objectives, by placing greater emphasis on the use of public funds to help the poor to develop sustainable business relationships that add long-term and competitive value to production, removing the need for continued inputs from donors or government. An Export Competitiveness Challenge Grant is proposed in order to implement M4P programmes.

The focus of government policy could shift to those sectors in which: long-term and competitive growth potential exists; a lower income section of the population is engaged; and there is scope for market development interventions. These sectors include textile weaving, wood products, garments, tourism and several agro-related production value chains. Two outcomes can be expected: an increase in the incomes of primary producers (such as farmers, garment workers and weavers) and an increase in the number of low-income people participating in the growth of these sectors.

Agribusiness

Despite its importance to the domestic economy, agriculture makes up only around 5 per cent of total exports. By far the two largest export products are coffee and fodder maize, together accounting for 90 per cent of agricultural exports. A five- to ten-year Coffee Master Plan should be prepared that proposes specific measures to train a cadre of Lao coffee specialists, expand production, upgrade the quality of Lao coffee, obtain certification (including

organic, fair trade, Global GAP, and Geographic Indicator [GI]), and expand global market share.

Other commodities are exported in small amounts, like sesame seed, fruit and nuts. The supply of high-value agricultural products to mining and resource sectors also has potential. Whilst attention is rightly being paid to coffee and maize, the economic contribution of these smaller products can increase; a direction which is set forth clearly in the Ministry of Agriculture and Forestry (MAF) Agricultural Development Strategy (ADS) 2011-2020 and Master Plan for Agricultural Development 2011-2015. In addition a specific trade development strategy needs to be formulated for each of the traditional and emerging crops. MAF and the National Agriculture and Forestry Research Institute (NAFRI) should conduct research on appropriate technologies for a variety of socio-economic and agro-ecological conditions in the country, and suitable methods of transferring post-harvest technologies to smallholder producers, including ethnic minorities, women and youth.

MAF should also be encouraged to develop and refine its role, particularly in relation to trade-related activities. It should participate in a revision of the National Export Strategy (NES) to make it more agribusiness-oriented. MAF may also wish to help strengthen links between farmer organizations and concessionaires, traders and agro-processors. Agribusiness associations need to be developed and enhanced. Clustering and increased regional cooperation could also help boost the role of agribusiness and make it more conducive to human development.

Tourism

Annual earnings from tourism approximately doubled to US\$381 million in the decade to 2010, making tourism the country's largest source of foreign exchange earnings after mining. In the well-formulated 2011-2020 Marketing Strategy and Plan the Lao Tourism Marketing Board (LTMB) has set a strategic goal for the sector to earn US\$1 billion a year by 2020. This is an ambitious target, which will place significant strain on infrastructure and the cultural and natural environments. Additional focus should be placed on building the yield per tourist rather than trying only to attract more visitors. Amongst other things this will entail increasing the tourism multiplier by improving the

range of products and services supplied by local companies, as well as attracting higher-spending visitors and enhancing travel infrastructure so that tourists spend more time in-country.

On the institutional side, the LTMB also needs to be strengthened. Representatives from MoIC, the Lao National Chamber of Commerce and Industry (LNCCI) and the Ministry of Finance (MoF) should be appointed to the LTMB. Ideally the Board should be chaired by, or report directly to, a deputy Prime Minister. Cross-sectoral coordination needs to be enhanced, and a tailor-made training and dialogue programme developed in sustainable tourism involving secretaries of key line agencies, director generals serving as line department heads within ministries, and key government officials at the provincial level. Tourism laws, decrees, rules and regulations need to be reviewed, simplified and aligned with other enterprise and investment promotion laws.

Lastly, as in a number of trade-related areas, tourism data could be improved. A tourism specialist with experience of tourism satellite accounts (TSA) systems should be contracted to better quantify the size, earnings, employment and contribution of tourism to GDP.

Key export-orientated manufacturing industries

The garment industry contributes about 10 per cent of the country's annual export earnings and more than 30 per cent of total non-resource exports. The industry can be supported strategically through: continued support to the Garment Training and Service Centre; measures to enhance marketing capacity through an enterprise grant challenge fund; improving producers' capacity to meet growing demand for quality and social standards; and measures to reduce the overall cost of doing business. Staff turnover also needs to be reduced. The Lao Garment Industries Association should be helped to develop a set of best practices to reduce the staff turnover rates in the garment industry. In handloom weaving, strategic interventions using the M4P approach include dissemination of best practices and stimulation of the commercial market for textile design.

The wood processing industry contributes 40 per cent of the country's annual non-resource merchandise exports, having more than quadrupled in size between 2000 and 2010. The industry employs about 20,000 workers including

those in supporting industries. However, it is characterized by low value-addition and efficiency, the non-transparent allocation of logging quotas and low capacity utilization. Better value-addition can be achieved by the provision of long-term working capital financing, up to approximately \$22 million for the purchase (at market prices) of up to 100,000m³ of logs per annum. The effect of this would be to triple the current output of processed wood products for export. Productivity could be increased through an initial programme where Lao processors would be linked with wood processors in Thailand or Vietnam that export to the European Union (EU), United States (US) and Japan. Standards-compliant Lao processors would supply the foreign firms with wood components for final assembly in Vietnam or Thailand in return for technical assistance.

Implementation, monitoring and evaluation

One of the main lessons of the original 2006 DTIS is that mechanisms for implementation must be put in place as part of the DTIS itself. A programmatic, sector-wide approach to implementation would involve working together in a coordinated partnership under government leadership to achieve policy results in an efficient and sustainable manner. Programmatic approaches are mostly used in social sectors like education or health, and only occasionally in trade, yet they have worked well in some other countries.

Trade also needs to be mainstreamed further into the national development plans. Trade mainstreaming helps enhance policy coherence, institutional coordination and mobilization of resources for the implementation of trade-related priorities. To this end it may help to better align the MoIC action plan with that of the NSEDP, coordinated by the MPI, and to perform an institutional capacity assessment. A number of improvements can be made to the operation of the NIU, chief among them enhancing government ownership and ensuring that the NIU is sustainable. During consultations for the DTIS a number of stakeholders appeared to hold the perception that the EIF was donor-driven, and this perception needs to be addressed predominantly by continually increasing alignment with Government procedures and mechanisms. Communication and outreach also need to improve.

Finally, accountability, monitoring and evaluation

are all critical to the success of the DTIS. A full monitoring and evaluation (M&E) system will be put in place as part of the EIF using a system known as ‘managing for development results’ (MfDR); a management strategy focused on development performance and on sustainable improvements in country outcomes. MfDR provides a coherent framework for development effectiveness in which performance information is used for improved decision-making.

A draft results framework has been developed that builds from the Action Matrix into a Roadmap for Trade and Private Sector Development. This will be further developed and will join each of the key components of the DTIS in a results chain that links outputs with outcomes and impacts. The measurable development goals of equitable growth and LDC graduation are targeted, based

on specific, measurable results and indicators. The intended strategic outcome is sustainable trade and business development for poverty reduction and LDC graduation with a modern, diversified economy.

As a means of attaining this outcome three ‘pillars’, or ‘outcome areas’, have been identified, each accompanied by measurable indicators and subdivided into a series of intervention areas within an overall M&E framework. The three pillars are: first, establishing a conducive trade and investment environment; second, improving the competitiveness, quality and value of agribusiness, manufacturing and services; and third, improving the Aid for Trade governance framework for mainstreaming trade and private sector development.





2. ROADMAP FOR TRADE AND PRIVATE SECTOR DEVELOPMENT

The Action Matrix for this DTIS update has been included into a Roadmap for Trade and Private Sector Development for Lao PDR.

A draft roadmap (results framework) has been developed for the DTIS update that incorporates the DTIS Action Matrix. This will be the Programme for the Trade and Private Sector Development Working Group under the Round Table process. As such, it will be a living document in which Action Matrix priorities are linked to overall results. The Roadmap will be periodically updated and final indicators and baseline information determined. Please contact the NIU in the Department of Planning and Cooperation, MoIC, for the current version of this document.

1. *Development goal*
2. *Strategic Outcome*
3. *Outcome Areas (Programmatic Pillars)*
4. *Intervention Areas*
5. *Interventions*

The first three levels concern the effects of the overall programmatic approach and indicators on these levels are expected to be measured once a year for the development goal level and twice a year for the strategic outcome and pillar level. Indicators have been specified for these three levels in Table 2 below.

The fourth and fifth levels concern the level of the intervention areas and of specific interventions. In Tables 2 to 5 the intervention areas of each of the

respective pillars are further clarified in terms of the outcome level changes that they are expected to achieve and the indicators with which change at the level of the intervention areas can be assessed.

Below the intervention area is the level of the concrete interventions, i.e. specific projects to be implemented as part of the programmatic approach that incorporate the Action Matrix into the results framework. The details of M&E of these interventions will need to be further specified in the proposals of the respective projects, although as a start likely responsible agencies are highlighted along with potential implementing projects (p.proj) or interested development partners (DPs). Indicators on the level of the interventions will need to be project-specific. Each of the projects concerned will need to contribute to the changes identified on the level of the intervention area and indicators identified in the tables below will need to be used in the design of the projects. Through the linkage between interventions and results identified for the intervention areas, each of the projects will become a part of this programmatic results framework. The framework shows how projects contribute to the wider pillar outcome areas, strategic outcomes and ultimately to the programmatic development goal.

The present framework is a working document and will be further fine-tuned and updated under the guidance of the Trade and Private Sector Working Group.

Trade and Private Sector Development Roadmap (Results Framework)

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

Level	Result Area	Indicators
Development Goal	Equitable growth	<ul style="list-style-type: none"> • GDP growth rate • Wealth distribution (Gini Coefficient) • 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 service sectors (garment, agribusiness, tourism, retail sectors)
	LDC graduation	<ul style="list-style-type: none"> • Per Capita Income (GNI per capita) • Reduction in economic vulnerability (Economic Vulnerability Index [EVI])
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 of XX (EVI) • Annual growth rate in value of non-resource exports (EVI – instability of exports) with a target of 18% p.a. (NSED 7) • 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, of which XX% include women ownership, and XX% are located in priority poverty reduction provinces • Increase in investment administered by MoIC (national investment and FDI)
Pillars (Outcome Areas)	<p>1. Conducive trade and investment environment established</p> <p>Through:</p> <ul style="list-style-type: none"> • Trade Integration (post-WTO accession, and towards AEC) • Business environment • Trade Facilitation • Quality Infrastructure 	<ul style="list-style-type: none"> • Openness ratio (trade share in GDP in %): NSED Target of 100% by 2015 • Increase in new business penetration rate; • Reduction in business regulatory compliance cost (WB ES) • Reduction in time and cost to start a business • Reduction in time and cost for cross border trade • Reduction in senior management's time spent in dealing with government regulations • Percentage of trade taking place under preferential agreements (preference utilisation rate) • Women's participation in the economy enhanced

Pillars (Outcome Areas)	<p>2. Improved competitiveness, quality and value of agribusiness, manufacturing and service sectors</p> <p>Through:</p> <ul style="list-style-type: none"> • SME firm level quality and productivity support measures • Public-Private Dialogue and sector-specific support measures • Agribusiness • Tourism • Textile handicraft • Garments • Wood processing 	<ul style="list-style-type: none"> • Increase in supply capacity of SMEs of selected products and services (SME productivity) • Number of poor people with increased incomes through market development and productivity improvement programmes • Increased number and average spend of international tourists • Real annual productivity growth (ES) • Real annual sales growth (ES) • Growth in investment in selected sectors (e.g. Garments, Wood processing, Tourism) • Real annual employment growth (ES) • Increased survival rates for existing and new product-destination-market combinations
	<p>3. Improved aid for trade governance framework for mainstreaming trade and private sector development</p> <p>Through:</p> <ul style="list-style-type: none"> • Mainstreaming poverty, gender and the environment • Institutional capacity development • Sector Working Group Development and mainstreaming trade in National Development Planning • Trade and Aid for trade governance framework and implementation • Monitoring and Evaluation 	<ul style="list-style-type: none"> • Poverty: Role of trade in development and poverty reduction explicitly mentioned in NSED 8 • Gender: Increased proportion of women-owned businesses • Environment: Environmental support programmes implemented for all key export sectors • Increased coordination indicated through number of meetings of committees in the IF Governance structure • Increased value of AfT channelled through and coordinated by the NIU • Increased percentage of businesses who believe their concerns are adequately addressed through public-private dialogue mechanisms • Trade and private sector development programme / roadmap established, with established M&E system and periodically reviewed
Contextual Changes	Contextual aspects to be monitored	<ul style="list-style-type: none"> • Key political/social/economic contextual aspects relating to economic development and trade • Macro-economic stability • Development of the resource sectors (mining and electricity)

be capacity development of relevant institutions, effective on the ground implementation and public awareness built, including training of the judiciary in areas such as intellectual property		
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 by 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	MoFA, MoIC	TDF II, GIZ
6. Self certification: Develop and implement a regulation on self certification of origin under AFTA framework		
7. Rationalize bilateral agreements based on potential market access opportunities for Lao products and establishing coordination mechanisms with major trading partners at both central and local level to facilitate consultations on trade promotion measures and dispute resolution		
8. Organisation: 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 in multiple fora	MoIC etc...	TDF II

Intervention Area 1.2	2. Business Environment Outcome level change: Enhanced business environment with equal opportunities for all businesses and improved consumer protection Indicators: <ul style="list-style-type: none"> • Increase in new business penetration rate • % SMEs with access to formal bank loans (% women-owned) (ES) • Reduction in percentage of firms highlighting access to skilled labour as one of their top three constraints (WB ES) • Simplified taxation regime for SMEs introduced; increase in number of firms paying taxes based on accounting rules • Strengthened alternative dispute resolution • Ensure equal level playing field for all businesses, especially in key service sectors, with increased independence and effectiveness of the regulatory agencies • Increase in number of business environment issues resolved through PPD • Increase in demand-driven skill development initiatives under PPP • Improved SME access to information 	

1.2 Interventions	Agency	Proposed project
1. Public Private Dialogue: Improve efficiency and effectiveness of public and private dialogue to address business environment constraints by 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). This will include building the capacity of business membership organizations (BMOs) in identification and analysis of business environment issues and support PPD at national level and selected provinces	LNCCI, MPI and MoIC	TDF II, GIZ, LUNA

<p>2. Further streamline regulations on business entry for both domestic and foreign investors through full implementation of the Enterprise Law and Investment Promotion Law by:</p> <p>2.1 Reviewing implementation of negative list for the implementation of the Enterprise Law and explore possibility for further streamlining existing procedures for obtaining prior approval from sector agencies and facilitating implementation of new unified Investment Promotion Law</p> <p>2.2 Further streamlining business start-up procedures by focusing on simplification of burdensome sector licensing procedures administered by technical agencies. This will include further streamlining licensing procedures for the manufacturing sector through the revision of the existing manufacturing law and relevant implementing regulations</p>	<p>MoIC and MPI</p>	<p>EIF T2</p>
<p>3. Reduce gaps between laws, regulations and implementation by incorporating good practice in law making process into Law on Law Making that is under preparation, and making laws, regulations easily accessible by public by establishing centralized database of all laws, PM Decrees and regulations and instructions</p>	<p>MoJ and other relevant ministries</p>	<p>ADB, LUNA</p>
<p>4. Improve taxation regime for SMEs by 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>IFC</p>
<p>5. Improve contract enforcement and dispute resolution through revision of outdated contract law, building capacity of the 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>6. Strengthen consumer protection by developing relevant institutions for 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>7. Regulatory support: Ensure equal level playing field for all businesses, especially in key service sectors that lack independent regulatory agencies through adoption and implementation of modern and comprehensive competition law and policy</p>	<p>MOIC and relevant ministries</p>	<p>TDF II, LUNA</p>
<p>8. Internal movement of goods: Improve inter-ministerial cooperation in removing constraints to the movement of goods within and between provinces</p>	<p>MoIC, others</p>	
<p>9. Rationalize investment incentives by conducting a comprehensive review of all incentives provided in various laws</p>	<p>MPI, MoF</p>	
<p>10. National Investment Facilitation and Promotion Strategy: Attract targeted quality investment by developing and implementing a National Investment Facilitation and Promotion Strategy, including specific activities in investment facilitation, servicing, investor outreach and marketing activities in</p>	<p>MPI, MoIC</p>	<p>UNDP</p>

targeted markets. This should include improving investment attractiveness in the manufacturing sector through a review of existing regulations on industrial zones/estates and developing appropriate policy to attract private investment based on public private partnership (PPP) principles		
<p>11. Statistics:</p> <ul style="list-style-type: none"> - Improve compilation and use of statistics for the manufacturing sector and trade more generally to assist in assessing the health of the sector and formulation of appropriate support policy - Improve macroeconomic management by improving compilation of relevant data, including trade and industry data 	MPI, MoIC, MoF, BOL	Statistical Capacity Building Project (WB)
<p>12. SME Finance:</p> <ul style="list-style-type: none"> - 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 - Accelerate the development of a National Payment System, expand coverage of Credit Information Bureau (CIB) and improve its efficiency, and set up registry of non-movable assets - Improve rural enterprises' access to financial services by promoting mobile banking and e-banking by developing relevant regulations 	Commercial banks, Bol, MoF	IFC
<p>13. Skills Development:</p> <ul style="list-style-type: none"> - Support ongoing demand-driven practical training initiatives led by various industry associations (garment service centre, hospitality training institute, training programmes between construction association and National Transport Committee) - Conduct an in-depth study on situation of labour market and skills development needs of the private sector and develop medium-term mechanism to develop appropriate skilled workforce to support sectors in which Lao PDR has comparative advantages - Reduce information gaps on labour market by developing labour market information system 	Industry associations, MoIC, MoLSW	TDF II, World Bank
<p>14. SME Support:</p> <ul style="list-style-type: none"> - Improve availability, quality and relevant content of information on websites for SMEs by localizing popular websites for SMEs such as smetoolkits.org - Enhance update and quality of Business Development Services (BDS) to improve SME competitiveness 	MoIC	TDF II
15. Change Measure of Development: Promote use of alternative measures of development to include income distribution, social and environmental dimensions	MPI, MoIC	
16. Monitoring of Dutch Disease-related indicators: Timely adoption of necessary measures to mitigate potential impact of resource sector boom on competitiveness of manufacturing and service sectors by closely monitoring key macroeconomic indicators such as movement of real exchange rate; change in real wage vs productivity growth and others	MPI, MoIC, BoL, MoF	

Intervention Area 1.3	<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"> • Monthly website hits on the Lao Trade Information Portal • Average number of days to clear direct exports through customs (ES) • Average number of days to clear direct imports through customs (ES) • Lao National Single Window operational • Increased dialogue and constraints addressed through the National Trade Facilitation Secretariat • POVERTY indicator: Provincial performance of border crossings (Savannakhet, Pakse, Bokeo)
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1.3 Interventions	Agency	Proposed project
1. Trade Facilitation Secretariat: <ul style="list-style-type: none"> - Strengthen the capabilities of the National Trade Facilitation Secretariat and Trade Facilitation Division as the key office for the Secretariat. It will be important to mainstream Trade Facilitation across relevant line ministries and departments - Implement the annual action plan of the Secretariat, which should include monitoring and implementing WTO, ASEAN, GMS and bi-lateral trade facilitation commitments 	NTFS	TDF II
2. Trade Portal: Continue developing additional functionality of the Lao Trade Portal to reduce transaction cost related to import and export. This will also include work towards the simplification, harmonization and modernization of trade and customs procedures	NTFS	TDF II; CTFP/NSW; USAID (Regional)
3. NSW: Design and commence implementation of the National Single Window under the guidance of an expanded trade facilitation secretariat	NTFS	
4. Further studies – dry port: Explore opportunities to reduce transports costs by facilitating the creation of fully integrated cross-border logistic operations. This may require going beyond the measures contained in the CBTA. This may also include conducting a feasibility study on developing a rail-linked dry port (possibly in Northeast Thailand), which could help consolidate traffic, serve as a mode interchange location, addresses strict time limits imposed by shipping lines on the return of empty containers, and reduce costs by linking the dry port with trade logistics in the Northeastern part of Thailand		
5. Develop private sector capacity to trade efficiently in compliance with rules and regulations	MoIC	TDF II; CTFP/NSW
6. Provide for the right equipment and facilities to ensure the smooth and efficient administration of trade and customs procedures	NTFC	TDF II; CTFP/NSW
7. Adopt and implement the revised customs law to be consistent with WTO principles	Customs	CTFP/NSW
8. Complete automation of customs clearance procedures at major checkpoints	Customs	CTFP/NSW

9. Fully implement valuation rules and risk-based inspection in line with WTO requirements	Customs	CTFP/NSW
Intervention Area 1.4	4. National Quality Infrastructure 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 Indicators: <ul style="list-style-type: none"> • Number of people with increased knowledge of food hygiene practices • 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 area of conformity assessment and certification applied by relevant agencies 	
	1.4 Interventions	
1. SPS/TBT Legal framework support: 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, LUNA
2. 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, Ministry of Science and Technology (MST)	GMS SPS project
3. Strengthen SPS coordination by establishing a SPS unit in the Department of Planning (DoP)	SPS Task force	
4. Prepare a national strategy for laboratory development	SPS Task force	EIF II
5. Expand SPS support for export promotion to new product-market combinations	SPS Task force	GMS SPS project
6. Modular Investment programme: Design and implement a modular investment programme for ICT in SPS services. This will include assessing directions, modalities and priorities for ICT-based systems in SPS services	SPS Task force	GMS SPS project
7. Increase Private Sector Engagement: Support the development of private sector and consumer organizations, and their engagement in the development agenda for SPS and for TBT	SPS Task force, MST, MoIC	GMS SPS project
8. Establish a TBT Enquiry Point (EP) based on good international practices and tailored to the requirements of the Lao economy and its trading partners	MST	LUNA
9. TBT Strategic Plan: Adopt and implement the Strategic Plan for National Quality Infrastructure	MST	EIF T2
10. Quality: Encourage uptake of quality and risk reduction standards by the private sector such as ISO and HACCP	MST, MoIC, MoH	TDF II

Table 3: M&E Framework Pillar 2: Competitiveness

Pillar Outcome	Improved competitiveness and quality of agribusiness, manufacturing and service sectors (supply capacity)	
Intervention Area 2.1	<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"> • % of firms with internationally recognized certificates (such as ISO, HACCP, Fair Trade and GMP) (ES) • % of firms using emails to interact with clients/suppliers (ES) • Amount 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) 	
	Interventions	Agency
1. Establish a matching grant facility to support small projects that respond to specific constraints that the private sector sees as priorities for improving competitiveness in domestic and international markets	MoIC	Proposed project TDF II
Intervention Area 2.2	<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 business membership organizations (BMOs) at the national and provincial levels • Frequency of public-private consultation mechanisms (EIF O2.3) • Number of poor people with increased income through market development programmes • Number of farmers able to access new agricultural technologies • Increase in crop value of (x) US\$ in key agricultural exports • Increased average spend per tourist • Number of tourism establishments with active social and environmental improvement programmes • Number of graduates of vocational training courses • Existence of productive sector strategies for key sectors integrating the trade dimension (EIF O2.2) 	

Interventions	Agency	Proposed project
Agribusiness		
1. Mainstream trade into product strategies: Develop product-specific development strategy for traditional and emerging agricultural products identified in the DTIS update, including coffee, tea, maize, cassava, sugarcane, rubber and livestock	MoIC, MAF	
2. Incentives for contract farming: Develop appropriate incentive regime to promote contract farming between large investors and smallholders	MAF	
3. Coffee: Conduct feasibility study for establishment of Coffee Institute aimed to develop specialized technical personnel to support sustainable development of the sector	MoIC, MAF	
4. Border trade support: Facilitate border trade in agro products by improving trade logistics, especially distribution centres at major border checkpoints (e.g. Lao Thai border in Champasack province)	MoIC, MAF	EIF II
5. Promote Business Membership Organisations: Promote establishment of local producer/trader associations to improve efficiency of their dialogue with public sector at local and central level (e.g., establishment local association of producers/traders of fruit and fresh vegetables on Boleven plateau should be encouraged)	MoIC, LNCCI	
6. Improve quality and standards: Facilitate access of local exporters to high-value regional and global markets by promoting adoption of industry best standards already used in major neighbouring markets (China, Thailand and Vietnam)	MAF, MoIC	TDF II
Tourism sector		
1. Statistics: 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	MoIT	
2. Lao Tourism Marketing Board strengthening: Strengthen the composition and membership of the Lao Tourism Marketing Board	MoIT	
3. Trade and tourism links: Roll out a programme such as UNCTAD's Sustainable Tourism component of their Train for Trade programme to key government actors and line agencies at the central and provincial levels	MoIT, MoIC	
4. Licensing reform: Facilitate private investment in tourism sector by adopting more transparent licensing regimes for businesses in tourism sector	MoIT	
Textile handicraft		
1. Improve productivity: Promote good practice in weaving to improve productivity (training, adoption of new looms/equipment)	MoIC, LHA	TDF II

2. More focus on design: Improve design capacity through policies promoting the establishment of private design schools	MoIC, LHA	TDF II
3. Enhance effectiveness of policy advocacy: Strengthen the Lao Handicraft Association in policy advocacy and promote the Lao handicraft sector domestically and internationally	MoIC, LHA	TDF II; JSDF
4. Lao silk: Promote production of domestic silk by expanding scope of existing projects using value chain approach to promote local production. Also, develop a long-term Lao silk development strategy and connect this to Lao PDR's export image	MoIC, LHA	TDF II; JSDF
Garment sector		
1. Garments Skills Development Centre: Continue supporting the Garment Skills Development Centre (GSC) and explore scope for providing additional services in areas such as quality or social standards certification	MoIC, ALGI	TDF II
2. Improve social and quality standards: Improve the industry image and industrial relations by implementing relevant elements of Cambodia's Better Factories Project. This may include supporting producers in meeting growing demand for quality and social standards (support for improving quality system (ISO), certification programme (WRAP, SA 8000)	MoIC, ALGI	TDF II
3. Continue efforts to reduce the overall cost of doing business by: <ul style="list-style-type: none"> • Reviewing the existing fiscal regime • Improving logistics and trade facilitation (reduce inland transportation cost between Vientiane and Port in Bangkok, and expenses associated with customs clearance at border checkpoints) • Review Labour Law 		
4. Strategic focus: Develop a medium- to long-term sector development strategy		
Wood processing industry		
1. Industry certification: Improving readiness for and compliance with the EU Timber Regulation and Timber Legality Assurance systems by promoting industry certification systems (FSC CoC, ISO 9001, 14001 etc.)	MoIC, Associations	TDF II
2. Strategic business partnerships: Facilitate establishment of strategic partnership between Lao wood processors and leading processors in neighbouring countries to improve productivity of Lao wood processors	MoIC, Associations	TDF II
3. Working capital: Facilitate access to working capital for secondary wood processors to increase value added of wood exports	MoIC, Associations	TDF II
4. Improve statistics and analysis: 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	SUFORD
5. Foreign Investment: Relax the ban on foreign investment in secondary wood processing based on natural forests	MAF, MoNRE	SUFORD
6. Improve quota system: Improve and extend the system of competitive bidding for log quota allocations	MAF, MoIC, MoNRE	SUFORD

Intervention Area 2.3	3. Leveraging the resources boom		
	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		Agency	Proposed project
1. Value addition: Conduct study on opportunities for value addition to mining industry		MoIC, MEM	
2. Technical training: Encourage technical and vocational training for service industries supporting mining and hydropower industries. This should include developing an incentive system for resource-based companies to offer on-the-job training in support services		MoIC, MEM, MoF	
3. Business Development Services (BDS): Implement pilot BDS projects for offshoot activities		MoIC	

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

Pillar 3 Outcome	Improved Aid for Trade governance framework for mainstreaming trade and private sector development		
Intervention Area 3.1	1. Sustainable Trade		
	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		
	Indicators:		
	<ul style="list-style-type: none"> • Trade and Private Sector Development (TPSD) policies effectively informed and responsive to poverty, gender and environment • Enhanced participation of women in the economy (measured by 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 		
Interventions		Agency	Proposed project
1. Making Markets work for the Poor (M4P): Incorporate principles of M4P in developing and implementing all sector-specific support measures to enhance impact on poverty. All projects should show direct links to poverty reduction		MoIC	TDF II
2. Trade and Poverty Handbooks: Develop handbooks in Lao language demonstrating the links between trade and poverty and what is currently being done		MoIC	EIF T1

<p>3. Implement gender-specific interventions in sectors in which women predominate, namely, agribusiness, tourism, textile handicraft and garment sectors. This will include:</p> <ul style="list-style-type: none"> • Encouraging investment in female enterprise start ups and enterprise expansions by targeting entrepreneurship training to selected sectors in which women predominate • Work with selected micro-finance institutions to increase the access of entrepreneurs, in the above mentioned sub-sectors, by facilitating the links between these organizations and entrepreneurs in these sectors 	<p>MoIC, Assoc. LWU BoL</p>	<p>TDF II</p>
<p>4. 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>5. Industrial safety: Develop legislation on control of chemicals and hazardous substances to mitigate risks from operations of polluting chemical industry</p>	<p>MoIC</p>	

<p>Intervention 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)³ (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
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Interventions	Agency	Proposed project
<p>1. 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</p>	<p>MoIC</p>	<p>TDF II</p>
<p>2. Develop and implement a coordinated training programme for officials, to be implemented by the Government and various external partners, focusing on appropriate and systematic skills development of staff</p>	<p>MoIC, etc...</p>	<p>EIF Tier II, TDF II</p>
<p>3. ICT modernisation plan: Modernisation of ICT and systems processes for MoIC and related provincial offices, including undertaking and implementing an ICT modernisation plan</p>	<p>MoIC</p>	<p>TDF II</p>

3. LTIS and Action Matrix must be coherent within MoIC (NES, SMEPPDO) and aligned with NSEDP IIV and plans of related line ministries (MoFA, MoF, MAF, MPI, NAST, Mining and Energy, NTA).

4. Inter-ministerial links: Strengthen inter-ministerial cooperation between MoIC and MAF, and MoIC and the Tourism Authority to address trade and investment-related issues of concern to each agency by establishing a high-level working group and trade and economic training for MAF officials	MoIC, MAF	TDF II
5. Studies database: Develop and maintain a user-friendly and accessible electronic database of all trade- and PSD-related studies, reports and presentations	MoIC	TDF II
6. Effective functioning of the Trade and Private Sector Development Working Group (TPSDWG): Active participation, support to and development of the TPSDWG 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

Intervention Area 3.3	3. Trade Mainstreaming	
	<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 NSEDP and planning process (EIF O2.1) 	

Interventions	Agency	Proposed project
1. Increased alignment with national processes: Alignment of the TPSD Programme (DTIS implementation and future updates) with government budget, PIP and aid cycles. Support to MoIC annual and 5-year action plan preparation	MoIC, MPI	TDF II
2. NSEDP 8 preparation: Commissioning studies in the lead up to NSEDP VIII on key sectors (strategies) or crosscutting issues and those related to LDC graduation	MoIC, MPI	TDF II
3. Increase private sector role in trade policy: Promote trade policy-making as an inclusive process with outreach programmes 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)	MoIC, MPI	TDF II
4. Institutional structure: Strengthen and rationalise inter-ministerial coordination of various high- and technical-level structures related to trade, including trade in services	MoIC and PCD	TDF II

Intervention Area 3.4	<p>4. Aid-for-trade governance framework</p> <p>Outcome level change: Functioning governance framework trade 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 GSEU staff to implement AfT projects • Programme (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 programme established based on the Action Matrix (EIF O4.1) • Existence of government budget for the implementation of trade-related matters (EIF O4.2) • Number of projects funded by donors related to the DTIS Action Matrix (EIF O4.4) • Increased value of trade-related assistance channelled through the ODA division/ NIU of MoIC
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Interventions	Agency	Proposed project
1. Adequate staffing: 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
2. Evolved structure: Evolve the National Integrated Framework (AfT) Governance Structure to fit closer with on-going government and inter-departmental systems, and be more flexible in priority project implementation. This includes moving on from GSEUs to 'Implementing Departments'	MoIC	TDF II
3. Increased skills: Ensure adequate training of government and project staff in project-related and implementation skills, together with systems to access international specialist advice		
4. Combined Projects Steering Committee: 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 programme, and reduce administrative burdens		
5. Increased use of national implementation mechanisms: Increase the use by DPs of, and resources available to in-country multi-donor trust funds and implementation through the AfT governance structure		

Intervention Area 3.5	<p>5. Monitoring and evaluation</p> <p>Outcome level change: A functioning monitoring and evaluation system that serves the need for information on project and programme 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 that covers programmes for Trade and Private Sector Development in Lao PDR • Sufficient financial and human capacity resources dedicated to M&E at the level of individual initiatives and on the overall programmatic level, in line with the expected methodological rigour required
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Interventions	Agency	Proposed project
1. M&E Plan: 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	TDF II
2. Review experience of other developing countries in setting up programmatic approach for the trade sector. This should include regular 'experience sharing' or joint training sessions on an annual basis between NIUs.	MoIC	TDF II
3. Undertake impact assessments of selected parts of the results chain at least every two years	MoIC	TDF, EIF T1
4. Assess the opportunities for results-based financing making use of good practice so far	MoIC	
5. M&E Training: Continue to 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 outcome and goal level changes of the M&E framework	MoIC	EIF
6. Resources for M&E: 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 rigor required	MoIC	EIF, TDF II
7. Enterprise survey (to be tailored to Roadmap requirements and conducted): Enterprise surveys should be conducted at least every two years and be a key means of compiling the results framework for the sector	WB, GIZ	
8. Doing business indicators compiled every year. This should include a brief (two-page) analysis of the key changes along with the rankings	WBG	

9. Logistics Performance index should be updated every year. Where possible this should be combined with more detailed indicators, including: - Cost and time of shipping garments from Vientiane to Bangkok - Performance of selected provincial border points to monitor impact of trade facilitation at the provincial level	WB	
10. Provincial border trade surveys undertaken annually	DIMEX	
11. Time release studies to be undertaken in 2012, 2014, and 2016	MoF/WB	
12. Lao Expenditure and Consumption Survey (LECS): Commission a series of studies on trade and poverty links from new LECS data updated in 2012	MPI	
13. Sector statistics (manufacturing, tourism...) should be collected regularly (at least once a year) and published	Relevant Agencies	
14. Enterprise registration data will be updated every month	MoIC	
15. Undertake regular firm-product-market analysis	WB	



3. NOTE ON THE PROCESS OF THE LAO PDR DTIS UPDATE 2011-2012

The Enhanced Integrated Framework

The Integrated Framework (IF) for Trade-Related Technical Assistance (TRTA) to Least Developed Countries was established in October 1997 under the auspices of the World Trade Organisation (WTO). The IF was conceived as a country-driven process leading to the integration of trade policy into national development strategies, and to co-ordinated delivery of trade-related technical assistance by development partners in response to identified needs. The Enhanced IF (EIF) was developed on the basis of lessons learnt from early IF experiences, particularly given the need to improve the institutional framework for delivery of Diagnostic Trade Integration Study (DTIS) recommendations and the imperative of building supply-side capacity. Accordingly, the EIF can be seen as an instrument to ensure optimal use of scarce resources in support of Least Developed Countries (LDCs) to participate in the world economy and the multilateral trading system. Six core agencies, the International Monetary Fund (IMF), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the World Trade Organization (WTO) and the World Bank, combine their efforts with those of LDCs and donors to respond to the trade development needs of beneficiary countries.

The DTIS forms the analytical foundation for policy recommendations and actionable trade-related technical assistance (TRTA)/capacity-building interventions. Lao PDR's first DTIS was conducted in 2006, and the current update is based partly on lessons from previous experience. The DTIS has five major components:

1. A review and analysis of the country's economic and export performance.
2. A description and assessment of the country's macroeconomic environment and investment climate.
3. A focus on the international policy environment and specific constraints that exports from the country face in international markets.
4. A focus on a small number of key labour-intensive sectors where the private sector can contribute to a significant expansion of output and exports and a good a priori case can be made that the poor stand to benefit.
5. A set of policy reform priorities and required capacity strengthening at the sectoral level to capitalize on the major opportunities identified in the strategy.

The IF/EIF has two funding facilities. Tier 1 supports the establishment of the national EIF structure and funds the DTIS and the DTIS Updates. Tier 2 funds Action Matrix priority projects to build up trade-related and supply-side capacities. While the funds support some priority small-scale projects that build trade-related and supply-side capacities, the bulk of AfT funding to implement the Action Matrix and the country's trade strategy and action plan originate from other modes of donor support.

Lessons from the previous DTIS

The original Lao PDR DTIS validated in 2006 laid the framework for greatly enhanced Development Partner (DP) cooperation in the area of trade. In response to the DTIS significant and more coordinated development assistance was mobilised to compliment the IF Window II financing. Australia and the EU committed the majority of their finance in the sector into the Multi-Donor Trust Fund (the Trade Development Facility), a project implemented by the Government of Lao PDR and administered by the World Bank. Later, additional financing to the TDF was provided by Germany and through the World Bank-Japanese Social Development Fund. The DTIS also laid the framework for a pilot project of the UN Trade Cluster in Lao PDR. Through these interventions the National Integrated Framework Governance Structure (NIFGS) was established and substantially strengthened. However, the DTIS process and document itself was generally perceived as being largely Donor-driven, with limited national ownership. The 2006 DTIS was not well integrated into the national planning process. Undertaking the DTIS Update in-house within

Government provided an opportunity to address this weakness. In the DTIS update, the Government of Lao PDR recognised the opportunity to increase ownership of related agencies in the diagnostic work and resulting programme of engagement and reform. Furthermore, it would also create a much closer link to the MoIC and the national planning process relating to the National Socio-Economic Development Plan. The implementation of the DTIS 2006 also yielded lessons in efficiency of implementation. In particular the pooled funding approach through the Trade Development Facility (TDF), and joint activities of the UN Trade Cluster show good practice in implementing the principles of the Paris and related Vientiane Declarations and have substantially contributed to lasting, trade-related capacity building. However, lessons from implementation of TRTA in response to the DTIS 2006 include the need for even greater coordination of Development Partner (DP) assistance through common funding and review modalities that are all related to a common framework. There was also a need from the national stakeholder perspective to make the recommendations in the Action Matrix more implementable and related to concrete impacts related to the National Socio-Economic Development Plan.

The DTIS update process in Lao PDR

The DTIS update process began with preliminary preparations in mid-2010 with the process of engagement with national stakeholders in defining the scope of the DTIS, and seeking EIF financing and approval of the DTIS concept note. Formal reviews of the concept note were conducted in early 2011, through a high-level review committee under the auspices of the Trade and Private Sector Development sub-Working Group (TPSDWG)⁴. This committee was chaired by H.E. Mrs Khemmani Pholsena, the EIF Focal Point, Vice Minister of MoIC and H.E. Dr. Bounthavy Sisouphanthong, Vice Minister of Planning and Investment, with co-chairmanship from the EU as the EIF Donor Facilitator. The TPSDWG consists of all interested DPs, related Government departments, private sector representatives and representatives of mass organisations in Lao PDR.

Following approval of the concept note, a Project Task Team was established to manage the DTIS update process. This was chaired by Mr. Sirisamphan

Vorachith, the Director General of the Planning and Cooperation Department of MoIC and led by Mr. Phouvieng Phongsa, National Implementation Unit (NIU) Director, and consisted of Mr. Simon Hess, NIU Trade Advisor, representatives from key technical departments within MoIC, MPI, LNCCI, and DP representatives from the World Bank, the UN Trade Cluster Program, with the EU as the EIF Donor Facilitator. It also included the participation of the International and National Lead Authors. Under the guidance of the TPSDWG a DTIS Concept Note was finalised in February 2011, and agreement with the EIF Executive Secretariat and UNOPS on the financing in May 2011. Following this lead, national and international authors, Sengxay Phousinghoa and Daniel Gay, were recruited.

A preliminary mission took place in July 2011 and an inception report was written on the basis of consultations with senior government officials and donor partners. The NIU then recruited a mix of international (10) and national (6) consultants to write background reports in a range of trade-related areas. As far as possible national consultants took the lead in the analysis and draft chapters, with support and review from international consultants in specialised areas. Daniel Gay contributed the macroeconomic background chapter and compiled and edited the DTIS using the background reports. Sengxay Phousinghoa coordinated and oversaw the DTIS process, wrote the business environment chapter and the chapter on key export-oriented manufacturing sectors, and provided input to additional chapters. The national consultants and their areas of specialisation were: Buavanh Vilavong (trade integration); Konghtong Nanthavongdouangsy (textile handicraft); Latthana Douangboupouha (trade facilitation); Onesy Boutsyvongsakd (garment sector); Sysangkhom Khotnhotha (Export competitiveness) and Thongsavanh Soulignamat (wood processing industry). In alphabetical order the remaining international consultants and their areas of expertise were: Sven Callebaut (trade mainstreaming and Aid for Trade); Andrew Grainger (trade facilitation); Montague Lord (resource exports); Frank Noij (monitoring and evaluation); Paul Rogers (tourism); Amanda Sunassee (export competitiveness); James Tomecko (private sector development, poverty reduction and gender);

4. The TPSDWG was subsequently upgraded to full Working Group status within the national Round Table process.

5. At the inception of the DTIS, the Task Team was chaired by the DG of the Foreign Trade Policy Department. However, following the establishment of the new Planning and Cooperation Department (DPC), which assumed responsibility for the NIU in early 2012, the DG of the DPC took over responsibility for the Task Team.

Kees Van der Meer (sanitary and phytosanitary measures and technical barriers to trade); and Tony Zola (agribusiness and environment). The NIU team, including the NIU Trade Advisor, Simon Hess provided additional coordination support and technical input to various sections. The aim was to build on the original DTIS and to learn lessons from its implementation by making the recommendations relevant, actionable, practical and capable of execution by the Government.

Considerable attention was devoted to ensuring government ownership throughout the process and the text, with explicit links made to the key planning documents and related departments, including: the Party's four Breakthrough Areas, the seventh five-year National Social and Economic Development Plan (NSED) covering 2011-15, Vision 2020 and the National Export Strategy. The DTIS update (2012) aimed to link various sectors and government ministries with disparate strategies and action plans within a common framework. Issues of sustainability and trade, poverty and gender, were mainstreamed throughout the report and included in the diagnostic work of export sectors through the use of Markets for the Poor (M4P) methodology, and analysed in their entirety in a separate chapter. Some key themes of the approach to the DTIS update 2012 included:

- Achieving a robust document fulfilling the aspirations of the Government, private sector and Development Partners.
- Strong quality control and interaction with the EIF ES and Development Partners.
- Increased government ownership / mainstreaming of the document. This was a nationally implemented DTIS update, designed and managed by the NIU.
- National Development Agenda – being part of the implementation of the seventh NSED by developing the strategy for the trade sector.
- Encouraging further development of a Trade and Private Sector Development programme.
- Close, regular and repeated interaction with the relevant line ministries / departments
- Intensive use of workshops and national consultation in each of the key areas, including follow-up and review of key findings.
- Production of a 20-page Lao summary summarising the draft findings for initial national and

provincial consultations.

- A strong focus on links to poverty, gender and the environment, through a dedicated chapter in the DTIS, and mainstreaming these issues in the analysis and text of other chapters.
- A strong focus on monitoring and evaluation requirements. M&E considerations for the impending programme were built into the initial analysis for the DTIS. In response the Action Matrix will form the start of a living 'Roadmap' for Lao PDR's Trade and Private Sector Development Programme, and be linked explicitly to outcomes and results.
- Utilisation of existing studies and information. Existing processes, strategies and studies were referenced and built upon, not duplicated. A comprehensive database of past studies was compiled by the NIU.
- Use of local consultants where possible. The national personnel took the lead in the drafting of a number of studies and chapters, with the support and review of international specialists.
- Input from both a national and international lead author to ensure a balance of local knowledge and past experience of similar DTIS processes. Both lead authors played an intensive role over the process of the DTIS update, with the national lead author contracted almost full-time and the international lead author present in-country for the majority of the diagnostic/research period. Furthermore, both consultants provided technical input into drafting particular chapters.
- Use of international consultants working alongside local counterparts. It was important that these consultants had a good understanding of the local context.
- Dedicated staff from the NIU, including the International Trade Advisor and a national Trade Analyst assisted throughout the process of the update.
- A realistic timeline and budget. A significant period of time was spent in developing the concept for the DTIS bringing all partners on board in the process and finalising the agreement and methods, as well as in the consultation and review of the draft findings.

The Government of Lao PDR, and the MoIC in particular showed strong ownership and drive in the process. This began with the Lao Government

opting for national implementation, and undertaking the planning and management of the DTIS through the NIU. Both Vice-Ministers as chairs of the Review Committee played a key role in providing active comments on the drafts and process and facilitating and chairing consultation workshops in the Capital and provinces.

The DTIS operated according to an input-driven process rather than an output-based approach. From the beginning consultants as much as possible built in findings using on-the-ground information and discussion with government officials and private sector representatives rather than only amending reports on the basis of later comments. Workshops were held with industry leaders in drafting the sectoral reports on wood processing, garments, textiles and handicrafts. Each background report was shared with government officials and other key stakeholders for comment before being incorporated into the DTIS.

The first drafts were discussed at a national workshop in mid-November. A more complete

version of the DTIS was discussed at a workshop on 16 November attended by all relevant Ministries and agencies and chaired by the EIF Focal Point (vice-Minister of Industry and Commerce) together with the Vice Minister of Planning and Investment and the EU as the Donor Facilitator. A preliminary draft of the action matrix was circulated at this stage. In December the two Vice-Ministers, together with the hosting vice-Governor, held regional consultation workshops. These workshops included representatives of the Government and Business Representatives from all provinces in Lao PDR and were held in Pakse and Luangprabang. A draft DTIS was submitted in January 2012. Subsequently, one-on-one consultations between the representatives of the Department of Planning and Cooperation of MoIC (housing the NIU), and led by the Director General, and relevant departments within the MoIC and other related ministries took place during February.



A summary of the process is as follows:

Stage	Timing
Concept note presented to the Foreign Trade Policy Department and representatives of MoIC Departments	April 2010
Consultation with Informal Trade Donors Group	June 2010
Consultation with Lao IF Secretariat	July 2010
DTIS proposal sent to the EIF ES	August 2010
Approval from the EIF board	October 2010
Consultation on revised DTIS Concept Note with MoIC Departments	January 2011
1st Review Committee Meeting (TPSDWG) to approve the Concept Note	February 2011
DTIS update proposal and budget approved. MoU amended with UNOPS	May 2011
National and international consultants recruited	May-June 2011
Preliminary inception mission	June-July 2011
1st Task Team Meeting	June 2011
2nd Task Team Meeting	July 2011
Inception report finalised	August 2011
Background research conducted and reports completed	August-December 2011
First national consultation workshop – Review Committee	November 2011
Two regional consultation workshops	November-December 2011
Draft DTIS completed	January 2012
One-on-one consultations with Government departments	February 2012
3rd Task Team meeting – Discuss the Draft Final study	March 2012
Validation workshop	May 2012

During a subsequent review period the full DTIS document was circulated amongst EIF partners, government ministries and stakeholders. Their comments were incorporated into the DTIS and the document was presented at the final validation workshop in May 2012.

A list of key stakeholders consulted in this process is available as an annex.



PART II: TRADE AND PRIVATE SECTOR DEVELOPMENT

4. POLICY CONTEXT AND MACROECONOMIC BACKGROUND

4.1 Introduction

This chapter presents some contemporary issues with a view to setting the subsequent chapters in their social and macroeconomic context. Throughout, the focus is on equity and poverty reduction, as mandated by government policy. The chapter outlines economic policy and performance including GDP growth and inflation, followed by an outline of the criteria for graduation from Least Developed Country (LDC) status. Next is a look at ‘Dutch disease’ and its impact on social development. The chapter then examines the recent performance of the balance of payments and trade by composition and destination, before a brief discussion of monetary, fiscal and debt policy. The penultimate section looks at recent investment trends. Finally, five recommendations are made based on the foregoing analysis.

4.2 Trade and development policy

The Government’s development strategy, including macroeconomic goals, is set out in four main documents: the Party’s four Breakthrough Areas, the 7th five-year National Social and Economic Development Plan (NSED) covering 2011-15, Vision 2020 and the National Export Strategy. The most recent five-yearly Party Congress, held in March 2011, identified the need for a “breakthrough approach” to accelerate development, signalling a decisive move towards the market economy. The approach has four elements:

1. **Thinking:** remove old dogma and stereotypes, and address passiveness and extremism.
2. **Human resources:** Improve knowledge and competence of personnel in various fields to address development needs.
3. **Administrative governance:** remove all regulatory and administrative bottlenecks hindering growth of productive and service businesses.
4. **Poverty reduction:** Mobilise funds, and make targeted investments in economic and social

infrastructure to drive strong development in other areas.

Particular concern has been expressed about the inequitable nature of growth and the entrenchment of poverty. Public investment will aim at creating more balanced and more pro-poor growth by strengthening the supply side of the economy and reducing reliance on the mining sector. Additional objectives include raising domestic food production and connecting producers to markets with new roads in order to reduce shortages. The resulting lower transportation costs and increased supply could eventually offset the impact of higher fuel prices.

The targets of NSED 7 are to:

Ensure national economic growth with security, peace and stability, and maintain an annual GDP growth rate of at least 8 per cent and GDP per capita to be at least US\$1,700 at the end of the plan.

1. Achieve the Millennium Development Goals and poverty reduction by 2015, adopt appropriate technology and skills, and create favourable conditions for graduating the country from LDC status by 2020.
2. Ensure sustainability of development by emphasizing the links and balances between economic development, cultural and social progress, natural resources preservation, and environmental protection.
3. Ensure political stability, peace and an orderly society.

NSED 7 has identified 21 large projects to be implemented as part of the five-year plan, each with a value of around US\$50 million, mostly in the transport, infrastructure and natural resource sectors. The Ministry of Industry and Commerce (MoIC) has developed a detailed action plan to support the trade-related aspects of NSED 7, which closely informs the recommendations of the

DTIS. In addition to the five-year NESDP, annual documents will be prepared focusing on short-term annual national development goals, targets and plans.

In addition to these overarching national plans, the National Export Strategy sets out nine main priority areas:

1. Electricity
2. Tourism
3. Organic agricultural products
4. Mineral products
5. Garments
6. Lao silk and cotton handicraft
7. Wood products
8. Medicinal plants and spices
9. Products from local talent

And seven cross-sectoral strategies:

1. Export quality management
2. Trade finance
3. Trade information services
4. Competitiveness development
5. Marketing
6. Import for re-export
7. Concept note for drafting a strategy on export of Lao labour

The various development planning documents each show a strong vision.⁶ They correctly recognise the need to diversify sources of economic growth with a view to meeting development goals. Development coordination, however, needs to be improved, particularly in the area of trade policy. One particular finding to emerge from research conducted for the DTIS is that more use should be made of available background economic analysis in order to avoid an ad hoc approach or the identification of inappropriate priority areas. Policy leadership could also be enhanced, particularly as trade becomes more important for the economy and in turn for policymaking. The DTIS and NIU can act as coordinating mechanisms for trade-related economic planning but greater inter-ministerial and departmental coordination will be necessary, particularly through the National

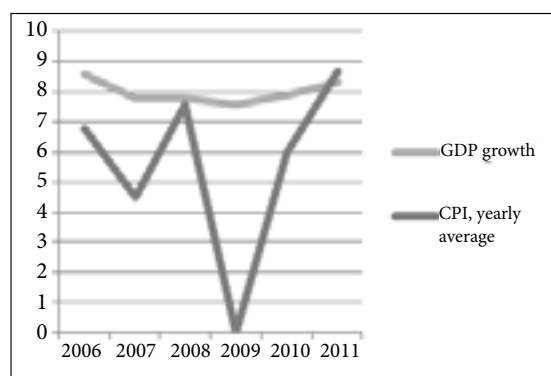
Steering Committee. These issues are discussed in detail in chapter 15. As a shift towards a more open market economy occurs, and as the economy becomes more exposed to global economic events, development planning should become more flexible and strategic in approach, allowing for unpredictable future events.

4.3 Economic performance

The economy is growing rapidly while poverty has reduced significantly in recent years. Expansion in the mining and hydropower sectors has produced an annual average of 7 per cent GDP growth over the last decade – among the highest in the region. This helped halve the share of the population below the national poverty line, leaving it at less than a quarter.⁷ Graduation from Least Developed Country (LDC) status appears possible by 2021 and Lao PDR looks set to achieve the Millennium Development Goals (MDGs) of reducing extreme poverty by half in 2015 as well as meeting its objectives on child mortality and HIV/AIDS.

Mineral and hydropower resources continue to drive growth, while additional impetus in 2011 came from the garment sector, which drew temporary benefit from the relaxation of rules for entry into the European Union. Tourism inflows and foreign direct investment (FDI) also contributed to growth, while there was a higher than expected output from the Nam Theun 2 hydroelectric project. Mining grew slightly slower than expected. Real GDP was expected to have grown by 8 per cent in 2011, following growth of 8.5 per cent GDP in 2010. 2011 was reasonably typical of recent years – about a third of growth came from services, slightly more from electricity, water and gas and the remaining from manufacturing, mining and quarrying, agriculture and forestry.⁸

Figure 1: Real GDP and CPI growth, percent



Source: IMF Article IV report

6. The SME strategy and Trade Facilitation Strategy also have a key role to play in overall economic policy. Sectoral strategies are in place in agriculture, forestry, mining and hydropower and a number of other crosscutting areas such as transport.

7. IMF (2011) 'Staff Report for the 2011 Article IV Consultation', Washington: IMF.

8. World Bank (2011) 'November Lao PDR Economic Monitor - Update', Washington, World Bank.

Large hydropower and mining projects, supported by record copper and gold prices and rapidly rising demand for electricity in neighbouring countries, are projected to keep growth broadly in line with the annual average GDP growth target of 8 per cent in NSEDP 7, although the World Bank forecasts growth of 7.5 per cent during the period 2012-15 owing to heightened global economic uncertainty.

Annualized growth in the consumer price index was likely to be around 8 per cent for 2011, and lower food prices appeared likely to help keep inflation below its peak over the subsequent months and years. Subsistence production will continue to help reduce the impact of international food price prices on the domestic economy, and the uncertain global economic outlook looked likely to contain inflationary pressures in the medium term. Energy inflation, however, looks likely to remain a risk, having hit 26.2 per cent year-on-year in October 2011.

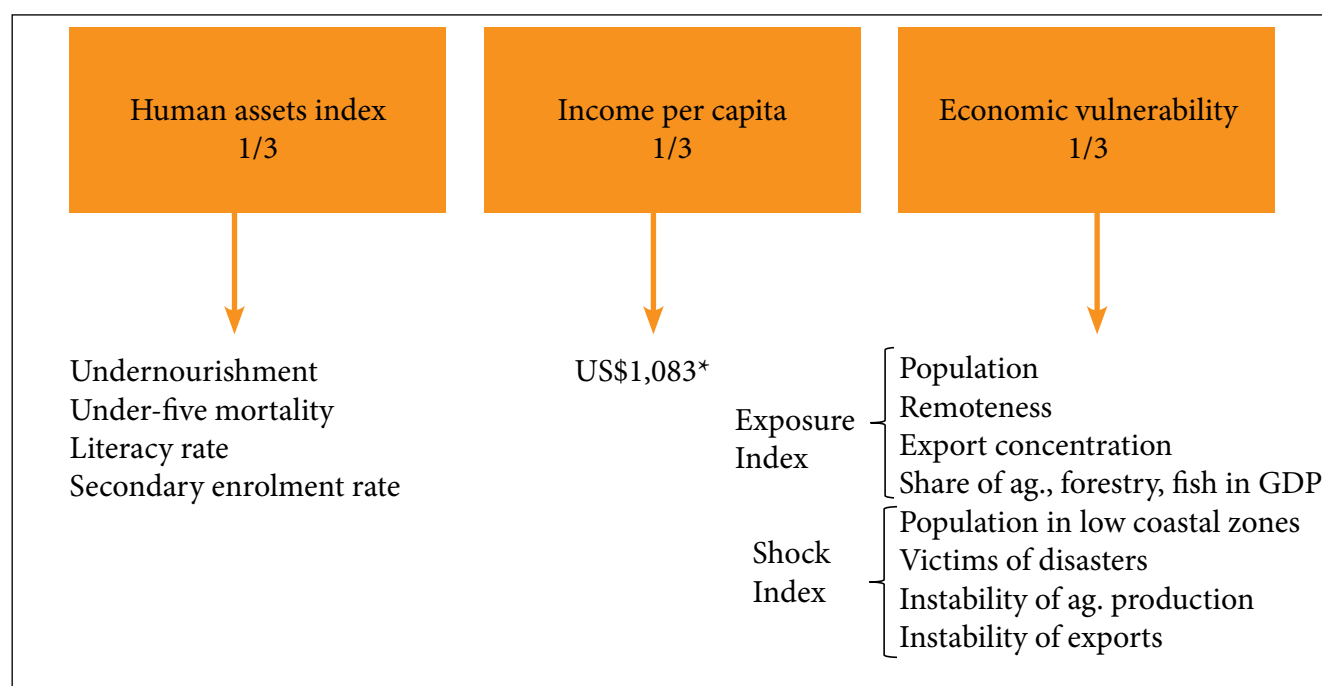
Although macroeconomic growth has been rapid, its impact on social development has been mixed. Lao PDR looks likely to fall short of MDG indicators on hunger, the environment, maternal health, women's empowerment and universal primary education – and the country has lagged behind regional neighbours. Approximately one third of the population continues to live below the poverty line. Given that LDC status depends not only on per capita income but also on economic

diversification and human resources indicators including quality of life, these developments risk affecting the government's plan to graduate from the LDC category by 2020.

4.4 LDC graduation

The goal of LDC graduation is an important and commendable part of government policy. A country qualifies as an LDC as a result of its GNI per capita, human assets index (HAI) and economic vulnerability index (EVI). For a country to graduate, it must exceed two of the three criteria for graduation in two consecutive triennial reviews by the UN Department of Economic and Social Affairs (DESA). At the time of writing Lao PDR did not meet any of the three criteria, although it appeared likely to meet the HAI and GNI per capita indices in 2015 and 2018, with income per capita projected to grow particularly fast in the years ahead. The country would be allocated a three-year transition period, and the most recent UN projections suggest that the most likely scenario is for Lao PDR to graduate in 2021. Another scenario is that per capita income reaches twice the threshold in two consecutive triennial meetings, in which case Lao PDR may graduate without meeting the EVI or HAI thresholds as long as the increase in income is deemed sustainable.

Figure 2: LDC graduation criteria



*At 2009 triennial review. The per capita income threshold is raised at each review.

Although the MoIC is not directly responsible for LDC graduation, which falls under the remit of the MPI, the Government could advance its case for graduation by targeting the four criteria under the HAI: undernourishment; under-five mortality; literacy; and secondary enrolment. These indicators also contribute to trade and economic growth by helping create a healthy and skilled workforce (a key recommendation of the chapter on the business environment and discussed below). Four of the components of the exposure and shock indices – export concentration; the share of agriculture forestry and fish in GDP; the instability of agricultural production; and the instability of exports – are trade-related and hence the direct responsibility of the MoIC. These indicators are globally recognised and underscore the importance of trade. They should form part of the monitoring and evaluation of the DTIS.

A UN resolution (59/209 of 20 December 2004) urges the slow phase-out of preferences upon graduation from LDC status, and the precedent set by other newly graduated countries suggests that a transition period will be put in place following graduation. Yet graduation from LDC status is likely to affect the trade environment of Lao PDR in the form of a loss of trade preferences, a loss of special and differential treatment and technical assistance should the country accede to the WTO, and a possible reduction of access to grants and concessionary loans.

1. A loss of trade preferences. Losing duty free access under the Generalised System of Preferences (GSP) and European Union Everything But Arms (EBA) initiative would have implications for garments, sugar, fruit and vegetables and coffee. Garments would lose a tariff advantage of up to 12 per cent and garments may encounter more restrictive rules of origin following recent changes under which an LDC can export duty free to the EU even if only one stage of processing has taken place in that country. Lao PDR has been able to import fabrics and export apparel duty free to the EU subject to a maximum content rule on non-originating material, which varies between products.

Loss of preferences to the US market will be less relevant due to the US bilateral trade agreement. If any final WTO Doha round is completed, irrespective of whether Lao PDR accedes to the

WTO, the loss of EBA and preferential rules of origin may also be rendered relatively less important due to tariff preference erosion. Lao manufacturers are operating in an increasingly competitive international environment. As ASEAN proceeds, an increasing proportion of trade appears likely to be conducted regionally, further reducing the relative impact of tariff preference erosion for some products, although such trade diversion appears unlikely to significantly affect the garment industry. To allow manufacturers to adjust, Lao PDR is likely to be permitted a transition period. Following Cape Verde's graduation from the list of LDCs on 20 December 2007, the EU extended its EBA preferences to the country for an additional period of three years.

2. Assuming Lao PDR accedes to the WTO, on graduation it may lose special and differential treatment and technical assistance. Several provisions encourage developed members to provide "special consideration" to LDCs, without any specific commitments: Article XI(2) of the Marrakech Agreement; Article 10(1) of the SPS Agreement; Article 12.8 of the Technical Barriers to Trade Agreement; Article 3(5) of the Agreement on Import Licensing Procedures; Article IV(3) of GATS; 6(d) of the annex on Telecommunications in GATS; and Article 66 of TRIPS. Several provisions such as Article 11.8 of the Technical Barriers to Trade Agreement and Article 67 of the TRIPS Agreement encourage support and provision of technical assistance without any commitments. Two provisions are the same for developing countries as for LDCs, but LDCs are specifically mentioned in Article 8 of the Understanding of Balance of Payments Provisions and Article 5(3) of the TRIMS Agreement.

This leaves five areas to date where LDCs receive specific and concrete benefits greater than other developing countries:

- Under Article 15(2) of the Agreement on Agriculture, LDCs are not required to reduce subsidies or agricultural import tariffs.
- Under Article 27(2) of the Agreement on Subsidies and Countervailing Duties, the prohibition on the use of export subsidies is not applied to Annex VII countries (least developed).
- Article 66(1) of the TRIPS Agreement provides a 10-year implementation period for LDCs that

can be extended subject to agreement from the Council on TRIPS. The Council has granted further extensions to LDCs that have not yet fully implemented their commitments.

- Article 24(1) and (2) of the Understanding of Procedures Governing the Settlement of Disputes provides for more consideration to be given by members to LDCs and procedures which allow arbitration by the Director-General of the WTO to resolve any dispute amicably in the interests of an LDC.
- LDCs have less frequent trade policy reviews and the WTO Secretariat provides technical assistance in the preparation of the government's report. Since most developing countries are reviewed on a six-yearly basis, this is unlikely to provide Lao PDR with any problems after graduation.

3. On graduating from LDC status, Lao PDR may lose official development assistance and face higher international borrowing costs. Under the Brussels Programme of Action donors committed to targeting 0.15 per cent of their ODA to LDCs as a whole, although not all do. Donor countries that had already met the 0.15 per cent target undertook to reach 0.2 per cent. The example of some other LDCs that also look likely to graduate in coming years, such as Bhutan, shows that some donors make plans to reallocate bilateral spending in advance of the actual date of graduation⁹. However several donors have indicated that they would continue to provide development assistance on a case-by-case basis depending on the circumstances of the recipient country. Many donors also base

their decisions on the World Bank income criteria rather than on the LDC category. On 1 July 2011 Lao PDR officially moved out of the low-income country category and become a lower-middle income country.

Regional and multilateral financial institutions generally also base their lending on the World Bank's classification. Concessionary financing from the International Development Association (IDA) of the World Bank is granted to all countries below a certain threshold of per capita income. Under World Bank projections, Lao PDR was expected to become eligible for IDA credits by 2013 (at the time of writing all IDA and ADB financing was on grant terms), and to move across the IDA income threshold in 2014 (US\$1,185 per capita). This would presage the end of access to IDA financing, possibly around 2019.

4.5 Dutch disease

One of the reasons for the divergence between social development criteria and economic growth is the predominance of natural resources in the economy. Natural resources have driven growth during the past decade, expanding at an annual average of 11 per cent from 1990 to 1996, about 13.6 per cent in 1997-2002 (driven mainly by the Theun-Hinboun and Houay-Ho hydropower projects), and 16 per cent in 2003-2009 (supported by mining and hydropower mega projects such as Sepon and Phu Bia mining, NT2, and Nam Ngum2). As a result, in 2010 natural resources accounted for 16.1 per cent of GDP – approximately double the proportion of a decade earlier. Natural resources comprised around half of total exports, and mining

Table 5: World Bank income projections and consequences for grants and lending

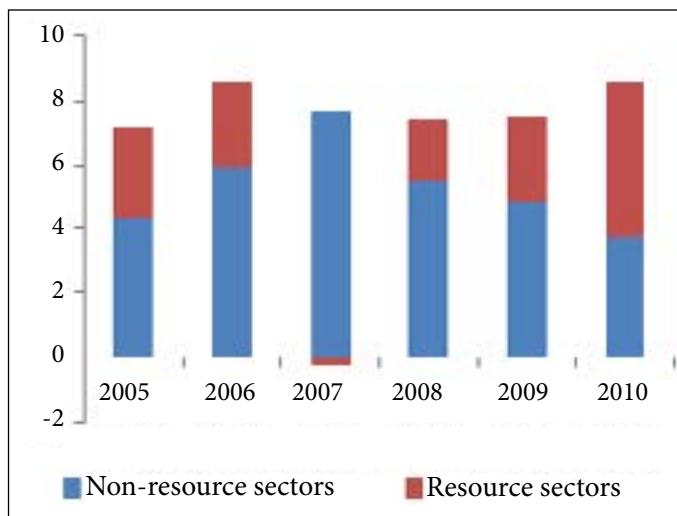
Year	Likely stage
FY13	Lao PDR becomes eligible for IDA credit (50 per cent grant 50 per cent credit) following the conclusion of the debt sustainability analysis (DSA) that the country has only a moderate risk of debt distress.
FY14	Income per capita is above the IDA cut-off, so Lao PDR becomes eligible for International Bank for Reconstruction and Development (IBRD) loans. Countries generally have a 5-year grace period after crossing the cut-off before they become ineligible for IDA financing. Countries that have crossed the IDA threshold but are not considered creditworthy under IBRD standards may continue to receive concessional financing through IDA.
FY19	Lao PDR becomes ineligible for IDA financing. According to its current projected debt profile, the country could have a low risk of debt distress around 2020. That outcome would be only notional, since in principle at that time the country would no longer be eligible for IDA.

9. The UN also funds travel by LDC representatives to General Assembly meetings (the average value of which totals US\$20,000 per country), and travel costs are also supported by a number of other international agencies including the WTO.

exports are projected to reach over US\$1 billion by 2016. The share of non-tradables (construction and services) and manufacturing in GDP grew

moderately over the last two decades while the share of agriculture has dropped consistently, from half of GDP in 1990 to less than a third by 2010.¹⁰

Figure 3: Contribution to GDP growth, percent



Source: World Bank

Box 1: Resource rent

Economic rent is defined as the difference between the price at which an output from a resource can be sold and its extraction and production costs, including normal returns. It is also referred to as abnormal or supernormal profit. For natural resources such as minerals, it is usually known as resource rent. Rent seeking is the extraction of rent by manipulating the social or political environment in which economic activities occur, rather than by adding value.

There is often a risk that natural resource companies manipulate the institutional environment to gain protection from foreign or domestic competition, and that they continue to supply traditional customers rather than diversifying markets with secondary benefits to the domestic economy.

The resource curse

The entrenchment of resource-rental seeking activity is often associated with the so-called 'resource curse', whereby the export of an abundant commodity becomes a burden to the domestic economy, suppressing other activities.¹¹ 'Dutch disease' is a common contributor to the resource curse. Opportunities to extract rent can generate corruption as businesses seek political favour and regulatory change. Amid an atmosphere of corruption and regulatory laxity, many countries experience environmental damage.

Papua New Guinea, a country rich in gold, oil and other minerals, provides an example of the resource curse. It is one of the few developing countries to have become eligible for a downgrade from developing to LDC status, partly the result of corruption and the failure of governance. Several mining operations have caused widespread environmental damage and the economy remains undiversified. Malaysia, on the other hand, is often considered one of the most successful examples of development owing to its successful diversification away from the export of tropical agricultural products into higher value-adding activities such as manufacturing and information technology.

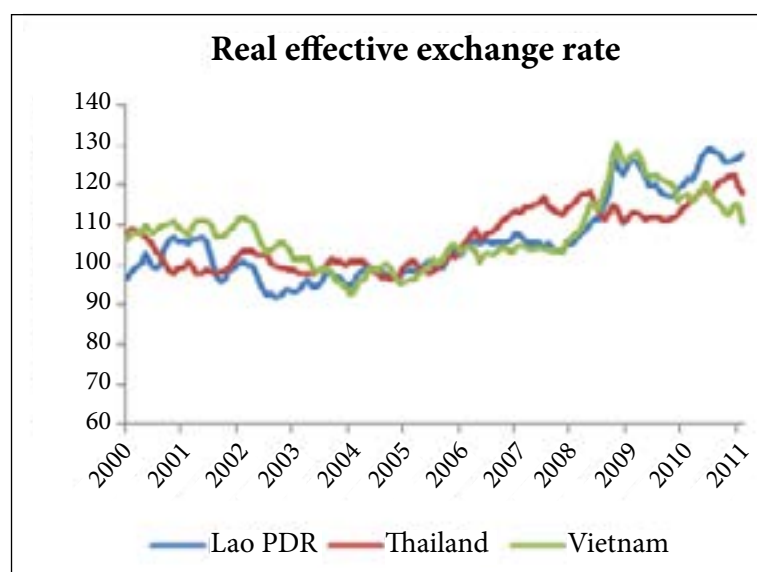
10. Davading, S. (2010) 'Background paper for Lao PDR Development Report. Lao PDR: Growth Analysis for a Small Resource-Rich Transition Economy', Washington: World Bank.

11. For example see Sachs, J. and A. Warner (2001), 'The Curse of Natural Resources', *European Economic Review* Volume 45, Issues 4-6, May 2001: pp 827-838.

While in Lao PDR large FDI inflows and exports have driven headline GDP growth, the impact has not always filtered through to the wider economy – and many people have not benefited from the upturn in average economic growth. The expansion of large resource-related projects has led to a consolidation of exports rather than to diversification¹². Concerns exist over the possibility of ‘Dutch disease’, under which resource-driven economic growth makes non-resource exports less competitive. According to economic theory, first there is a ‘spending effect’ as the increased demand causes inflation to accelerate and the real exchange rate to appreciate¹³. Higher prices for domestic and foreign inputs raise the cost of production in the agricultural and manufacturing sectors and give rise to a contraction or stagnation of other tradable sectors. Secondly, a ‘resource-movement effect’ occurs because the booming resource sector draws mobile factor inputs away from other sectors. The greater the amount of factor inputs used by the resource sector, the greater the drawdown of those factors on the traded non-resource sector and the non-traded sector.

There has been some evidence of a spending effect in Lao PDR since the beginning of the mineral and hydroelectric export boom. The real effective exchange rate has appreciated by about a third since 2005 when the major investments in mining and hydropower began, while copper prices surged 200 per cent in the same period. Over the past decade the real effective exchange rate has appreciated more than in Thailand and Vietnam.

Figure 4. Real effective exchange rate



Source: World Bank

Table 6: Estimates of kip overvaluation

Approach	Estimated overvaluation, percent
Purchasing power parity	9
Macro balance	26 to 42
Equilibrium exchange rate	8
External sustainability	9 to 14

Source: IMF Article IV report 2011

There is less evidence for a possible ‘resource-movement’ effect. The contributions of both manufacturing and the non-tradable sectors have remained roughly stable. The relative movements of these sectors within the overall economy may have been caused by factors other than those associated with the ‘resource-movement effect’. For example, growth in the manufacturing sector has been driven by the food processing and small assembly industries, the expansion in the construction industry was due to large government spending, and the growth of tourism was largely associated with the surge in international tourism travel to Southeast Asia. Moreover, Insisienmay (2008) has observed that the mining sector employs less than 1 per cent of the country’s labour force, so it is unlikely that an expansion in that sector will have a significant impact on the agricultural sector, where 80 per cent of labour is employed.

12. Record, R. and K. Nghardsaysone (2010) ‘Background paper for Lao PDR Development Report. Export Dynamics and Diversification in Lao PDR: An analysis of the product space’, Washington: World Bank.

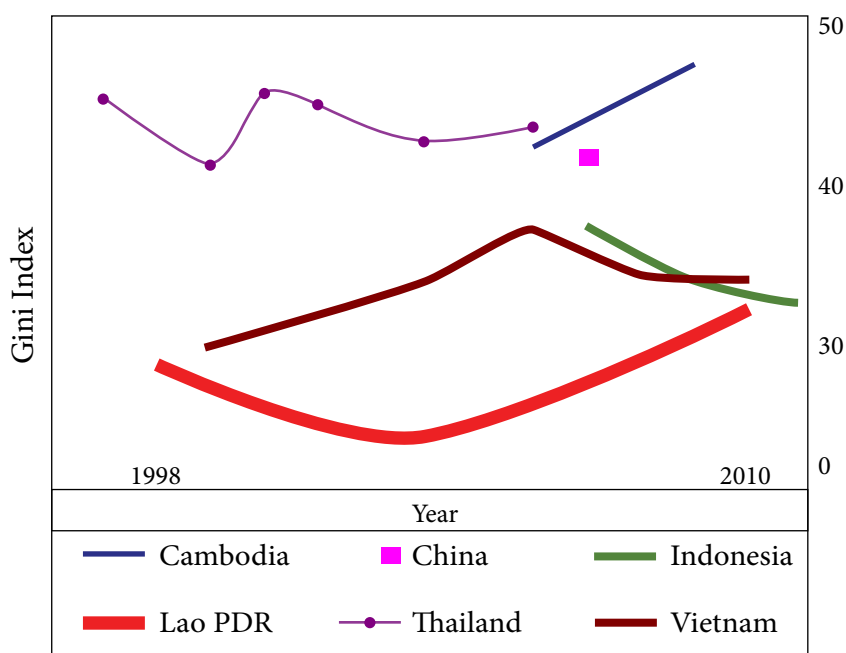
13. The explanation of the Dutch Disease and decomposition into the spending and resource-shift effects are from W. M. Corden and P. Neary (1982), ‘Booming Sector and De-Industrialization in a Small Open Economy’, *Economic Journal*, 92: 368.

Table 7: Sectoral contribution to GDP, percent

	1990-96	1997-02	2003-08	2009	2010
Agriculture	51.3	43.6	36.2	31.9	30.2
Non-tradables (services and construction)	35.3	41.6	43.9	44.9	43.6
Hydropower and mining	4.2	6.1	9.7	12.7	16.1
Manufacturing	9.0	8.3	10.2	10.5	10.1

Source: World Bank ¹⁴

Another manifestation of Dutch Disease is that inequality has risen since 2002, although Lao PDR remains more equal than regional comparators and much more equal than Cambodia and Thailand.

Figure 5: Gini coefficient in Lao PDR and comparator countries

Source: data.worldbank.org

Data: <http://data.worldbank.org/>

Exporters and non-exporters experience different rates of profitability, and productivity is not growing as fast as wages. Overall, these early initial indicators of Dutch disease together place emphasis on fiscal and monetary policies aimed at widening the benefits of resource extraction and mitigating its impacts (see Chapter 10).

Not only has rapid economic growth failed to improve life for many people; natural resource development has in some instances actively worsened poverty through resettlement and reduced food security¹⁵. Land that was recently entirely available for producing food now faces growing demands from the increase in the number of hydroelectric dams and mines. A study of 19

dams in operation, under construction, or in their final planning stages since 1996, indicated that 38,318 people would have to resettle. Including downstream communities increases the number of affected people to 464,284, with the dams changing the flow of the river and the quality of water, damaging fisheries, paddies and vegetable gardens.¹⁶ The remote areas where the most potential exists for new mining and hydro projects are inhabited by ethnically diverse and vulnerable populations. Poverty and other social and environmental indicators risk deteriorating if the impact on these people is not effectively managed (see chapter 7 for the impact of trade on the environment).¹⁷

14. NB. Columns do not add to 100 as hydropower and manufacturing are classified in GDP statistics as a subset of industry.

15. Fullbrook, D. (2010), 'Development in Lao PDR: The Food Security Paradox', Swiss Agency for Development and Cooperation.

16. Lawrence, S. (ed.) (2008), 'Power Surge: the impacts of rapid dam development in Lao PDR', Berkeley: International Rivers.

17. Fenton, N., J. Krahn, B. Larsen, and M. Lindelow (2010), 'Background paper for Lao PDR Development Report. Household Reliance on Natural Resources in Lao PDR: Some Evidence from the LECS Surveys', Washington: World Bank.

4.6 Alternative measures of economic performance

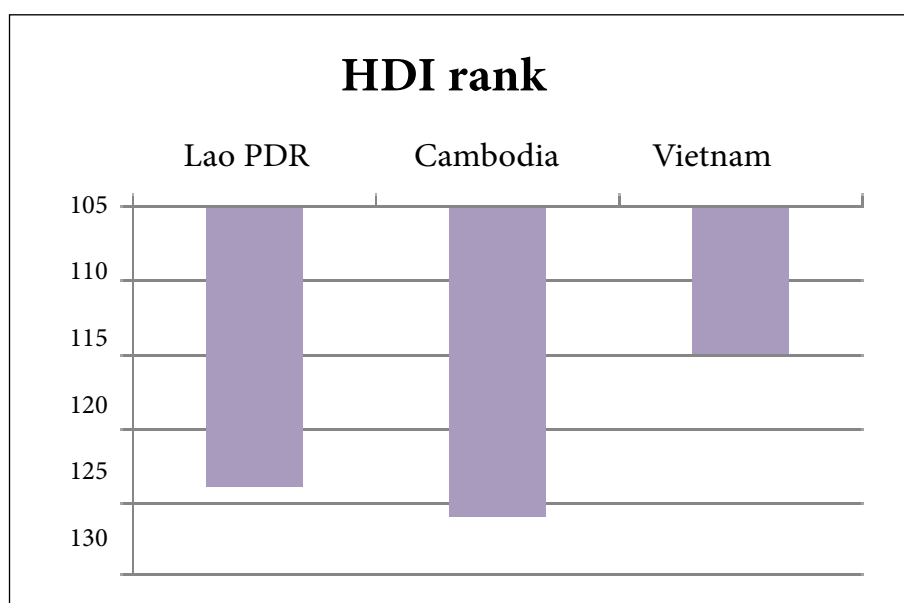
One solution may be to move away from targeting aggregate GDP growth (which does not explicitly account for equity or the environment) towards an alternative measure of development.¹⁸ China has considered a GDP quality index, which includes size, sustainability, social equality and ecological impact.¹⁹ Bhutan's Gross National Happiness index measures sustainable development: preservation and promotion of culture and tradition; conservation of the environment; and good governance. Similarly, the UN Human Development approach is influenced by the literature on inequality and poverty as well as Nobel laureate Amartya Sen's understanding of development.²⁰ These authors suggest that other dimensions of development must complement income. Sen argues that while economic growth is important, especially for poverty reduction, social arrangements such as facilities for education and health care should remain paramount. As such Sen defines human development as "a process of enlarging people's choices and freedom." It has also been described as "human flourishing in its fullest sense – in matters public and private, economic and social, and political and spiritual."²¹ Joseph Stiglitz, former World Bank Chief Economist and economics Nobel laureate, argues that development

should aim at the transformation of society rather than only at GDP growth, an approach which is compatible with human development.²²

Seeing development as about more than simple GDP growth can help tackle environmental degradation and equality, which are seen as essential to human wellbeing. Mounting evidence suggests that economic growth by itself is inadequate as a measure of development. Inequality can persist despite the existence of high economic growth. Riches do not inevitably lead to improved social indicators. Indeed evidence from East Asia shows that human development is a prerequisite to economic growth rather than an accompaniment or an afterthought.²³

UNDP has translated the concept into a composite measure known as the Human Development Index (HDI), published annually since 1990. The three primary indicators that form the HDI - education, life expectancy and income - are used as proxies for knowledge, a long and healthy life and standard of living. On the latest index Lao PDR ranked 124th out of 169 countries, classifying it as having a medium level of human development. Whilst progress has been made in recent years, Lao PDR ranked between Swaziland and the Solomon Islands, nine places behind Vietnam and two places above Cambodia.

Figure 6: HDI rank and values



18. The idea came to prominence in Lao PDR during 2011, with, for example, opinion pieces in the *Vientiane Times* on 12 October and 30 December.

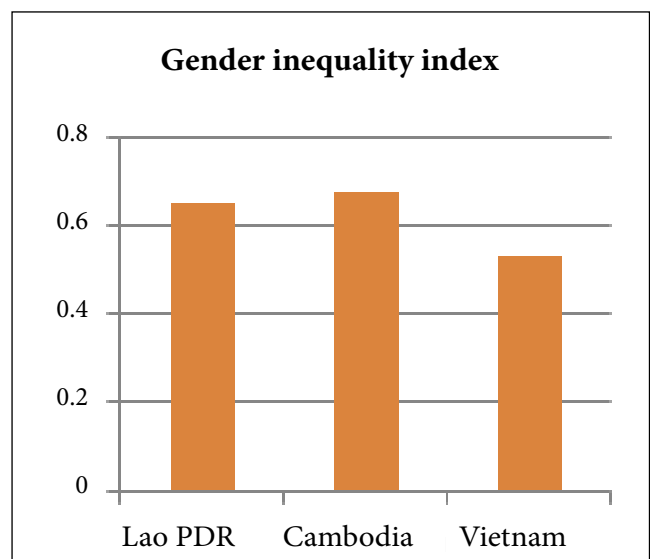
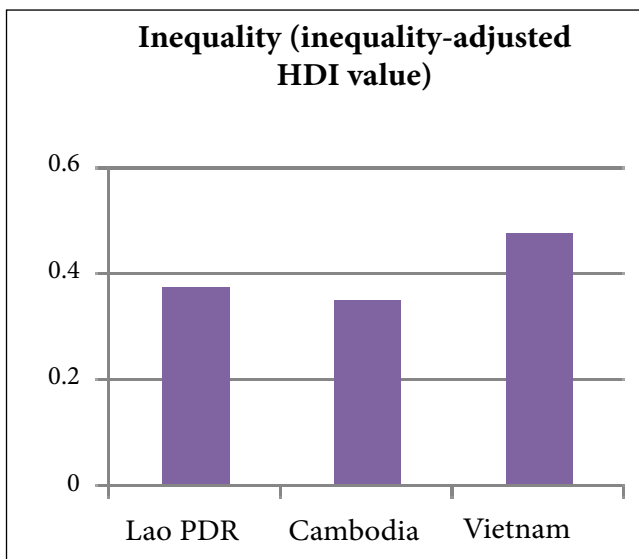
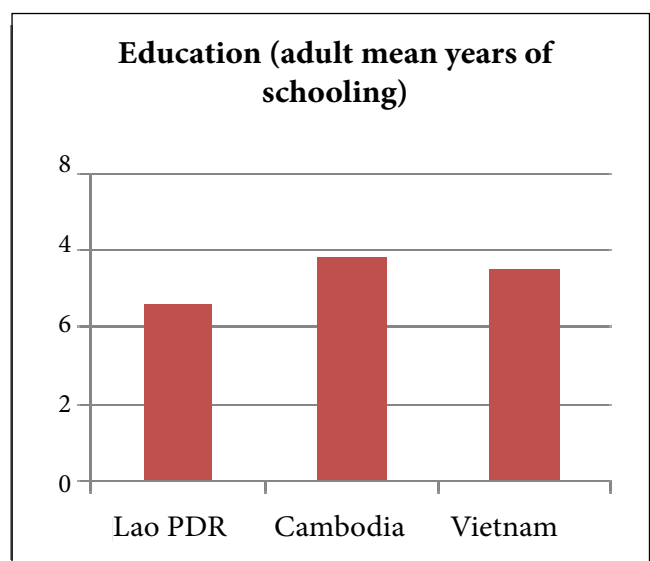
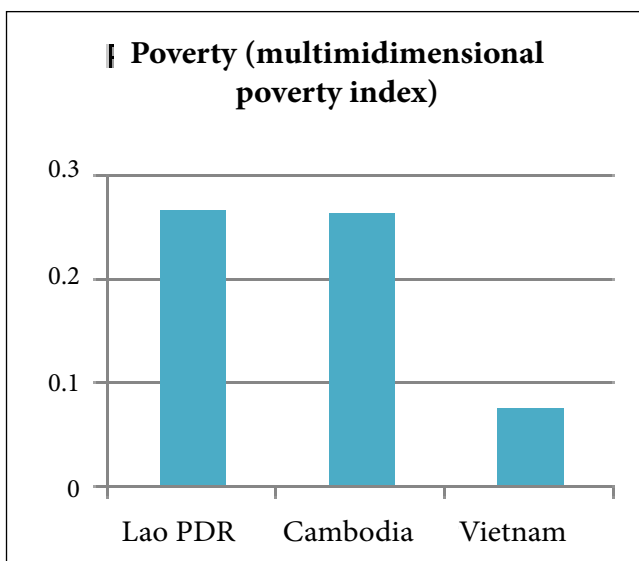
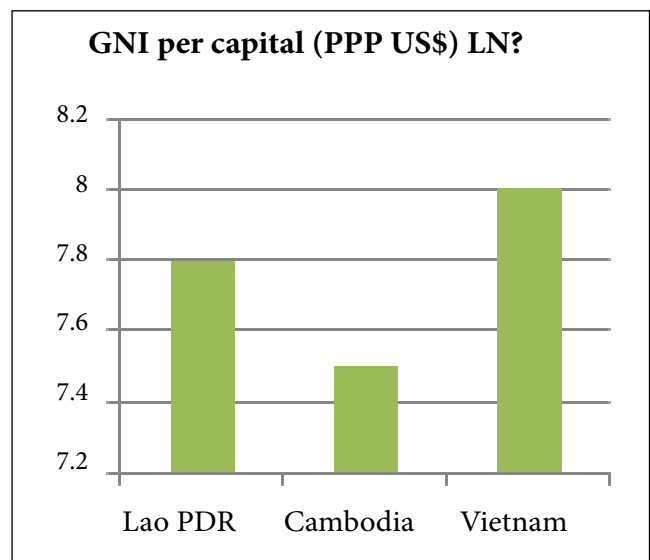
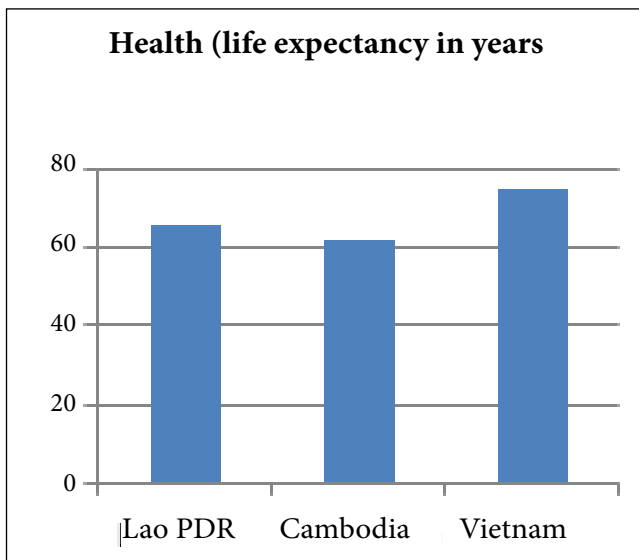
19. Wang J., H. Jiang and F. Yu, 'Research On Green GDP Accounting In China: Review And Outlook', Beijing: Chinese Academy for Environmental Planning.

20. Sen, A. (2000), *Development As Freedom*, Oxford: Oxford University Press.

21. Alkire, S. (2002), 'Dimensions of Human Development' *World Development*, 30: 181–205.

22. Stiglitz, J. (1998), 'Towards a New Paradigm for Development: Strategies, policies and processes', Prebisch lecture at UNCTAD, Geneva, October 1998.

23. Malhotra, K. (2008) 'National Trade and Development Strategies: Suggested Policy Directions', New York: UNDP



Addressing human development indicators such as health and education would simultaneously support the case for LDC graduation as well as trade and economic growth. Without strong social

policies, development risks lagging behind average income growth, with inequality rising and many people being left out of the aggregate economic upturn.

4.7 Balance of payments and trade performance

The overall balance of payments surplus declined in 2011 as the non-resource balance of payments deficit fell by a larger proportion than the increase in the resource balance of payments surplus (which itself is being driven by significant FDI inflows). The current account deficit has deteriorated somewhat in recent years and is projected to remain above 20 per cent of GDP but moderate by 2016. From 2016 onwards, electricity exports related to the Hongsa Lignite thermal power plant will come on stream and help reduce the current account to below 20 per cent of GDP. Import growth is forecast to outstrip export growth from 2012 to 2014, while export growth, driven by hydro and mining, is expected to fall from over 20 per cent in 2011 to almost zero in 2014 before picking up again over the subsequent two years. The corresponding capital account surplus is expected to be driven by FDI, predominantly in mining and hydropower.

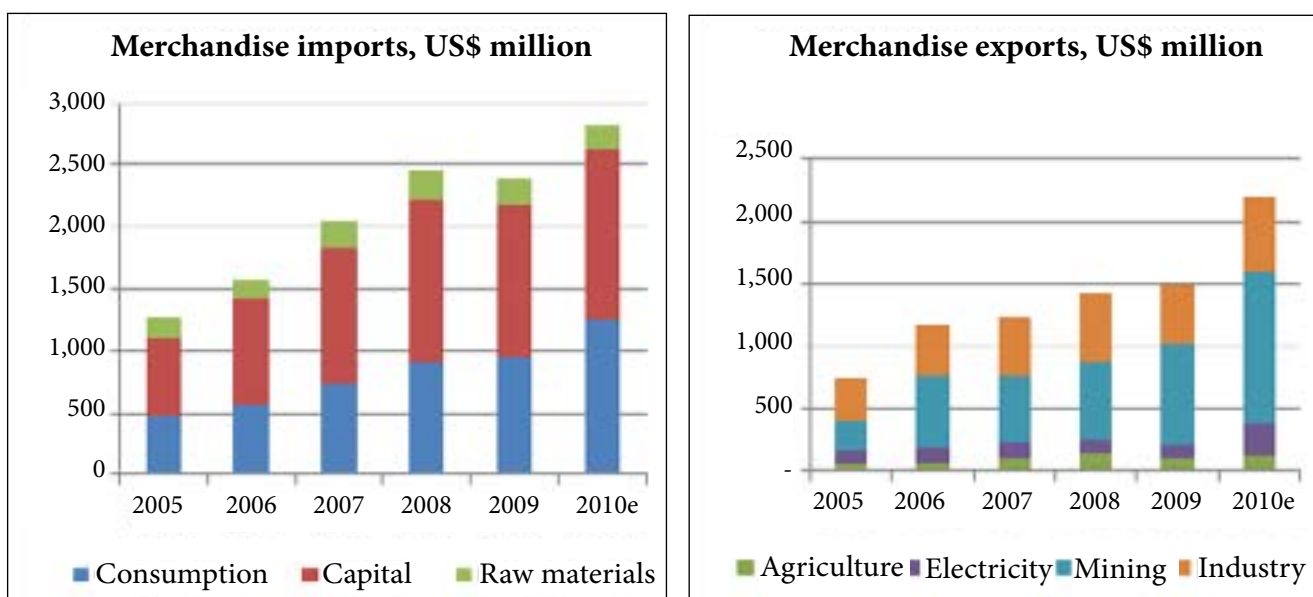
Gross reserves reached US\$719 million in mid-2011, equivalent to 3.8 months of non-resource imports, and were expected to remain at similar levels in coming years. However a high core balance of payments deficit (which excludes FDI and official development assistance) leaves the external position exposed to potentially volatile portfolio capital flows.

Lao PDR is expected to become increasingly dependent on mining and electric power

exports in coming years. While these two sectors accounted for some 56 per cent of total exports in 2008, this share is expected to rise progressively to 67 per cent in 2015 and 77 per cent in 2020.²⁴ The rapid import growth that has accompanied the economic upturn has been characterised by steady growth in the import of consumption goods alongside a slightly higher rate of expansion in the import of capital goods associated with mining and hydropower. Exports have also been driven by hydro and mining (although despite the growth in absolute values, as noted above the overall proportion of trade in GDP has fallen).

Trade data conflict, and even statistics maintained by various government departments are different, as is World Bank data. There is an urgent need to rectify this situation. However DIMEX data from the Ministry of Industry and Commerce (MoIC) shows that by country, Thailand has historically been the biggest export partner, accounting for 46.1 per cent of the share from 2005-10, followed by Vietnam (11 per cent), Australia (9.7 per cent), and China (4.8 per cent). However in recent years Thailand has become even more dominant, with 67.5 per cent of the total in 2009/10, followed by Australia (9.4 per cent), Vietnam (7.5 per cent), China (4.4 per cent), the United Kingdom (2.3 per cent), US (2.1 per cent), Germany (1.9 per cent), Switzerland (0.8 per cent), South Korea, Malaysia and Chinese Taipei each account for a very small proportion of total exports.

Figure 7: Merchandise imports and exports, US\$ million



Source: World Bank

24. Record and Nghardsaysone (2010).

In terms of imports Lao PDR's main trading partner is also Thailand, with a share of 72.3 per cent in 2009/10, followed by China (6.7 per cent), Vietnam (5.7 per cent), and Japan (3.7 per cent). The Republic of Korea, Switzerland, Singapore and Indonesia account for shares of 3.1 per cent, 2.2 per cent, 1.7 per cent, and 1.6 per cent, respectively.

The following table, from the World Trade Indicators, provides some regional comparisons. Goods trade has increased as a share of total trade, reaching a similar level as in ASEAN at 82.68 per cent according to the latest data, corresponding with a fall in services trade. Trade integration, however, deteriorated to a proportion that is well below the ASEAN average – 42.33 per cent versus 135.1 per cent. Similarly, although data for the number of products exported is absent for 2006-9, Lao PDR exported fewer products than ASEAN in previous periods, while the export concentration index has consistently increased, reaching a higher level than in the region as a whole. These data are consistent with the findings of Record and Nghardsaysone (2010), which discusses the impact of increased hydro and mining exports on the trading environment.

Diversification is a key task of trade policy, one which the Government acknowledges in NSEDP 7 and the National Export Strategy. Record and Nghardsaysone (2010) find that: “export promotion support activities should focus on helping existing exporters with a strong track record of exporting a given product to diversify into additional markets.”²⁵ Resources should be directed towards activities with the highest returns, since firms that specialize in a limited range of products are more likely to sustain those flows. Reducing the marginal costs of entering new markets for these firms therefore carries low risks but potentially high returns. The analysis also shows that in-market support should be provided for firms that have already discovered a new destination but may require support to remain in that market.

Policy recommendations in the DTIS follow the general principle that only limited support for export promotion should aim at new firms trying to export to new markets for the first time, and that support should aim primarily at existing industries that have already achieved some initial success but which require further support. It is likely that new industries will develop in future years – which the

Table 8: Selected World Trade Indicators

Indicator	Lao PDR				ASEAN
	1995-1999	2000-2004	2005-2008	2006-09 Latest	2006-09 Latest
Trade Composition (share of goods and services)					
Goods trade share of total trade (g+s, %)	80.68	80.97	85.49	82.68	82.02
Services trade share of total trade (g+s, %)	19.32	19.03	14.51	17.32	17.95
Trade integration (% GDP)					
Trade integration (% of GDP)	70.32	53.96	58.82	42.33	135.1
Export integration (g+s, % of GDP)	28.09	25.07	28.53	21.31	70.26
Import integration (g+s, % of GDP)	42.23	28.89	30.30	21.02	64.85
Product and Market Diversification					
No. of products exported	118.6	160.6	188	...	254.2
Export product concentration index	29.27	33.10	32.72	37.35	31.55
Export market destination concentration index	31.87	32.89	31.66

Source: <http://info.worldbank.org/etools/wti/2a1.asp#>

25. Stirbat, L., R. Record and K. Nghardsaysone (2010), 'Background paper for Lao PDR Development Report. Exporting from a Small Landlocked Economy: An Assessment of Firm-Product-Destination Survival Rates in the Lao PDR', Washington, World Bank.

Government can do little to predict. One of the best ways to pave the way for entrepreneurial discovery is to improve the business environment and to enact appropriate private sector development activities, particularly for exporters, an area which is discussed in chapter 6 of the DTIS.

In addition Record and Nghardsaysone (2010) suggest that policymakers may wish to provide targeted public goods (such as core infrastructure, research, productivity and skills training, and assistance towards compliance with international standards) to specific sectors. The sectors chosen for the DTIS, reflecting government priorities and further consultations conducted for the DTIS, are agribusiness, wood processing, garments, tourism and handicrafts. The Government should ensure that investors in products with low value and limited scope for future diversification are not given preferential incentives.

4.8 Services

Although diversification of goods trade has been limited, some economic diversification has taken place when services are taken into account. The services sector comprises over a quarter of GDP, having grown slightly faster than the overall economy in the past decade.²⁶ Dominated by tourism, services exports have grown at about 6.6 per cent per annum since 1990, about double the growth rate of goods exports. Currently tourism is estimated to contribute 8 per cent of GDP, with earnings having grown from \$114 million in 2000 to \$381 million in 2010. Tourism is discussed in detail in chapter 13. Communications, finance, transport, distribution, health, education, tourism, and other services in addition to directly contributing to income and employment also affect overall economic performance. More than half of Lao firms report that infrastructure is inadequate, including telecommunications and transport, and over a fifth say that access to finance is a serious obstacle to their operations.

Cross-border trade in road and air transport services are particularly important because the country is landlocked. FDI in banking and communications could help develop these sectors, while tourism is a large and growing industry. Reform would be appropriate in a number of areas – particularly telecoms, which have grown rapidly in recent years. The creation of an independent regulatory agency would help develop adequate

regulatory and technical capacity for infrastructure sharing, interconnection and licensing, and provide open access to existing infrastructure using cost-based prices. As part of WTO accession, under the General Agreement on Trade in Services (GATS), countries must sign a standard telecoms reference paper that, amongst other things, sets out the regulatory environment.

The banking sector, dominated by three state-owned commercial banks, has undergone some reform in recent years, including a new banking law and updated banking regulations. Financial sector liberalisation should be tempered against the need to improve supervision and regulation.

Although transportation has improved, and a number of developments may be in the pipeline including the high-speed train link from China, the country remains dependent on road transport. In order to fully benefit from the Greater Mekong Subregion Cross-Border Transport Agreement (CBTA) signed in 1999, Lao PDR needs to upgrade the capacity of its road networks to carry larger vehicles and enhance the efficiency of cross-border transit. The Government also needs to improve rural access to transport services.

Air transport, a quasi-state monopoly, remains limited to domestic flights transporting tourists to the main provincial centres and international flights to a few destinations. Low demand and pricing constraints have hitherto limited profitability. Operators such as Lao Airlines are seeking foreign strategic partners to enhance operational efficiency and profitability. Laos needs to improve its operational guidelines for air control and safety measures as well as its ability to implement those regulations. The recent ASEAN blueprint for services incorporates a desirable approach to creating a more integrated regional market for air transport services.

4.9 Monetary and fiscal policy

Monetary policy has been somewhat loose in recent years, although the Government has managed to achieve its objective of keeping the rate of inflation below the rate of real economic growth – owing to the stability of the kip against the Thai baht and Thailand's low inflation rate. The Bank of Lao PDR (BoL) follows a managed float exchange rate system, allowing fluctuations of +/-5 per cent around the nominal exchange rate in any one year,

26. The services section draws on Mattoo, A. et al. (2009), 'Laos: Services Trade, Development, And International Cooperation', Washington: World Bank.

although the economy is somewhat 'dollarised' and 'bahtised'. Large transactions such as the purchase of cars are generally conducted in US dollars; mid-size purchases (washing machines, refrigerators, televisions) in baht; and small purchases (such as at the fresh market) in kip. About half of the M2 measure of the money supply and a similar proportion of total deposits are estimated to be in US dollars.

Despite estimates that the exchange rate is overvalued, the managed float system prevents kip overvaluation relative to the baht, and monetary policy is effectively linked to that of Thailand. The baht is the most important currency. As noted above Lao PDR depends on Thailand for 67.5 per cent of official exports and almost three-quarters of imports. However when the baht and US dollar diverge the kip appreciates against one currency and devalues against the other.

Further tightening of monetary policy may be inappropriate since credit growth has decelerated from 80 per cent in 2009, part of which was driven by financing for the Southeast Asian games and stimulation of the economy following the financial crisis, to 40 per cent in 2010. In 2011 credit to the private sector grew 30.9 per cent year-on-year, slightly higher than the BoL target of 25 per cent. Three years ago minimum capital requirements for commercial banks were raised to US\$30-40 million. Reserve requirements are already high at 5 per cent for kip and 10 per cent for foreign currencies; and the BoL does not wish to further restrict the activities of commercial banks by increasing reserve requirements. In a slowing global economy, and one in which international inflationary movements have been the primary influence on domestic prices, accommodative monetary policy will remain necessary in order to maintain economic growth at around the 7-8 per cent mandated by the national plan, although fiscal vigilance will remain necessary.

The fiscal deficit fell significantly, from 4.6 per cent of GDP in financial year 2009-10 to 2 per cent in financial year 2010/11, driven primarily by slowing expenditure growth, although non-resource revenues are also declining, placing significant emphasis on resources as a source of revenue. Whilst it is the remit of the international agencies to urge fiscal vigilance, the Government's priorities include prolonging growth over the medium

to long term, making growth more equitable and environmentally sustainable, and reducing poverty. In this regard one pressing priority, as shown earlier, is to address Dutch disease. The Government should try to mitigate any resource-induced volatility as much as possible, including: coordinated fiscal and macroeconomic policy without overheating the economy; developing the financial sector; diversifying the non-resource economy; trade facilitation; and improving the investment climate in non-extractive industries.²⁷ These objectives are all addressed in other chapters of the DTIS.

Current public debt is 51.8 per cent of GDP. In order to avoid a future situation of unsustainable indebtedness the Government should avoid borrowing excessively against future resource revenues, although introducing fiscal rules on spending is insufficient. Resource revenues should be used carefully and should be channelled into effective public investments.²⁸ In its debt sustainability analysis the IMF highlights the significant undisbursed loan commitments from China, totalling up to US\$1 billion.

Although mineral and hydropower resources will be discussed in more detail, these industries are clearly having a strong macroeconomic impact. One macroeconomic priority is to move away from a discretionary fiscal regime with exemptions, towards a systematic fiscal regime under which all hydro and mining projects are treated uniformly.²⁹ A move away from dividends towards taxation as a means of extracting rent would be less volatile and hence more predictable.

Bringing down the non-mining fiscal balance (the fiscal deficit excluding revenue from mining but including revenue from hydropower) over the medium term would limit dependence on mining revenues, which should be saved, along with hydropower revenues. The fiscal framework needs to be broadened and strengthened in order to deal with increased and volatile resource revenues. A further key recommendation is to advance continuing reforms of the tax system using technical assistance. Continued modernisation of the customs and tax departments that builds on recent technical assistance is also appropriate.

Public financial management reform should also continue, helping the Government to meet its development goals. The recommendations

27. Vostroknutova et al. (2010); Record and Nghardsaysone (2009); Davading (2010).

28. Vostroknutova et al. (2010).

29. World Bank (2010), *Lao PDR Development Report*, Washington: World Bank.

of the 2010 Public Expenditure and Financial Accountability (PEFA) Assessment include improving accounting, cash management, and the establishment of the treasury single account. Concrete plans should be drawn up to quantify and resolve arrears and debts to contractors related to public investment projects.

A programme to strengthen external debt management is underway, and the Government is currently conducting an analysis of the appropriate level of annual external borrowing. Borrowing for viable revenue-generating projects should generate sufficient resources to cover the additional debt service burden. Current weaknesses in external debt data will be resolved with the introduction of new software, with technical assistance.

4.10 Investment

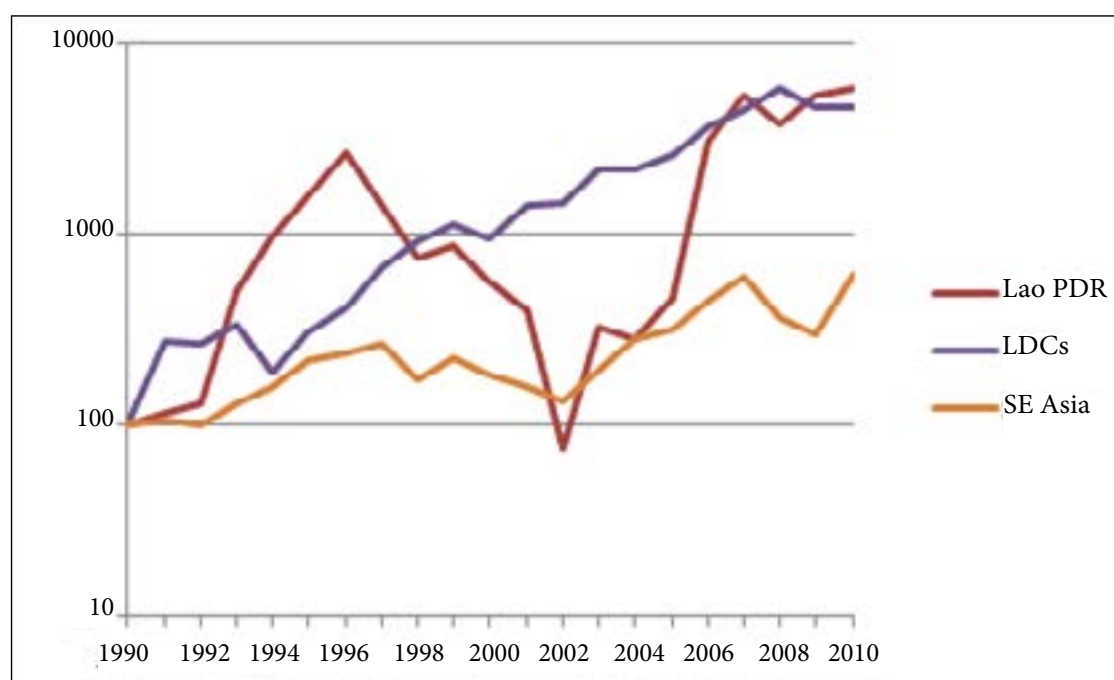
FDI inflows have surged in recent years, driven by mining and hydropower, which together account for more than 80 per cent of total FDI.³⁰ FDI has also driven much of the export growth of recent years in the form of mineral exports. The major turning point came in 2005/6, with the approval of the NT2 dam and significant investment in the Sepon and Phu Bia mining operations. Total accrued investment in these two mines together was worth nearly \$1 billion by the end of 2008. Most non-resource investment is in agro-processing, including sugar, cassava and coffee.

Annual FDI inflows grew from US\$28 million in 2005 to US\$187 million in 2006, according to UNCTAD, and reached US\$350 million in 2010. As Figure 8 shows, the previous upturn in investment occurred in the mid-1990s, following which there was a retrenchment as investment in resources subsided. By 2002 annual inward FDI had fallen to a level lower than in 1990.

Since 1990 growth in inward FDI has outpaced the LDC average, continuing to rise despite the global slowdown following the economic crisis. In Lao PDR inward FDI flows grew nearly 600 times over the period shown, approximately ten times higher than growth in inward FDI for Southeast Asia as a whole. The prospect of China's estimated US\$7 billion investment over several years in the high-speed railway, combined with power-related and agro-processing investments, are likely to maintain inward FDI flows at high levels in coming years and contribute somewhat to the diversification of FDI. In addition to FDI the opening of the stock market in January 2011 led to the first portfolio inflows, and additional incoming equity investment is expected in the years ahead. There is a strong focus on Special Economic Zones as a means of attracting future investment.

Lao PDR's ability to attract inward investment compares favourably with regional comparators and the LDC average – although investment

Figure 8: Inward FDI flows rebased to 100 in 1990, log scale



Source: UNCTAD World Investment Report, 2010/ author's calculations

30. World Bank (2010), 'Lao PDR: Growth Analysis for a Small Resource-Rich Transition Economy. Background paper for Lao PDR Development Report', Washington, World Bank.

is almost entirely resource seeking rather than efficiency-seeking. Whilst absolute inflows are considerably lower as a result of the relatively small size of the economy, inflows as a proportion of gross fixed capital formation (GFCF) are higher than in Southeast Asia and almost as high as in Vietnam and LDCs. The lower figure in Thailand is due to the ability of the economy to generate capital domestically. Lao PDR's FDI stock, at the equivalent of a third of GDP, is slightly below the level of Southeast Asia as a whole, including Thailand, Vietnam and Cambodia, but almost as high as in Thailand and higher than the LDC average.

Investment policy is covered in more detail in Chapter 9 on the business environment and private sector development. In coming years it will be critical to enact the Investment Law, which is aimed amongst other things at facilitating domestic investment and reducing bureaucracy.

from LDC status in 2020 it must by definition improve the quality of life and diversify economic activity.

Using existing comparative advantage in natural resources to develop other parts of the economy can be achieved partly by the efficient use of government revenues to develop export industries with proven potential. The development of links will prove important. It will also be critical to use resource revenues to enact good social policies, particularly health and vocational training. Evidence from elsewhere in East Asia shows that human development is a precondition for economic growth – creating a healthy and skilled workforce – rather than a by-product of economic growth.

(i) Alternative measures of development

Consideration should be given to alternative measures of development such as China's

Table 9: Selected FDI indicators, 2010

Country/ region	FDI inflows, US\$ million	FDI inflows, % GFCF	Inward FDI stock, % GDP
Lao PDR	350	19.8	32.3
Vietnam	8,173	22.9	66.1
Cambodia	783	38.8	52.4
Thailand	5,813	7.3	39.9
Southeast Asia	79 408	16.4	51.5
LDCs (total)	26 390	22.8	27.8

Source: UNCTAD World Investment Report 2010

4.11 Conclusions and recommendations

One of the main macroeconomic and trade-related tasks facing the country is the diversification of economic activity into new areas in addition to hydropower and mining. The risk is that Lao PDR becomes a 'rich nation with a poor population', meaning that mining and hydropower come to dominate economic activity and revenues are not used to further the ends of development. As in a number of other resource-rich countries, the entrenchment of rent-seeking activity among a few sectors could sideline other domestic economic activities and exports. Mining and hydropower production can even worsen poverty if displaced people are not adequately resettled, compensated and connected with economic opportunities. If Lao PDR is to achieve its objective of graduating

Quality of Growth index or the UNDP Human Development approach. LDC graduation depends partly on human development-type indicators such as quality of life, and it would make sense for the Government explicitly to target these indicators. As in China and other countries, Lao PDR may wish to conduct further research into its own alternative measure of development involving wellbeing, equity and poverty reduction.

(ii) Statistics

1. Improve economic data by developing the Government's capabilities in order to reduce reliance on multilateral institutions. Inter-ministerial coordination of data could be better, and several sources of data conflict; an outcome that should be addressed by implementation

of the new Statistics Law and the new Statistics Strategy 2010–20, but which will require additional support to be put into practice. The balance of payments, national accounts and trade and investment data are in particular need of improvement. The World Bank is developing a proposal to support the compilation, analysis and dissemination of economic statistics and the IMF has offered technical support. Support should be along at least four dimensions:

1. Institutional strengthening
2. Infrastructure development
3. Capacity building with the aim of ensuring that officials are systematically trained to generate and use data.
4. Dissemination. Government officials in areas other than trade may require statistical training and help in understanding trade and macroeconomic data.

(iii) Dutch Disease

The Government should try to mitigate any resource-induced volatility as much as possible, including by: coordinated fiscal and macroeconomic policy without overheating the economy; developing the financial sector; diversification of the non-resource economy; trade facilitation; the improvement of links between resource industries and the rest of the economy; and improving the investment climate in non-extractive industries. These issues are all dealt with via specific recommendations in chapter 10 and throughout the DTIS. In addition it will remain critical to consider the impact of hydro and mining developments on poor people and the natural environment, with environmental impact assessments and a move to triple-bottom line accounting (discussed in Chapter 12) made mandatory.

(iv) Export promotion

Export promotion should aim to assist existing exporters with a strong track record of exporting a given product to diversify into new markets. In-market support should be provided for firms that have already discovered a new destination but may require support to remain in that market. Rather

than the Government providing specific support to new untested sectors or industries, it should improve the business environment and perform appropriate private sector development activities, particularly for exporters. The sectors chosen for the DTIS, reflecting government priorities and consultations with relevant departments and line ministries, are agribusiness, wood processing, garments, tourism and handicrafts.

The Government may also wish to provide targeted public goods such as core infrastructure, research, productivity and skills training, and assistance towards compliance with international standards to specific sectors.

(v) Macroeconomic policy

- Move away from a discretionary fiscal regime with exemptions towards a systematic fiscal regime under which all hydro and mining projects are treated uniformly. Using taxation rather than dividends as a means of extracting rent would be less volatile and more predictable.
- Avoid borrowing excessively against future resource revenues. Resource revenues should be used carefully and should be channelled into effective public investments, and not committed to recurrent or irreversible expenditure.
- Reduce the non-mining fiscal balance over the medium term. Strengthen and broaden the fiscal framework in order to deal with increased and volatile resource revenues.
- Continue tax reform. A roadmap for modernizing the customs and tax departments that builds on international technical assistance is also appropriate.
- Continue public financial management reform. The recommendations of the 2010 Public Expenditure and Financial Accountability (PEFA) Assessment include improving accounting, cash management, and the establishment of the treasury single account. Concrete plans should be drawn up to quantify and resolve arrears and debts to contractors on public investment projects.



5. TRADE AND PRIVATE SECTOR DEVELOPMENT POLICY

This chapter provides an overview of the Lao PDR's trade and private sector development (PSD) policy and discusses the trade policy including the main trade agreements with which Lao PDR is currently involved: accession to the World Trade Organization (WTO), the Association of Southeast Asian Nations (ASEAN) and various bilateral agreements. The challenge in general is not to secure more market access, since markets are already very open to Lao products, but to leverage economic integration as a driver for improving the business and investment regime as part of an overall effort to improve supply-side capacity and diversification. The chapter gives an update on current progress, makes recommendations on how to further the gains from each trade agreement and where relevant suggests ways of minimizing any negative impacts.

5.1 Overview of the private sector

Since 1990s the Lao private sector, especially SMEs, has grown fast in terms of firm numbers and employment. A national SME Survey carried out in 1995 estimated that the number of SMEs was expanding at about 10 per cent per year during the early 1990s while employment grew at about 15 per cent per year.

According to the latest economic census (2006), about 127,000 enterprises were in operation, of which: 93 per cent were micro-enterprises with fewer than five employees; 4 per cent employed between five and nine persons; 2 per cent employed between 10 and 99 persons; and 2 per cent employed more than 99 workers. Average

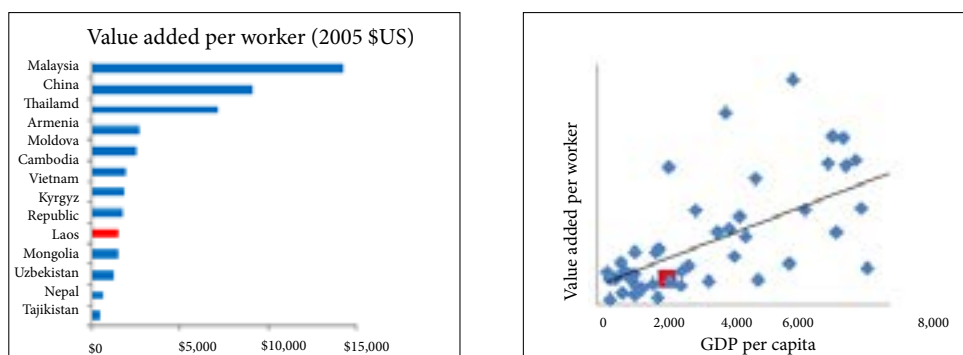
employment in the manufacturing sector was only 4.3 persons per enterprise.

Although precise statistics on SMEs in Lao PDR do not exist, the latest Lao Expenditure and Consumption Survey (LECS4) of 2008/2009 shows that about 34 per cent of Lao households are engaged in operating micro and small businesses; a proportion that is much higher than that shown in LECS 2 of 1997/98.

Despite their large numbers, only a small proportion of business operating households employ paid labour (about 15 per cent)³¹ and most business activities are conducted in the form of self-employment or by engaging unpaid family labour throughout the country. Only about 1 per cent of households employ five or more employees. The majority of business-operating households are in the central region of the country; with the Vientiane Municipality, the most developed urban area in the country, being a centre of concentration.

The lack of medium- and large-sized enterprises and low productivity of Lao manufacturing firms suggests that Lao PDR cannot rely on a strategy of low cost, labour-intensive manufactured exports to regional and international markets. The latest Investment Climate Assessment (2011) conducted by the World Bank revealed that total factor productivity for the average manufacturing firm in Lao PDR has not changed between 2005 and 2009. The labour productivity of firms in Lao PDR is lower than in most comparator countries and below the levels suggested by its income per capita.

Figure 9: Labour productivity in Lao PDR and other exporting economies



Source: ICA (2011), World Bank Enterprise Surveys

Source: ICA (2011), World Bank Enterprise Surveys, World Development Indicators

31. Only 7 per cent of business operating households employed employees in 1997/98, LECS 2 (1997-98).

While manufacturing has performed well since the late 1980s, it faces significant challenges and risks in core non-resource export sectors (see chapters 11 and 14) such as the manufacture of garments, agro products, textiles and furniture, wood and wood products.

5.2 Key trade and PSD development strategies and measures

Implementation of the New Economic Mechanism (NEM) has enabled the private sector, both domestic and foreign, and including small and medium-sized enterprises (SMEs), to play an ever-increasing role in the economy. The private sector is expected to account for a much larger part of the economy as the Government attempts to achieve its goal of graduating from LDC status by 2020.

The Government links the achievement of Vision 2020 to attaining an annual GDP growth rate of 8 per cent from the present to 2020, on the basis of total investments made each year of around 30 per cent of GDP. More than 50 per cent of the investment is expected to be mobilized from the domestic and foreign private sector.³²

Overall objectives of the trade and private sector development policy:

- A reduction of transaction costs that limit the benefits of regional integration.
- The development of diversified financial markets that can better allocate capital and risk.
- More effective regulation that allows market flexibility while reducing uncertainty.
- More developed human capital.

Guided by the NSEDP and research for the DTIS, the key concrete strategy and measures for maintaining a high growth rate in the manufacturing industry and service and commerce sectors include:

- Creating export market opportunities through active participation in regional and international economic integration.
- Enhancing the competitiveness of local businesses that have a comparative advantage in international trade (including handicraft, garment, wood processing, tourism, agro processing, and SMEs) by:
 - Improving the legal and regulatory environment to encourage the creation of new business and expansion of existing businesses

and removing barriers to free movement of goods and services in the domestic market

- Improving the quality of supporting infrastructure (including access to quality roads, electricity, telecommunication and transport services)
- Improving trade facilitation, sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT)
- Improving access to finance
- Improving workforce skills
- Strengthening the capacity of business membership organisations (BMOs), including Chamber of Commerce and industry associations at central and local level
- Improving the capacity of entrepreneurs through training, provision of information, participation in trade fairs, and access to necessary business development services
- Attracting quality foreign investment into sectors in which Lao PDR has development potential.

In addition, the National Export Strategy aims to promote exports of both resource and non-resource sectors in which Lao PDR has comparative advantages. Resource exports – mainly minerals and hydro electricity – will continue to grow as long as the Government is able to attract large foreign direct investment. However, the promotion of non-resource exports such as agro-processing products, garments, handicrafts, processed wood products, and tourism will require concerted efforts by the public and private sector as well as donor agencies in order to improve institutional mechanisms and enable the execution of a comprehensive strategy. Due to Lao PDR's small, fragmented domestic market, more importance should be given to export promotion and a move away from import substitution. A number of sectoral studies reveal that there is little scope for import substitution, while there are promising opportunities for increased exports.

Clearly, by identifying these strategies and measures, the Government of Lao PDR (GoL) accords an important role to the development of trade and the private sector. This includes SMEs as a source of domestic investment in producing goods for domestic consumption and exports, and as a source of revenue through taxation and the

Government commits to facilitating the conditions for their development. Each of the strategies is described in details in the subsequent chapters of the report.

5.3 Trade liberalization

Since the introduction of New Economic Mechanism in the late 1980s, Lao PDR has actively liberalised its trade and investment regime. Trade policy is largely shaped by its bilateral and regional trade agreements, especially the ASEAN Free Trade Area (AFTA), its commitments towards the ASEAN Economic Community in 2015 and efforts to accede to the WTO. The country's trade regime is relatively open and since the 2000s its most-favoured nation (MFN) applied simple average tariff has not changed much, remaining at 9.7 per cent (slightly higher than the East Asia Pacific regional average of 9.3 per cent). When weighted by actual imports, the average tariff rises to 14.9 per cent. Agricultural tariffs are higher than non-agricultural tariffs (simple average of 19.4 per cent versus 8.2 per cent, and trade-weighted average of 22.4 per cent and 13.7 per cent, respectively).³³ Tariff rates rarely change other than through negotiated trade agreements.

New, WTO- and ASEAN-consistent legislation on import licensing procedures was issued in 2009, under which 26 categories of goods are subject to import approval (of which eight categories are prohibited and 18 subject to license approval), and 13 categories of goods are subject to export approval (of which four categories are prohibited and nine are subject to license approval). Most of these requirements are merely 'technical measures' that are used for quality control, plant health, food safety, animal health or other SPS (Sanitary and Phytosanitary) measures. Attempts are being made to improve transparency, reduce non-tariff barriers (NTBs) and bring Lao trade legislation in line with the principles of the WTO and ASEAN Agreements (see trade section on trade agreements for more detailed information).

Important improvements have been made to facilitate the movement of goods into and out of the country. The Lao Customs Department is undertaking major institutional and legislation reform to improve its efficiency and bring its legislations and corresponding process and procedures into line with the revised Kyoto conventions and WTO and ASEAN requirements.

Efforts to modernize customs clearance procedures are being supported by the World Bank and detailed plans are underway for developing a National Single Window for imports and exports. Greater efforts are still required to improve inter-ministerial coordination and public and private partnership to further improve the efficiency and effectiveness of border management. In this regard, the approval of the first National Trade Facilitation Strategy and Action plan, including the establishment of a National Trade Facilitation Secretariat, is considered an important milestone (see the trade facilitation chapter for detailed information).

The overall business-enabling environment has also been improved by the implementation of the Enterprise Law, promulgation of the unified Investment Promotion Law and the recent revision of the Tax Law and others. However, greater efforts are required to ensure consistent interpretation and implementation of laws and regulations in practice. Chapter 9 describes key business environment constraints and concrete measures for removing identified binding constraints.

5.4 Trade policy institutions

Most trade policies are formulated and implemented by means of laws and their implementing regulations. Responsibility for trade policy formulation and implementation lies with the Ministry of Industry and Commerce (MoIC). When formulating and implementing trade policies, the MoIC coordinates with trade-related bodies such as the Central Bank, Ministry of Finance, Ministry of Agriculture and Forestry, Ministry of Planning and Investment, other line agencies and the Government Cabinet. However, overall inter- and intra-ministerial coordination in formulation and implementation of trade policy requires further improvement.

Private sector participation in trade policy formulation occurs mainly through the Lao National Chamber of Commerce and Industry (LNCCI) and industry associations and provincial chambers of commerce. The LNCCI, with about 1,075 members, acts as an umbrella organization for all BMOs. There are 18 associations, eight smaller groups that are not yet associations and 13 registered Provincial Chambers of Commerce with four more in the process of registering. The National Chamber of Commerce co-organizes

33. www.worldbank.org/wti.

an annual business forum to discuss policy and regulatory issues affecting the competitiveness of the private sector. Representatives of more developed BMOs also actively take part in policy formulation and implementation by participating in various ad hoc task forces and committees leading the development of trade and PSD policies and legislation. However, to enhance the efficiency

of the private sector’s role in policy formulation and implementation, more targeted capacity building in issue identification, research, position development and results measurement is required.

The table below summarizes the key institutions related to trade policy formulation and implementation.

Table 10: Levels, institutions and roles in trade mainstreaming

Level	Institution	Role in trade mainstreaming
Macro-level institutions	National Assembly (economics, budget and finance committee)	Policy guidance, review of new law and legal instruments (WTO accession, ASEAN integration and other trade and investment agreements), large investment projects related to natural resources and land concessions
	Ministry of Planning and Investment	Leads formulation and monitors implementation of National Socio-Economic Development Plan (NSED) in close collaboration with all sectoral ministries and provinces. Leads development of annual and medium-term macro economic development frameworks
Macro-level committees	NSCEI – WTO Secretariat, Trade Facilitation Secretariat, IF Secretariat	The NSCEI provides policy guidance to WTO accession negotiations, trade facilitation measures and AFT coordination
	Trade and Private Sector Development Working Group under roundtable process	Enhances synergies between the two inter-related areas of trade and private sector/SME development to promote more collaborative links across line ministries and agencies, as well as between the Government, Development Partners (DP) and private sector representatives
	Lao Business Forum	The LBF is a PPP initiative (MPI and LNCCI) designed to improve the business-enabling environment by providing a platform for effective dialogue between the business community and the Government

Meso level	Ministry of Industry and Commerce and Ministry of Planning and Investment	The lead government agency for trade and PSD policy formulation, trade integration into NSEDP, support to inter-ministerial coordination on trade-PSD and AFT Coordination in Lao PDR is the MoIC, which works very closely with MPI
	Lao National Chamber of Commerce and Industry	LNCCI is an independent body that represents the business community in Lao PDR. As the nexus between the state and private enterprises, LNCCI is responsible for identifying the problems and concerns of its members and makes sure that they are presented to the Government ³⁴
Micro level	National Implementation Unit (within the MoIC ODA Division)	The NIU is the government division in charge of the coordination, management and monitoring of AFT resources in Lao PDR. It is located in MoIC and has recently been transferred to the newly established Department of Planning and Cooperation from the Foreign Trade Policy Department and is supported by DPs. It acts as a Secretariat for different NIFGS task forces and executing agencies for several TRTA projects
	Government Sub-Executing Units (GSEUs), including Small and Medium-Sized Enterprises Promotion and Development Office (SMEPDO)	GSEUs are implementing units within departments of the MoIC and line ministries that are responsible for the implementation of TRTA projects coordinated by the ODA Division (TDF, EIF, GIZ, SECO). There are currently five GSEUs. It is recommended that their status be converted to implementing entities more aligned with Government structures. This will enable AfT to flow more readily through national mechanisms, reducing duplication and incorporating a wider range of stakeholders

34. From the LNCCI website (www.laocci.com).

Committees	Secretariat / focal points
National Committee for Economic Integration chaired by Deputy Prime Minister, Minister of Foreign Affairs	<ul style="list-style-type: none"> • WTO Secretariat • Trade Facilitation Secretariat • Integrated Framework Secretariat ³⁵
National Committee for Special and Specific Economic Zones chaired by DPM	<ul style="list-style-type: none"> • Secretariat under Prime Minister's Office
Investment Promotion Committee	<ul style="list-style-type: none"> • Not yet established (primary function is to approve concession- related investment projects)
National Transport Committee headed by Minister of Transport and Public Works	Dept. of Transport is the secretariat
ASEAN Economic Minister	<ul style="list-style-type: none"> • ASEAN Division is secretariat on economic matters
GMS Economic Minister	<ul style="list-style-type: none"> • GMS Secretariat • GMS focal points
SME Promotion Fund	<ul style="list-style-type: none"> • Managed by SME Promotion Dept.
National Export Promotion Council	<ul style="list-style-type: none"> • Not yet established
Export Promotion Fund	<ul style="list-style-type: none"> • Not yet established

Source: NIU

The existence of multiple high-level committees poses significant challenges for coordination at both policy level and the technical level. In order to further enhance the efficiency and effectiveness of existing inter-ministerial structures and taking into account limitations on human and financial resources, it is recommended that a review be made of the key roles and responsibilities of these committees, and that opportunities for further streamlining (through the possible merger of closely related functions into a smaller number of committees) are explored. Policy guidance on international trade negotiations (regional and bilateral) could be provided by NSCEI. Policy direction on attracting foreign investment could be provided by the National Investment Promotion Committee. SME and export promotion efforts could potentially be consolidated under one single structure.

A stronger public sector coordinating body is necessary to enhance the efficiency and effectiveness of public and private dialogue. Capacity-building in issue identification, research and position development, dialogue facilitation and results management needs to be provided to key business membership organizations.

At the macro level, it is important that MoIC acquires the capacities and skills to maintain coordination in trade policy formulation and trade policy monitoring, and in servicing the numerous trade-related secretariats and working groups (in particular the TPSDWG). In order to do so, better policy formulation mechanisms must be developed, ensuring timely and quality inputs to its annual and five-year action plans. This includes consultation with LNCCI and other BMOs, at provincial level, and with vulnerable groups.

5.5 Export development

In trade and export promotion there are some grey areas and possible overlap between some of the Departments, in particular between TPPD, the Economic Research Institute for Trade (ERIT) and the Department of Industry and Handicrafts. An in-depth review of the roles of each department would help shed light on potential overlap and/or gaps in export promotion support, which the various MoIC departments provide to enterprises. The main departments involved in supporting and promoting exports in Lao PDR, directly or indirectly are:

35. All three secretariats are headed by MoIC Vice Minister.

Table 11: Departments involved in export promotion

<i>MoIC</i>	
Department	Key role
Import and Export	<p>Undertake research, policy formulation and regulations related to trade facilitation issues</p> <p>Formulate and coordinate the implementation of Regulation on Imports and Exports and ensure compliance with international benchmarks</p> <p>Negotiate, administer and monitor the Rules of Origin (RoO) regimes in collaboration with Customs</p> <p>Facilitate and advocate for the removal of NTB related to trade facilitation and import and export procedures</p> <p>Provide information on import and export procedures</p>
Foreign Trade Department	<p>Undertake research and formulate policies and strategic plan for fostering international cooperation in industry and commerce</p> <p>Provide the policy and regulatory environment for promoting international trade, i.e. exports and imports</p> <p>Negotiate market access at Multilateral, Bilateral and regional level that promotes and strengthens Lao PDR export and imports</p> <p>Facilitate and support foreign trade, i.e. removal of non-tariff barriers (NTB), promote better business environment for promotion of foreign trade</p> <p>Disseminate, monitor and support the implementation of treaties, conventions, agreements or memos on industrial and commerce cooperation between Lao PDR and partner countries</p> <p>Discuss and coordinate with relevant parties (including the relevant public and business sectors at the central and local levels, and representative offices or economic-trade advisory offices of Lao PDR located in foreign countries dealing with trade negotiations, dispute resolution and cooperation) on industry and commerce with foreign countries</p>
Trade Promotion and Product Development (TPPD)	<p>The objective of TPPD is to assist Lao manufacturers and exporters in the production and marketing of their goods and services.</p> <p>The role of TPPD is to assist enterprises and the MoIC through the provision of policies and regulations and research and planning support. TPPD is also responsible for implementing the rules and regulations of the Government concerning:</p> <ul style="list-style-type: none"> • Export promotion • Trade promotion • Exhibition and trade fairs • Overseas market analysis to help Lao manufacturers and exporters to fulfil their production potential • Providing information on marketing processes to Lao and overseas businessmen

<p>ERIT</p>	<p>ERIT is a department within MoIC. Its core mission is to serve as a researcher and policy advisor as well as an advisory body for the Ministry. It also provides support to enterprises in the form of market information and capacity building. The main activities of ERIT are:</p> <ol style="list-style-type: none"> 1. Supporting MoIC with advice on issues relating to WTO accession, AFTA implementation, and trade policy reform 2. Conducting research on trade-related economic issues relevant to Lao PDR 3. Formulating strategies for promoting and developing Lao domestic and international trade 4. Conducting research and providing advice on commercial law reform 5. Conducting training on economic and legal factors related to trade and business issues, marketing, human resources, tourism, and e-commerce, based on requested of clients 6. Organizing and providing training for trade-related capacity building in Lao PDR
<p>Industry</p>	<p>Facilitate investment into and development of the manufacturing sector</p> <p>Industry is responsible for the promotion of the handicraft sector</p> <p>Support to productive sector</p> <p>Policy regulation for the wood production sector</p> <p>Industrial Development Zones</p>
<p>SME Promotion and development Office</p>	<p>Set up to “promote sustainable growth of small and medium sized enterprises aiming at expanding commercial goods production, trading and service business activities,” SMEPDO has five operational divisions:</p> <ul style="list-style-type: none"> • Planning and Cooperation • Policy Research • Promotions • Productivity • Administration <p>SMEPDO is responsible for providing policy and regulatory support to the SME sector, and for coordinating and implementing projects that support SMEs</p>

Most importantly, the coordination role of the MoIC with key line ministries in the areas of Export Promotion remains problematic. This is particularly evident between the MoIC/TPPD and line ministries responsible for the sectors, such as the Ministry of Agriculture and Forestry.

In order for the MoIC to fulfil its export promotion role effectively a detailed institutional mapping and review of existing MDA needs to be carried out. It also needs to include the guidance from the NES in the establishment of a National Export Promotion Council (NEPC) and this organisation’s links to existing national committees relevant to Trade

and Private Sector. It is envisaged that the Lao National Export Strategy will be managed by the NEPC, which will serve as a tool and a platform for coordinating all export-related issues including enhancing the competitiveness of exporters and government staff.³⁶

entity responsible for policy formulation and implementation and that it would take on some of the roles and responsibilities of TPPD.

The main objective of the establishment of the NEPC is to manage the Lao PRD NES. The NEPC

Box 2: World Bank findings on Export Promotion Agencies (EPAs)

- EPAs have a positive and statistically significant impact on national exports
- As far as EPAs are concerned, 'small is beautiful'
- With regard to the type of institutional arrangements, objectives and activities that lead to a stronger impact on exports, studies suggest that EPAs should have a large share of the executive board in the hands of the private sector, but a large share of their budget should be publicly funded
- A single and strong EPA is preferred to the sometimes observed proliferation of agencies within countries
- EPAs are more effective when focusing on non-traditional exports, or have some broad sector focus (e.g., agriculture, manufacturing, tourism, high-tech)
- The use of office representation abroad has a positive impact on exports
- EPAs should focus on large firms that are not yet exporters, rather than on small firms and established exporters
- There are important decreasing returns to scale in resources devoted to export promotion, and even negative marginal returns for budgets above a certain level (estimated at \$ 1 per capita)

A World Bank³⁷ study notes that the number of EPAs has tripled over the last two decades and that most countries have made them part of their national export strategy. In the case of Lao PDR the MoIC bears the overall responsibility for Export Promotion Coordination. Whilst the various departments and division of the MoIC are all involved in export promotion-related support, the prime responsibility for facilitating and coordinating export promotion lies with TPPD. The NES proposes the set up of a National Export Agency (i.e. the NEPC) and provides broad guidelines as to the role and function of this body. The NES does not, however, provide details of the NEPC functions and composition. As mentioned above the set up of the NEPC will need to be designed taking into account the existing Lao Trade and Public-Private Dialogue Architecture. However, Annex 1 proposes one option for establishing an Export Coordination Institutional set up. This should be used as a starting point for further discussion. The key recommendation is that the NEPC should be a public/private

should serve as a Public/Private Coordination Platform for dialogue on export promotion-related issues, and for the implementation of export promotion support activities. Hence, it can be a forum for advocating and raising awareness of challenges faced by exporters, which will feed directly into national Public Private Dialogue Forums such as the Lao Business Forum and/or to Government authorities via the appropriate formal channels such as NSCEI or the Business and Export Competitiveness Secretariat. The NEPC will provide an interface between the BMOs and apex Private Sector Organizations such as the LNCCI and public authorities. Annex 1 elaborates further on a possible structure of the NEPC.

5.6 WTO accession

5.6.1 Progress on WTO accession

Lao PDR is at an advanced stage of accession. By the mid-2012, the country had completed eight working party meetings and concluded bilateral negotiations on both goods and services with all negotiating partners.³⁸ Over this period,

36. NES pg 27.

37. Lederman, D., M. Olarreaga and L. Payton 'Export Promotion Agencies: What Works and What Doesn't' Development Research Group, World Bank, Washington, D.C. <http://federation.ens.fr/ydepot/semin/texte0809/OLA2008EXP.pdf>.

38. Lao PDR completed bilateral access negotiations with Australia, Canada, China, Japan, DPR Korea, and Chinese Taipei, USA and the EU, while the negotiations with Ukraine are at the advanced stage.

See http://www.wto.org/english/news_e/news11_e/acc_lao_29jun11_e.htm.

members sought clarification and commitment from Lao PDR on a range of issues including state ownership and privatization, trading rights and licensing, customs valuation, rules of origin, pre-shipment inspection, export subsidies and taxes, investment regime, SPS, TBT, agricultural policy, and intellectual property. To date Lao PDR has responded to some 1,000 questions raised by WTO members and submitted action plans to achieve WTO-compliant trade legislation (see progress in Table 12). In June 2011, members reached consensus on beginning to draft the working

As part of its WTO accession Lao PDR has reviewed and enacted some 20 trade-related laws and 40 other legislations since 2000. Recent enactments include the Decree on Import and Export, Decree on Rules of Origin, Decree on Prices, Law and Decree on Investment Promotion, Ordinance on Foreign Exchange, Law on Livestock and Veterinary Matters, Law on Plant Protection, Law on Fisheries, and the Tax Law. In the pipeline to be revised or adopted in 2011-2012 include the laws on intellectual property, customs, telecoms, insurance, Bar Association and law making. To

Table 12: Progress on WTO accession

Progress on multilateral negotiations	
Jul 1997	Application
Feb 1998	Working Party Establishment
Mar 2001	Memorandum submission
Oct 2003-Mar 2011	Questions and Replies, Checklists and Action Plans: First-Latest
Oct 2007-Jun 2009	Factual Summary: First-Latest
Aug 2010	Elements of Draft Working Party Report (EDWPR)
Oct 2004-Mar 2011	1st Working Party
Nov 2006	2nd Working Party
Nov 2007	3rd Working Party
Jul 2008	4th Working Party
Jul 2009	5th Working Party
Sep 2010	6th Working Party
Jun 2011	7th Working Party
Progress on bilateral access negotiations	
Nov 2006	<u>Goods</u>
Aug 2010	Initial offer Latest offer (fourth submission)
Oct 2007	<u>Services</u>
Jul 2010	Initial offer Latest offer (fourth submission)

Source: Foreign Trade Policy Department, Lao PDR.

party report, the main document describing trade regime and legal commitments to be undertaken by Lao PDR. Normally a few more working party meetings are needed to revise the draft report before it is accepted by members and then ratified by its National Assembly.

finalise the accession package, Lao PDR is expected to face high demands on legislative review to ensure compliance with WTO rules. From the experience of other recently acceded members, such as Cape Verde and Tonga, contentious issues at this juncture may include trading rights, customs valuation and intellectual property. As an LDC, WTO members may show some flexibility for Lao PDR on implementing the SPS and TBT agreements, but their transparency aspects are to be addressed.

Resources and inter-ministerial coordination will be critical to concluding and implementing the negotiations. In addition to technical negotiations, multitasking, such as high profile lobbying for political support from members and development partners and intensifying negotiations by electronic means, is key to a successful conclusion.

5.6.2 Expected benefits of WTO accession

Lao PDR should use the opportunity of WTO accession and regional integration to strengthen and improve trade policy institutions and coordination. However, the successful conclusion of WTO accession sets the beginning of Lao PDR's obligations to comply with WTO rules and commitments. All ministries and governmental agencies need to continue cooperation and enhance efforts to ensure compliance with the Lao PDR's new international obligations. The principles of rule and non-discrimination will help create an enabling business environment. The threat of higher external competition will help to stimulate both import-competing and export-oriented industries. Finally, Lao PDR can use the market access negotiations to improve exporters' access to critical services inputs and to comprehensively identify defensive interests.

For Lao PDR, market access is not a chief benefit of WTO accession. Unlike China or Vietnam whose export potential at the time of accession was significant, Lao exporters have already been granted most-favoured nation (MFN) access and Generalised System of Preferences (GSP) from most developed and developing countries except the US (with which a bilateral agreement has been signed).³⁹ Hence membership would only give Lao PDR the assurance that at the minimum its goods will continue to receive MFN treatment in the future. In addition, and more importantly, as ASEAN and China account for the majority of exports, Lao PDR receives preferential access to regional markets under the AFTA as well as a variety of bilateral agreements. As an LDC, Lao PDR could benefit from special and differential treatment under various WTO agreements, ranging from customs valuation to intellectual property, including flexibility under Agreement on Trade-Related Aspects of Intellectual Property Rights (WTO) (TRIPS) to enable access to patented

medicines through either compulsory licensing or importing from cheaper generic producers. Lao trade negotiators need to retain this flexibility over the course of accession.

WTO accession can be an anchor for internal reform. International integration helps policymakers resist protectionist pressures from domestic vested interests, thereby supporting internal reforms that benefit the overall economy. This is a central benefit of WTO entry and the broader movement towards international and regional integration for Lao PDR. The country can use accession to lock in trade policy reforms in the transition towards a market-oriented economy. China, for example, changed over three thousand laws and regulations at the central level to make them fully compliant with WTO agreements. At the provincial level, 190,000 regulations were amended. The service sectors are particularly relevant in this regard, as they relate to areas where state intervention is deeper and more frequent. For that reason obligations and commitments are likely to play a key role in keeping momentum for economic reform.

Another benefit of WTO membership is access to the WTO dispute settlement system, which gives Lao PDR an avenue to address unfair trade measures. Equal treatment compensates for small economies' lack of political power in trade disputes with richer partners. For example Vietnam won an anti-dumping case against the US on shrimp.⁴⁰ However the mechanism is costly and challenging in terms of the capability for effective litigation.

Greater transparency through membership of the WTO and the impact of domestic reforms to ensure compliance with WTO principles assists in attracting increased and 'quality' investment. A number of WTO (and ASEAN) agreements require Lao PDR to increase transparency on regulations, such as by establishing enquiry points on SPS, TBT and services, as well as publishing trade-related regulations. Newly instituted measures or changes to measures that affect trade must be notified to trading partners and published for traders to adjust their practice accordingly. The Lao PDR trade portal currently in development represents good progress in this regard, but continued operation and updating will be critical. This

39. Lao PDR obtained MFN access from the US, known as normal trade relations (NTRs), from February 2005. Unlike other GSP schemes, it will only be granted by the US if Lao PDR fulfils certain requirements, one of which is membership of the WTO.

40. In early 2010 Vietnam challenged the US concerning anti-dumping measures imposed on its frozen shrimp. The Panel report, circulated 11 July 2011, found the use by the latter of zeroing calculation and methodology was inconsistent the Anti-dumping Agreement. See US-Viet Nam: Shrimp case (DS404).

increased transparency helps create an investment climate that is more predictable and that reduces transaction costs for importers, exporters and investors. The pending law on laws will require all legal normative documents of general application to be published in an Official Gazette before coming into effect, and for there to be 60-day public comment periods for draft Laws.

WTO membership also gives Lao PDR a seat at the multilateral negotiating table. As a small country Lao PDR does not have much leverage in negotiating trade deals bilaterally with trading partners. But after joining the WTO, it could align its positions with negotiating groups such as ASEAN, LDCs and recently acceded members that share interests, be they defensive or offensive, to make its voice louder. A number of countries have formed coalitions in the WTO. These groups often speak with one voice using a single coordinator or negotiating team.

5.6.3 Challenges

An enterprise survey jointly conducted by MPI, SMEPDO, MoE and LNCCI in 2009 revealed that only half of enterprises in Lao PDR were aware of WTO and ASEAN. The proportion was even lower for smaller and micro-sized categories. It is crucial for the business community to understand the post-WTO environment and to understand how they should prepare themselves. This also highlights the importance of information dissemination to wider stakeholders, including line departments and the provinces. This will in turn help avoid breaching commitments.

Experience from other countries demonstrates that the structure of a country's trade policy-making institutions shapes policy outcomes. Lao PDR will benefit from trade agreements if it constructs a policy process that focuses on trade as a means of achieving economic policy objectives. This will require improving inter-ministerial coordination, reorienting units of the Foreign Trade Policy

Department along functional lines, strengthening institutions for public engagement and increased clarity on the role and linkage of trade in the NSEDP.

Inter and intra-ministerial coordination is absolutely essential in an effective trade policy process. This is because trade agreements and the policies that can influence a country's competitiveness exceed the scope of any single ministry. Although the Government has already put in place an inter-ministerial National Steering Committee for economic integration, there is room for improved coordination. This must emanate partially from the perceived status of trade in the national development policies and plans, and partially from the effective use and streamlining of consultative mechanisms. Lao PDR is not alone in this regard; similar problems affect trade policy development in most countries. To overcome such issues, a country must strengthen coordinating mechanisms at two levels. At the top, a subset of the cabinet of ministers, chaired at the deputy prime minister level, should oversee trade negotiations at the multilateral and regional level. As Lao PDR moves into the final phase of accession, direct involvement from the top levels of political leadership will be needed to broker compromises across ministries and monitor their implementation. At the operational level, the inter-ministerial task force working on accession may need to be expanded and its members given the authority and budget to support trade negotiations on a broader basis (also including ASEAN and other relevant agreements). The trade negotiating machinery for the WTO is different to that within ASEAN, leading to potential differences and inconsistencies in commitments and implementation. At the technical level, there also needs to be increased coordination in participation, commitments and servicing in various trade agreements.



Figure 10: Trade issues being discussed and negotiated under WTO accession



Service liberalization may also present challenges. Recently acceded countries have to pay a higher price for WTO entry. For example, out of a total of 160 service subsectors, Cambodia committed to 110, in contrast to 24 subsectors made by existing LDC members. Lao PDR is facing pressure to liberalize at a similar level. Different sectors present different opportunities and challenges.

The Lao economy can benefit from liberalizing services sectors that are inputs to other sectors. Foreign providers of business services (for example, market research and consulting) can help Lao exporters take advantage of external market access opportunities and identify new markets. Liberalisation in other sensitive sectors, such as financial and distribution services, should be accompanied by the development of a sound regulatory framework. It is not advisable to resist liberalization merely on the ground of sensitivity for all sectors. Lao policy makers need to carefully reflect what sectors can be liberalized upon accession, or whether a transition period could address the concern. In some sectors – notably the professional services, health, and education – the existence of professional standards or credentials gives consumers greater assurance of the technical competence of service providers. Developing new credentialing procedures or harmonizing existing standards with those prevailing in the exporting country can help Lao consumers benefit from liberalization in these sectors. Here, developments should be synchronized with progress in the ASEAN Economic Community as far as possible. Service liberalization should also introduce considerations on sequencing. In the first place, clear regulatory procedures are more likely to yield better results in terms of attracting more efficient service providers. Secondly, while there is an argument to be made about openness in most service sectors, initial priority should be given to those ‘infrastructure’ services that may deliver higher impact on competitiveness and serve as inputs for other industries (for example, telecom, banking and transport). In addition, liberalization should be accompanied by the establishment of an adequate regulatory framework.

Research elsewhere suggests that there are large macroeconomic gains to be made through the liberalization of backbone services such as transportation and telecommunications, as long as they are regulated effectively. Since all sectors

of the economy use these services, reducing costs through greater competition increases the productivity of the economy as a whole. Yet many of these sectors are also subject to well-known market failures. In these cases, external liberalization must be sequenced with regulatory reform (such as establishing independent regulators, developing prudential regulations and ensuring universal service), privatization, and de-monopolization. Note also that liberalization does not mean deregulation. Aid for service trade should be strategized and requested to support the necessary regulatory reform. Lao PDR needs to work through the list of service sectors and, in each sector, meet with enterprises and other stakeholders to identify the costs and benefits of liberalization. They will also need to sit down with the Ministry of Justice, the National Assembly and other regulators to identify and put in place proper laws and regulations that govern trade in each service.

5.6.4 Conclusions on WTO

Joining WTO is not an end in itself – it is just the beginning. The true benefits will arise if Lao PDR takes accession negotiations seriously and implements the obligations accordingly. Post-WTO preparations should also start immediately.

(i) Tariff phase-in and alternative measures

As part of accession, Lao PDR is expected to bind and reduce its tariffs for all agricultural and industrial products. A grace period may be required, in particular for products that are sensitive to domestic production or affecting government revenue. Alternative measures that are legal under WTO need to be put in place to address difficult situations. These measures include the use of safeguards, such as tariffs and quotas in specified circumstances, anti-dumping duties on goods that are deemed to be dumped, and countervailing duties imposed to counter import subsidies. WTO also allows policy options, including the renegotiation of tariff commitments, the use of export taxes, and increases in tariffs up to their legal maximum ceiling.

(ii) Rule-making obligations

From the experience of recently-acceded members, Lao PDR could seek transition periods to amend or implement its legal reform commitments in several areas, including on trading rights, investment

measures, customs valuation, SPS, TBT and TRIPS. The duration depends on what is negotiated, which is partly dependent on the benchmarks made by recent LDC and developing country members. China had four years to fully liberalize its trading rights while Nepal received three years to fully implement its SPS and TBT obligations. It is crucial for Lao PDR to outline what steps are to be made and to provide a rationale as to why such a time span is credibly necessary. However, as a rule of thumb Lao PDR has to implement upon its accession, if not before, key obligations that directly affect trade flows, including such general principles as MFN, national treatment and transparency, and specific obligations under various agreements (for example, import licensing, rules of origin). Attention needs to be placed on ensuring the maintenance of flexibility for LDCs, including on agricultural subsidies (for example, Green box, de minimis, development box), export performance subsidies, export duties and public health under TRIPS.

(iii) Raising supply and export capacity

WTO membership provides export opportunities, but in reality Lao PDR already has considerable market access. The true benefits will only occur if the country can overcome its supply constraints, many of which are addressed elsewhere in the DTIS. Like other LDCs, Lao PDR has a low rate of Generalised System of Preferences (GSP) utilization. Investment is needed in infrastructure and export supply capacity. Given the constraints in government funding and domestic investment, international cooperation and assistance from donors can play a key role.

(iv) International cooperation

Lao PDR has already joined international organizations on standards setting: the International Standard Organization (ISO); Codex Alimentarius; the International Plant Protection Convention (IPPC); and the World Organization for Animal Health (OIE). It is also a member of and benefits from capacity building programmes of the ADB, the International Monetary Fund (IMF), World Bank, World Customs Organization (WCO) and the World Intellectual Property Organization (WIPO). Without improved trade facilitation the Lao economy will not benefit from the improved market access that comes from membership. Lao PDR can use the requirement to comply with the

WTO customs valuation agreement and other international conventions to advance the pace of customs modernization. It can also tap into specialized technical assistance to benefit from the trade facilitation programme under discussion at the WTO (See chapter 8 on Trade Facilitation). The Government could also advance the benefits of ASEAN integration including on harmonizing standards and single window implementation, as discussed in the next section.

5.7 Association of Southeast Asian Nations (ASEAN)

Lao PDR formally joined the ASEAN Free Trade Agreement (AFTA) on trade and external tariffs in 1997, and since then has been an active participant in regional trade negotiations, the creation of the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Economic Community (AEC) blueprint. ASEAN covers a region of great strategic and geographic significance, with a combined GDP of \$1.8 trillion in 2010 and a total population of 592 million. While this means for Lao PDR a ready market, opportunities to liberalise within the specific confines of near countries, it also means increasingly direct challenges related to liberalisation.

5.7.1 Trade in goods

The AEC Blueprint envisages the ambitious implementation of the AEC by 2015, and despite the impact of the global economic crisis the 2015 target remains a priority. For Lao PDR, this includes the implementation of a number of commitments in preparation for the AEC, as well as the prospect of increased competition for domestic businesses as tariffs fall.

In Lao PDR, regional trade plays a major role, as ASEAN countries account for over two thirds of total Lao merchandise trade. ASEAN wants to form the AEC by 2015 and in doing so transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital.

However, ASEAN integration has not received adequate attention in past years and as the deadline of 2015 approaches the Lao Government and private sector are not sufficiently prepared for this ambitious task.

As the mainstay of pillar 1 of the AEC, ATIGA entered into force on 1 January 2010. This led to all

tariffs for products in the Common Effective Preferential Tariff (CEPT) Inclusion Lists of ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand), representing 99.65 per cent of total tariff lines, being eliminated for intra-ASEAN trade. Likewise, Lao PDR's commitments lead to 98.86 per cent of all tariff lines resulting in ASEAN entry duties of between 0 and 5 per cent. It is unclear to what extent domestic industry and revenue will be directly affected by these changes. Ongoing work by the World Bank using the Tariff Reform Impact Simulation Tool (TRIST) model on Lao trade data and the ATIGA schedules will be useful in targeting measures to affected sectors and defining adjustment measures.

Despite, and perhaps as a consequence of the success in implementing tariff reductions on regional trade, Non-Tariff Barriers (NTBs) are going to play an increasingly important role in trade. Lao exporters may find that hitherto unenforced NTBs in other ASEAN countries, such as in the areas of SPS and TBT, now become greater obstacles. Lao PDR will have to maintain an active involvement dialogue on potential and existing forms of NTBs in order to protect this market access. Historically, this has included the Guidelines for the Implementation of Import Licensing Procedures (ILP) in ASEAN, pilot exercises on self-certification, and reform of Rules of Origin (RoO). Compliance in the area of standards and conformity is very low, which poses a serious obstacle to Lao business.

Within the framework of the AEC, Lao PDR has: ratified ATIGA in 2009; submitted a full tariff reduction schedule, including a sensitive products list up to 2015; set up institutional infrastructure and developed a specific action plan for improving trade facilitation and promulgated necessary legislation on RoO. However, the actual implementation of the policy and legislation (such as implementation of a pilot project on self-certification of RoO, removal of remaining non-tariff barriers, the development of a National Single Window [see chapter 8 on trade facilitation], the adoption of ASEAN cargo processing model and transit system, and other measures to facilitate trade) remains challenging due to limited implementation capacity and issues related to inter-agency coordination.

5.7.2 Trade in services

Service liberalisation continues to be undertaken progressively under the ASEAN Framework

Agreement on Services. ASEAN has now completed seven packages of commitments from five rounds of negotiations since the ASEAN Framework Agreement on Services (AFAS) was signed in December 1995. In the area of service liberalization, work is progressing on the completion of the 8th Package of Commitments under the AFAS, which will have no restrictions on cross-border supply and consumption abroad (Modes 1 and 2, respectively), include foreign equity participation of 51 per cent or more on commercial presence (Mode 3), and remove other restrictions in 80 subsectors. An ASEAN Agreement on Movement of Natural Persons is also being negotiated. In financial services, the 6th Round of Negotiations has been launched. In air transport services, the 7th Package of AFAS Commitments in Air Transport has been signed by the ASEAN Transport Ministers. However, a considerable amount needs to be done to achieve full completion of this package if by 2015 the unimpeded flow of services is to be achieved. Major challenging factors in the scheduling of AFAS commitments in many countries, including Lao PDR are: (i) member states have faced difficulty in making further commitments due to legal constraints; (ii) engaging with private sector stakeholders domestically is difficult; (iii) Movement of Natural Persons (Mode 4) is the most sensitive services mode of supply in the AFAS process. Lao PDR has already completed the 7th package and is in the process of completing the 8th package of commitments, under which some remaining sub-sectors will be discussed further. However, Lao PDR's positive efforts towards regional integration need to be carefully managed and be part of a broader sector development agenda that emphasizes competition, sound regulation and widening of access to services. While in the telecom and transport sectors the existing restrictions may prevent Lao PDR from maximizing the benefits, in the financial sector a gradual approach may provide an opportunity to build necessary regulatory capacity. Lao PDR could benefit more from building stronger links between the domestic sector development agenda with efforts in liberalizing the sector through regional integration, which is supplemented by the requisite technical assistance.

5.7.3 Investment

The ASEAN Comprehensive Investment Agreement (ACIA) was signed on 26 February 2009 in Cha-am, Thailand, and covers the protection, promotion and liberalisation aspects of investment in one single instrument and brings ASEAN's investment agreement more into line with the investment provisions in ASEAN's bilateral free trade agreements. It also provides for equal treatment for ASEAN investors and ASEAN-based foreign investors. Full implementation of the ACIA will require Lao PDR to develop a coherent national investment promotion and facilitation strategy, including improving the overall investment climate in Lao PDR, and effective coordination between relevant central agencies involved in investment promotion and between central and local institutions. Lao PDR is one of eight ASEAN member states that have ratified ACIA.

5.7.4 ASEAN Connectivity

The ASEAN Master Plan on ASEAN Connectivity is a key component of developing a competitive regional economy and a key part of AEC Pillar 2. The regional Plan of Action on Competition Policy 2010-2015 is currently under design and development. Based on the AEC Blueprint, this Plan will be drawn up with a special focus on capacity building and the introduction of best practices in competition policy and law (CPL). The Lao PDR Competition Law currently scheduled for submission to the National Assembly in 2014 should link closely to the development of the ASEAN Competition Policy. Lao PDR can make use of the planned Manual and related Action Plans on Regional Core Competencies, and the Strategy and Tools for Regional Advocacy on Competition Policy and Law.

In relation to the third AEC pillar on equitable economic development, the ASEAN SME Working Group, together with the ASEAN Business Advisory Council have worked to include the SME award category in the annual ASEAN Business Awards (ABA), in recognition of the contribution of the SMEs. Further, the "Directory of Outstanding ASEAN SMEs 2011", which lists recognised SMEs in each Member State, will provide the opportunity for SMEs to network within ASEAN and with Dialogue Partners. In addition, efforts to narrow the development gap continued to focus on addressing under-development in the

Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) group, as well as Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). A mapping exercise is being considered to identify areas where the sub-regions and ASEAN can complement each other's initiatives to achieve the goals and visions of both sides. In connection with this, the Economic Ministers have agreed to give more attention to the work on the 3rd pillar of the AEC Blueprint, and have come up with the "Framework/Guiding Principles for Equitable Economic Development", which includes new elements of high-impact targets and quick wins, and goes beyond 2015. The Lao Government initiated programmes that aim to support developing the capacity of local SMEs about a decade ago and recently funding from both development partners and the Government to support SME development has increased significantly. However, a specific programme designed to support local SMEs to take advantage of emerging opportunities from regional integration is still lacking, and awareness of local SMEs of opportunities and threats from regional integration is still limited.

Significant developments have taken place under the fourth pillar of the AEC, including the realisation of the free trade arrangements ASEAN had negotiated with its Dialogue Partners. These include the realisation of the ASEAN-China Free Trade Area (ACFTA), AJCEP, the ASEAN-Korea Free Trade Area (AKFTA), and the entry into force of the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) and the ASEAN-India Trade in Goods Agreement on 1 January 2010. Under the ACFTA and the AKFTA, at least 90 per cent of all tariff lines are now subject to zero tariffs. ASEAN has also agreed to explore with the Gulf Cooperation Council (GCC) countries the framework arrangement on trade, investment and economic cooperation. In integrating into the global economy in a coherent manner, especially with the Free Trade Area Partners, and to enable ASEAN to intensify efforts towards strengthening ASEAN Centrality to ensure that it remains the driving force in the rapidly evolving regional architecture, ASEAN is now developing the ASEAN ++ FTA Template for possible negotiations. It is unclear what effect these new agreements will have on Lao PDR and further diagnostic work is required.

5.7.5 Challenges

Lao PDR faces challenges in ensuring adequate capacity to fully engage with larger trade partners in ASEAN, delays in the ratification of agreements and problems in the implementation of agreements, and requires further strengthening of inter-ministerial cooperation. Under Phase I of the implementation of the AEC Blueprint, 17 measures are yet to be implemented in ASEAN, most notably on ACIA, three service liberalization measures, and 13 measures on the ratification of transport agreements and their protocols. Under Phase II, there have been delays in implementing key initiatives in customs integration, standards and conformance, services, investment, transport, consumer protection, and commitments to the ASEAN Plus One FTAs.

The lack of effective coordination among the sectoral bodies responsible for integration limits not only the timely implementation of AEC initiatives and measures, but also effective preparations for outstanding negotiations. The concurrence and cooperation of all relevant sectoral bodies directly responsible for the various AEC initiatives needs to be secured both at the planning and implementation stages. There is also a need for closer internal inter-ministerial/agency coordination at the national level, including coherence with participation in other agreements, such as the WTO and GMS, to ensure ASEAN programmes are translated into national policies.

A lack of information and understanding by SMEs on the benefits of regional integration and FTAs with Dialogue Partners is also leading to the low utilization of AEC implementation. Therefore, some form of policy coordination is crucial for addressing these issues in order to realise the AEC. Supporting business to prepare for the joint market will be key to ensuring that the Lao economy maximises the net benefits of regional integration.

5.7.6 Future directions

Using the recent review of the AEC Scorecard and stock taking exercise, Lao PDR should actively address the non-implementation of regional commitments, which should include: capacity building to tackle any inadequacies in implementing commitments; peer reviews for sharing and learning from best practices, transparency and confidence-building; and using the dispute settlement mechanism already in place to resolve issues in a rules-based manner.

The Lao private sector must be the principal driver of regional economic integration, and its active participation must be ensured. Active (and pro-active) participation in ASEAN cooperation mechanisms should provide greater opportunities for businesses, especially SMEs, to understand and actively engage in the ASEAN economic integration process. The results brought about by the AEC should reflect the aspirations of and yield dividends to ASEAN businesses and people.

5.8 Bilateral trade agreements

Lao PDR has signed bilateral trade agreements with 15 countries: Argentina, Belarus, Cambodia, China, India, DPR Korea, Kuwait, Malaysia, Mongolia, Myanmar, the Russian Federation, Thailand, Turkey, Vietnam and the United States. Most of these agreements focus on the provision of MFN treatment because Lao PDR is not a member of the WTO, and upon Lao PDR's accession they may lose relevance. In addition, Lao PDR has signed economic cooperation agreements with the European Union (EU), Indonesia and the Philippines. Three draft Trade and Economic agreements and one Agreement on Economic and Technical Cooperation are under consideration including with Lebanon, Pakistan, Ukraine and the Seychelles. The most important bilateral agreements with respect to current trade are those with Lao PDR's neighbours – Vietnam, China and Thailand. These are important, particularly with regard to agreements on commodity and border trade.

Table 13: Bilateral trade agreements

No	Countries	Signing Date	Validity	Key Principle
1	Argentina	11 Dec 2002	5 years, automatically renewed annually unless any party conveys a nullify notice 6 months in advance.	Economic and Trade Cooperation. The decision on establishment of Joint Economic Commission.
2	Belarus	30 Aug 2001	3 years, automatically renewed for 3 years unless any party conveys a nullify notice 6 months in advance.	MFN treatment in trade in goods, except in customs union or free trade areas or economic cooperation.
3	Cambodia	12 May 1998	5 years, automatically renewed for 5 years unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in customs union or free trade areas or economic cooperation.
4	China	11 Jun 1997	5 years, automatically renewed annually unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in customs union or free trade areas or economic cooperation. Facilitation of border trade.
5	India	9 Nov 2000	5 years, automatically renewed for 5 years unless any party conveys a nullify notice 6 months in advance.	MFN treatment in trade in goods, except in customs union or free trade areas, border trade, preferences among developing countries.
6	DPR Korea	2 May 1997	5 years, automatically renewed annually unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in customs or free trade areas or economic cooperation.
7	Kuwait	5 Aug 2008	5 years, automatically renewed for 5 years unless any party conveys a nullify notice 6 months in advance.	MFN treatment in trade in goods, except in border trade, customs union or free trade areas, and multilateral economic integration. Facilitating transit trade. The decision on establishment of Joint Economic Commission.
8	Malaysia	11 Aug 1998	5 years, automatically renewed for 5 years unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in border trade, customs union or free trade areas, and multilateral economic integration. Facilitating transit trade.
9	Mongolia	25 Jan 1990	5 years, automatically renewed for 5 years unless any party conveys a nullify notice 6 months in advance.	Promotion and facilitation of bilateral trade.
10	Myanmar	8 May 1995	1 year, automatically renewed annually unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in customs union or free trade areas or regional economic cooperation.

11	Russian Federation	22 Apr 1976	Effective on 7 Sep 1976, unless any party conveys a nullify notice 6 months in advance.	Plan to review and renegotiate
12	Thailand	20 Jun 1991	5 years, automatically renewed unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods, except in GATT or regional association. Lao PDR accorded preferential access to 23 products from Thailand.
13	Turkey	7 Apr 2008	5 years, automatically renewed annually unless any party conveys a nullify notice 6 months in advance.	MFN treatment in trade in goods, except in border trade, customs union or free trade areas, and multilateral economic integration. Facilitating transit trade. The decision on establishment of Joint Economic Commission.
14	Vietnam	9 Mar 1998	5 years, automatically renewed annually unless any party conveys a nullify notice 3 months in advance.	MFN treatment in trade in goods and services (except items in exemption list), trade facilitation, and payments for foreign trade.
15	USA	18 Sep 2003	Initially valid for 3 years, extended for a 3-year interval unless any party conveys a nullify notice 30 days in advance.	MFN treatment in trade in goods, trade in services and intellectual property rights. Lao PDR offers preferential market access to US goods, services and services providers while the US accords MFN status to Lao PDR.

Source: modified from Latthana, D, B. Vilavong, and S. Phounesavath (2007) 'Addressing the impact of the phasing out of textiles and clothing quotas in Lao PDR', Vientiane: National Statistics Centre.

In order to monitor and facilitate trade and economic cooperation, Lao PDR has set up a Joint Commission with key trading partners. Currently, there are 16 joint commissions, five of which are active. With some trading partners, a subcommittee at the ministerial and provincial level has been set up.

In addition, Lao PDR and its neighbours, Thailand, Vietnam and China, have been promoting border trade at the local level. Lao PDR and Vietnam hold regular annual meetings to discuss issues related to border trade, and Lao PDR and Thailand are actively promoting cross-border contract farming and are currently developing the necessary legal framework. China has unilaterally liberalized its market for Lao products and is actively promoting border trade under the Chinese New Economic Development Agenda on "vitalizing border areas,

building a well-off society, benefiting the nation and bringing stability to the country." Currently, there are two forms of border trade:

Goods exchanged by border residents: refers to trade involving goods that are below the government-designated market's amount or quantity for residents residing within 20 kilometres of the boundary line.

Border trade in small amounts: refers to trade activity between enterprises or trading organizations along the borders of neighbouring countries. For instance, Chinese enterprises that are granted operational rights to trade in small amounts in the administrative areas of open border counties or towns along the boundary line. The principal legal basis for China's border trade policies is the Law on the Regional Autonomy for Ethnic Minorities of PRC, Foreign Trade Law of

PRC. Article 42 of the Foreign Trade Law of PRC stipulates that “the State applies flexible measures, provides favourable conditions and convenience to the trade between the towns on the frontier and those towns of neighbouring countries on frontier as well as trade among border residents.” According to the Circular of the State Council on Issues Covering Border Trade promulgated in 1996, goods (those for daily consumption only) imported as exchanged goods by border residents and valued at less than RMB⁴¹ 8,000 (equivalent to about US\$1,270) per person per day shall be exempt from import tariffs and value-added tax. In case the amount exceeds RMB 8,000, the excess amount shall be taxed accordingly. On the other hand, the import of commodities is subject to the State quota and licensing system, or quantitative restrictions. The foreign trade and economic administrative departments of border provinces and regions shall be responsible for issuing import licenses.

In addition, the governments of Lao PDR and China are aiming to cooperate on agricultural co-production in northern Lao PDR. Both sides signed the Framework of Cooperative Agreement on Banned of Illegal Transportation and Abuse of Narcotics Drugs and Psychotropic Substances between Lao PDR and China on 19 November 2006, and are negotiating an MOU to promote production of crops as substitute to opium poppy cultivation. Under the framework the two parties shall provide preferential import and export policies for certain material needed in the crop substitution projects and agricultural products produced under these projects.

5.9 Recommendations

In order to take full advantage of its regional and international economic integration, Lao PDR should consider the following:

- Take comprehensive measures to improve the productivity of the manufacturing and service sectors by adopting an overall policy to encourage public and private partnership in skills development.
- While pursuing the medium- to long-term goal of developing foundations for a competitive market economy, there is a need to strengthen public private policy dialogue at central and provincial levels to identify and remove specific legal and

regulatory obstacles facing key manufacturing and service sectors.

- Ensure that trade facilitation is considered during trade negotiations. Given the reduction in tariffs and heightened global competition, non-tariff and behind-the-border issues will become increasingly important in enhancing the flow of trade and in trade diversification in Lao PDR.

(i) Multilateral integration under WTO

- Leverage WTO accession to support domestic reform programmes, emphasizing competition, sound regulation and policies to widen access to services in key service sectors such as finance, telecommunications and transport.
- Mobilize external assistance to support priority domestic reform programmes, including implementing commitments made in the accession process, specifically in areas such as Customs, trading rights, trade remedies, SPS, TBT and IPR.
- Improve inter-ministerial coordination in defining negotiation positions and the implementation of accession commitments.
- Increase public awareness of opportunities and challenges arising from WTO accession through the publication of guidebooks, bulletins and workshops and seminars.

(ii) Regional integration under ASEAN

- Create awareness among high-ranking officials of the progress of the implementation of AEC measures, the challenges and limitations faced by responsible agencies, and what needs to be done to achieve full implementation (stock-take exercise). This is aimed at aligning the understanding of high-level policy makers with that of technical staff to reduce bureaucratic bottlenecks during the implementation process.
- Improve systems of monitoring and overseeing the progress of AEC measure implementation, by regularly organizing consultative meetings among stakeholders from both the public and private sectors of each core measure to ensure regular feedback. In addition, the overall progress of the AEC blueprint implementation should be disseminated to the public on a timely basis.
- Strengthen the coordination mechanisms between the public and private sector and among

41. Renminbi (RMB) is a Chinese currency.

stakeholders to ensure that public and private partners are closely linked and stakeholders communicate with each other regularly.

- Each responsible agency needs to formulate a detailed action plan indicating priority activities, including the allocation of technical staff.
- Ensure institutional strengthening, human resource development and capacity building.
- Increase awareness among the business community of emerging opportunities and threats from regional integration, and actively seek support from ASEAN 6 and other development partners to build the capacity of the domestic private sector to enable maximization of the benefits of integration.

(iii) Bilateral integration

- Be more proactive in negotiating bilateral agreements, taking into account products and services in which Lao PDR has a comparative advantage relative to the markets of negotiating partners.
- Rationalize bilateral negotiations based on potential market access opportunities for Lao products.
- Use trade negotiations to promote incoming foreign direct investment.
- Disseminate information on existing BTAs with the general public, especially the business community, at both central and local levels.



6. MAINSTREAMING TRADE AND PRIVATE SECTOR DEVELOPMENT IN NATIONAL DEVELOPMENT STRATEGIES

6.1 Introduction

Despite Lao PDR's remarkable progress in GDP growth, attracting FDI and poverty reduction, trade seldom appears as a core focus area in development plans and strategy documents, such as the Party's four Breakthrough Areas, the 7th five-year National Social and Economic Development Plan (NSED) covering 2011-15 and Vision 2020. Trade is often referred to under different headings or sections, being seen as part of development rather than as a primary engine of economic development. Yet trade needs to become more central to the country's development plans and strategies in order to meet development goals. Trade mainstreaming helps enhance policy coherence, institutional coordination and mobilization of resources for the implementation of trade-related priorities.

Development partners have responded to the challenges and steadily increased their financial and technical support to the country's trade development agenda. Institutional mechanisms and National Implementation Arrangements (NIA) have been put in place, largely as part of the Enhanced Integrated Framework (EIF), and aid disbursement mechanisms have been improved and are more aligned with the country's governance systems. This, coupled with an aid effectiveness mechanism through the National Round Table Process (RTP) has meant that Lao PDR has been able to, in a coordinated manner, leverage more and different Aid for Trade (AFT) resources over the five years since the launch of the first DTIS in 2006.

Efforts to increase the importance of trade in national development strategies, to better define and structure the trade sector, to channel more and better-aligned resources from development partners and to allow this to happen in line with the Paris and Vientiane Declarations on Aid Effectiveness and the subsequent Country Action Plan, will undoubtedly not be linear, orderly or always far-reaching. Structuring trade development using a programmatic approach is one of the options to mitigate risks, and the

Government has already taken steps to make this happen. Yet this process must continue to be carefully planned and nationally owned. This chapter aims to contribute by discussing trade and the integration of development planning, support for development strategies using AFT and a strengthened programmatic approach to trade sector development.

6.2 Trade and the integration of development planning

6.2.1 What is trade mainstreaming?

Mainstreaming trade into national development strategies has been promoted mainly as a result of the successes registered since 2000 by the EIF initiative. The EIF is a multi-donor programme that supports least developed countries (LDCs) to be more active in the global trading system by helping them tackle supply-side constraints to trade. In this way, the programme works towards a wider goal of promoting economic growth and sustainable development and helping to lift more people out of poverty.⁴²

There is no generally agreed definition of what trade mainstreaming is, but UNDP⁴³ defines it as the "process of integrating trade into national and sectoral development planning, policymaking, implementation and review in a coherent and strategic manner. This means taking trade-related issues into account when planning and executing broader development objectives."

Trade mainstreaming should happen at three levels:

- Policy
- Institutional framework and processes
- Dialogue with development partners

Broadly speaking, trade mainstreaming involves articulating trade-related priorities to stimulate economic development, reduce poverty and attain the MDGs, then translating policy statements into operational objectives and action plans, linking strategies to resources and following through with implementation, monitoring and evaluation of results.

42. EIF Website: <http://www.enhancedif.org>.

43. UNDP Practical Guide to Trade Mainstreaming, 2011.

6.2.2 Trade mainstreaming in Lao PDR national development plans: status, challenges, recommendations

As in many developing countries, mainstreaming trade into national development policies requires the definition of a vision, likely impacts and outcomes, and a strategy broken down into actions, all carefully monitored through a number of indicators at different levels. Policy must also clarify the link between trade, economic and human development and poverty reduction. Because trade is cross-cutting in nature, this is no easy task as the trade policy cycle encompasses consultation and interaction with a wide variety of stakeholders nation-wide: a very complex task for most LDCs.

6.2.3 The trade policy development process

Through various parallel policy cycles, the Government of Lao PDR produces several documents, each with a different bearing on trade, as described in other chapters of the DTIS. Table 14 provides a non-exhaustive list of key strategies and policy documents with a bearing on trade development in Lao PDR.

documents, such as a National Trade Policy. The vast majority of respondents considered the 9th Party Congress Breakthrough Strategy and the National Socio-Economic Development Plan (NSEDP) as the overarching documents for national development.

With regard to trade, respondents indicated that the National Export Strategy (NES) and the DTIS 2006 were the two key documents defining key trade priorities. However, both documents were considered ‘donor-driven’ or ‘donor-led’ and in that context are regarded more as recommendations than strategies.

Respondents from the private sector had little knowledge of trade policy formulation mechanisms and little awareness of the wide range of trade-related and sector policies and strategies besides those for their own sector of interest. However, their knowledge of trade-related technical assistance programmes and projects, in support of sector policies or stemming from the DTIS, is surprisingly high.

Most government respondents indicated that the closest to a trade strategy was the Ministry or Industry and Commerce (MoIC) five-year action

Table 14: Trade-related strategies and policy documents

Focus	Documents
National Development Strategies	9th Party Congress Breakthrough Strategy
	Vision 2020 for graduation from LDC status
	National Growth and Poverty Eradication Strategy (2006-2010)
	National Socio-Economic Development Plan
Trade and Private Sector Strategies	Diagnostic Trade Integration Study (2006 and 2012)
	National Export Strategy
	SME Development Strategy
	Trade Facilitation Strategy
Other strategies with trade links	Legal Sector Master Plan Specific products and services strategies Banking and Finance strategy
Regional Strategies	AEC, AFTA, ASEAN sector strategies Greater Mekong Sub-region development strategies

In most interviews conducted in Lao PDR in October and November 2011 for the preparation of this chapter, respondents indicated that while trade per se was considered an important contributor to the country’s economic development, they had no or little knowledge of trade-focused policy

plan in support of the NSEDP, while in reality the MoIC five-year action plan is produced on the basis of the NSEDP rather than the other way round. The new working group on Trade and Private Sector Development has endorsed MoIC as the agency responsible for the country’s trade development agenda.

The Seventh Five-year National Socio-Economic Development Plan (2011-2015) (NSED 7) is the national development strategy, outlining the overall framework and targets for development. It maintains a strong focus on economic growth driven by international integration of the economy, the promotion of exports and the development of the private sector, and in particular SMEs. While sector-specific strategies on trade are included in NSED 7, no analysis is provided on how each policy will influence or guide the proposed NSED 7 targets.

The Legal Sector Masterplan is key in the reform process for Lao PDR and will remain important in the development of the stronger rule of law and effective rules-based systems by 2020.

In parallel, the timing of policy development does not proceed in a logical manner. A number of factors explain this asynchronous process:

- There is no clear definition of what trade is

and how it is linked to economic development, human development and poverty reduction.

- There is little clarity on the role of the lead agency in trade matters in coordinating inputs with all stakeholders to prepare trade sections of the NSED.
- A multiplicity of trade and private sector development plans, policies and strategies, with little prioritization and overview by a lead body or institution.
- The ambiguous role played so far by the DTIS and action matrix in providing evidence-based data for effective policy making and supporting the NSED

The key issues affecting effective trade mainstreaming into national development policies are summarized in Table 15:

Table 15: Issues related to mainstreaming in national development policies

Key issues / category	Description
Trade contribution to development	Trade support to development does not appear clearly in the National Growth and poverty Eradication Strategy (NGPES) or NSED, but only as components under economic growth. The mechanisms triggering human development and poverty reduction from increased domestic and international trade are unclear and not sufficiently documented. This highlights the need for better and more targeted communication on trade for different target populations. This is even more important in preparation for further domestic outreach and advocacy on the impact of accession to the WTO (for the Government, SMEs and business membership organizations [BMOs]) or participation in the ASEAN Free Trade Area (AFTA) and ASEAN Economic Community (AEC). Communication should not be the responsibility of the Government only, but shared with BMOs, Civil Society Organizations and Academia (in line with the Busan Declaration).
Multiplicity of trade-related plans/ strategies	There is no blueprint for effective trade mainstreaming into national development policies. To compensate for this, numerous plans and strategies are developed with too little inter-ministerial coordination, and little emphasis is laid on implementation, resulting in a relatively a low profile of trade in national development plans.
Stakeholder participation	While inter-ministerial mechanisms for coordination of policy exist on paper, the input of all stakeholders involved in trade – or who will benefit from increased trade development – is relative. Inter-ministerial coordination on crosscutting issues is very difficult and not result-based. Consultations with the private sector representations, small and medium-sized enterprises (SMEs) and BMOs are not participatory enough to provide meaningful data for effective trade policy making. Provincial departments and private sector representatives make repeated requests for the increased participation of provinces in policymaking.

Thrust of trade negotiations	The Government is engaged in several bilateral, regional and multilateral trade negotiations that will have a direct bearing on the future trade and business landscape. The impact of those agreements must be considered at the time of development of trade strategies, as they can provide the necessary impetus for domestic reforms.
Evidence-based policy making	Policy-makers need access to reliable data for evidence-based policy making. The generation of data and statistics remain a key challenge across the government, mainly because of a lack of research and analytical capacities in government institutions (besides research centres) and a lack of inter-ministerial coordination.

Recommendations on how to tackle the above issues and challenges can be found in the action matrix. Yet it is important to highlight that most issues can be addressed in the coming years by generally integrating trade into national development through the DTIS itself, leading to NSEDP 7. Several sectoral studies could be carried out in partnership with the Ministry of Planning

and Investment (MPI), each with a set of realistic key performance indicators and strategic outcomes. Monitoring progress towards better and stronger inclusion of trade into NSEDP should fall under the responsibility of the newly formed SWG, with support being provided by AFT resources available through the MoIC National Implementation Unit (NIU).

Box 3: Mainstreaming trade in the national development framework: The experience of the Maldives

1. The Maldives has used the Integrated Framework (IF) process to mainstream its trade agenda into national development frameworks. The findings of the DTIS were incorporated first into the country's Seventh National Development Plan (NDP) for 2006-2010 and then into the Maldivian Democratic Party (MDP) Alliance Manifesto. The NDP contained a chapter on trade, entitled "Goal 2: Enhance trade, support businesses and build competitive industries", which was one of the twelve goals identified in the Plan. The Plan also incorporated the Maldives' broader aid-for-trade agenda in "Goal 3: Invest in strategic and state of the art infrastructure to enable ease of movement, enhanced access to services and build competitive advantage", elaborating strategies for transport, civil aviation, telecommunications, information communication technology and energy. Since April 2009, the implementation of the NDP has been suspended and replaced by the MDP Alliance Manifesto as the Government's development plan for 2008-2013. At present, an Action Plan is being prepared to implement the commitments set out in the Manifesto.
2. The Government also used the IF to formulate the country's first National Trade Policy in 2007. With the stated objectives of promoting economic growth through export-oriented investment, and of sharing the benefits of economic growth more evenly across society, the trade policy focuses on eight broad areas: (i) improved trade-policy coordination; (ii) provision of a stable and transparent policy environment through a strengthened legal and institutional framework; (iii) promotion of export development by the removal of administrative bottlenecks in the import-export regime; (iv) support for private enterprises by encouraging entrepreneurial development, technology transfer and innovation; (v) promotion of fair competition; (vi) promotion of foreign and domestic investment; (vii) enhancement of market access through regional and institutional trade agreements; and (viii) institutional strengthening of the Ministry of Economic Development MED. The policies and actions outlined in the trade policy have been translated into workable plans, including the annual work plans of the MED. According to the authorities, the implementation of the work plans has so far been hindered by budgetary constraints, and the actions proposed in the work plans will have to be included in Aid for Trade, including funding available under the IF.

6.2.4 National Integrated Framework Governance Structure

As an LDC, Lao PDR has benefitted from the Integrated Framework for Trade Related Technical Assistance to LDC (IF) and continues to enjoy support from the revamped EIF. It is widely recognized that Lao PDR has produced promising results in the past five years. The EIF calls for National Implementation Arrangements (NIA) for effective trade mainstreaming into national development strategies.

The Lao PDR National IF Governance Structure – the National Integrated Framework Governance Structure (NIFGS) – has been established to strengthen MoIC inter-ministry coordination and implementation of Trade Related Technical Assistance, with the objective of ensuring overall aid effectiveness in the area of Aid for Trade. As such, the NIFGS is a key instrument to promote trade sector development in adherence with the Vientiane Declaration on Aid Effectiveness and the Country Action Plan (VDCAP).

The NIFGS is composed of various organizations with responsibilities at five different levels:

- Policy formulation level (National Steering Committee for Economic Integration [NSCEI])
- Government Supervision and Coordination Level (IF Secretariat, WTO Secretariat and Trade Facilitation Secretariat)

- Joint Donor and government Supervision Level (IF Trade Executive Committee [TEC])
- Administrative and coordination level (NIU)
- Technical Supervision and Implementation Level (Government Sub-Executing Units [GSEUs]).

6.2.5 Status and challenges

The challenges posed by the complex web of secretariats, committees, task forces and institutions make trade mainstreaming into the NESDP difficult. Experience shows that trade mainstreaming works best when appropriate institutional frameworks exist, although there is no ‘one-size-fits-all’ solution. Solutions include a proactive leadership – presumably by MoIC, management and monitoring systems, and human and institutional capacities to make trade mainstreaming sustainable, and not dependent on strong leadership alone.

At the meso level, the challenge is for the NSCEI to maintain broad stakeholder engagement in policy making and to provide evidence of the strong role played by trade in economic development and poverty reduction. This could be particularly challenging once Lao PDR accedes to the WTO – a key focus area and rationale for the NSCEI. In parallel, clarity in the mandate of the NSCEI and the newly upgraded Trade and Private Sector Development Working Group (TPSDWG) should be maintained, so as not to duplicate efforts.

Box 4: Paris Declaration Monitoring Survey 2011 – Lao PDR Country Report

“The Review of SWG mechanism conducted in 2010 found that improvements in communication across line ministry departments and with MPI can ensure the gains made at sector level are fully reflected in the NESDP national planning process. The review also found that, with only a few exceptions, there is a dramatic under-investment in the core capacity of ministries to manage the SWGs fruitfully.

Where ministries and DP (usually Co-Chairs) have invested in staff, technical assistance and logistical financing for the SWG (as in Health and Education), the SWGs are seen by government and DP as having achieved more. However, few appreciate the full scale of the investment of time and expertise needed to build the trust for a productive partnership. Co-Chairs and other DP, as well as ministries, have been urged to consider significantly increasing their investments in SWG Secretariat and ministry core capacity, and to avoid linking it to projects which, by having a narrower scope, are not ideal vehicles to support core strategic capacity.”

Finally, the role of the Lao Business Forum and its inputs to trade policy formulation and trade development strategies (and implementation) should be reinforced. While institutions are in place, there seems to be little understanding of the mechanisms to channel relevant information from the private sector to the SWG and DPs.

At the macro level, it is important that MoIC acquires the capacities and skills to maintain coordination in trade policy formulation and monitoring, and in servicing the numerous trade-related secretariats and working groups (in particular the TPSDWG). Accordingly, better policy formulation mechanisms must be developed, ensuring timely and quality inputs to its annual and five-year action plans. This includes consultation with LNCCI and other BMOs, provincial levels and vulnerable groups.

While the above will target the enabling environment, it will be important to improve MoIC capacity, building on improvements in recent years such as better private sector consultation and the reorganisation of the foreign trade policy structure in line with the country's integration in regional and multilateral fora.

Reforms could be considered in the following areas:

- Review of structure, in particular for a better alignment of the MoIC action plan (development and monitoring) with that of the NSEDP as coordinated by MPI. The role and structure of the Foreign Trade Policy Department, in view of the forthcoming accession to WTO, the AFTA and AEC must also be reconsidered.
- Thorough institutional capacity assessment to analyse capacity gaps, in particular aligning capacity needs with capacity offers, and a major overall of the IT system of the Ministry through an ICT Masterplan (as opposed to supporting

micro development in specific areas that usually end with donor-support and may be incompatible among themselves).

Each capacity assessment exercise is customized around the beneficiary organization's needs and results in an action plan validated by the capacity assessment owner and key stakeholders. Expected outputs include:

- Trade Capacity Assessment. A report that identifies the capacity assets and needs of the beneficiary organization. As and where appropriate, the report will include a baseline to be used for monitoring purposes by the Government and development partners
- Trade Capacity Action Plan. Based on the findings of the assessment, a capacity development action plan with output/outcome indicators, timeline, cost and resources, and roles and responsibilities will be formulated. The action plan will identify actions to be implemented both in the short and medium terms.

At the micro level, the technical capacities of NIU and GSEUs must be strengthened so as to improve the quality of both the planning process and policy implementation by the government. While AFT resources can contribute to this, there should be a broad recognition of the role those agencies play in policy implementation and a due consideration of AFT-funded activities as core to the mandate of the agencies concerned, provided these are aligned with national development priorities.

6.3 Government-development partner dialogue for effective trade mainstreaming

The third and most sensitive pillar of effective trade mainstreaming into national development strategy is the quality of the dialogue between the Government and the country's development partners. Development assistance can bring fantastic leverage to accelerating trade sector

Table 16: Issues in trade-related institutional development and policymaking

Key issues/ category	Description
MoIC Leadership role in trade policy making	MoIC historically has been relatively weak in encouraging and facilitating evidence-based analysis of trade policies. MoIC should promote stronger emphasis on policy implementation and monitoring and evaluation for increasing awareness and understanding of trade and its contribution to development. MoIC ownership and drive of the DTIS process is a positive and proactive step.

Adaptation of structure to changing priorities and opportunities	The profound changes triggered by bilateral, regional and multilateral trade agreements, combined with the successful AFT resource mobilizations will have a strong impact on the trade-focused institutional mechanisms and institutions themselves. The Government should develop a pro-active attitude towards aligning institutional mechanisms and institutions to those changes. The role of the NSCEI in anticipating the changes and how to respond to them will be critical.
Institution building for a better regulatory framework	The legal and regulatory framework is undergoing major structural changes with the accession to international treaties, conventions and rules. Further legal reforms are still necessary, but implementation of existing regulations will need to be a key focus. Many institutions need to be developed and strengthened before these changes can materialize
Bridges between committees and institutions, private sector, vulnerable groups, provincial level	Trade policy formulation and implementation requires the broad-based participation of stakeholders. The institutional mechanisms in place need to use inputs from SMEs, CSO, BMOs and sub-national level (provincial) for the process to be inclusive. There are strong requests across provinces for the better integration of provincial needs into trade development plans, and for better Public/Private Dialogue at provincial levels. This is in line with the Busan Partnership for Effective Development Co-Operation ⁴⁴

development and reducing poverty, provided it is well-defined, appreciated and far-reaching. To that effect, the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (AAA) have deeply modified the quality and scope of the in-country dialogue.

By systematically integrating trade into its country and sector analyses, strategies and assistance programmes, the donor community can dramatically improve and increase effective trade mainstreaming and reform. Yet it must do so in complete adherence with the aid effectiveness

principles, in respect of the country's process and in an inclusive way in order to generate the expected impact on the country's development.

6.4 Supporting development strategies using Aid For Trade

6.4.1 What is Aid for Trade?

The AFT initiative was launched at the 6th WTO Ministerial Conference in Hong Kong, China PRC, in 2005. The development objectives at the heart of the Doha Development Agenda and AFT are closely connected⁴⁵, and considered by

Table 17: Trade policymaking and development partners

Key issues/ category	Description
Effectiveness of consultative process on trade (RTM and NIFGS)	Development partners can play an important role in ensuring and facilitating the mainstreaming of trade into NSEDP. This should be done in accordance with the VDCAP, and with respect for Lao PDR ownership and alignment of strategies and programmes to government priorities. In exchange, the Government must ensure that it has the capacity to formulate better policy and identify trade-related needs to development partners.
Long-term shared vision for trade	For development partners to align their assistance with government-owned policies, both at national and sectoral levels, a shared medium- and long-term vision is needed. This vision could materialize through better alignment of programming on both sides and the development of expected outcomes and key performance indicators as a result of the DTIS.
Advocacy, communication, outreach	Lao PDR has been successful in mobilizing more and better official development assistance (ODA), in particular in the trade field. The Government needs to be able to communicate its successes and its needs, both domestically and abroad.

44. http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf.

45. H.E. Cham Prasidh, Senior Minister, Minister of Commerce at the occasion of the 7th WTO Ministerial Conference.

many the single-most important event in trade-related development assistance. AFT aims to strengthen the capacity of developing countries to better participate in and benefit from the global trade system by making trade a means to achieve sustainable development and poverty reduction. AFT flows include the six categories in Table 18 below.

Guide to Conducting Aid for Trade Needs Assessment Exercises.⁴⁷ The Guide is designed to help policy makers, trade officials and researchers conduct needs assessment studies on trade and human development under AFT.

Lao PDR has been an active participant in the EIF since 2004, as described below. The 2006 Lao PDR DTIS was the first key step towards participation

Table 18: Aid for Trade categories

Category	Description
Trade Policy and Regulations	Support to building capacity to formulate trade policy, participate in negotiations and implement agreements
Trade Development	Support services for business, promoting finance and investment, conducting market analysis and e-commerce
Trade-related Infrastructure	Support the infrastructure – roads, ports, telecommunications, energy networks – needed to link products to global markets
Building Productive Capacity	Support for strengthening economic sectors to increase export competitiveness
Trade-related Adjustment	Helping with any transition costs resulting from liberalization
Other Trade-related Needs	Other needs not covered by the other categories

Source: www.wto.org

Resource mobilization efforts have been successful in past years although they still do not meet commitments, with AFT flows reaching approximately US\$40 billion in 2009⁴⁶ – a 60 per cent increase from the 2002-2005 baseline. It is unclear however whether this is a product of the categorization of AFT flows or whether trade-related aid would have increased anyway, in line with the general increase in ODA. Mainstreaming trade is an essential condition for attracting AFT, in particular in the current context of the global financial crisis. Faced with this diagnosis and the competition to access those resources, more and more developing countries are prioritizing trade in their development strategies and, in response, donors are scaling up their support. Several tools exist to help countries carry out AFT needs assessments and better link resources to development goals. One such tool is the UNDP

in the EIF: the DTIS identified specific sectors with trade and poverty reduction potential, as well as gaps and requirements for the development of the sectors. The DTIS and its corresponding action matrix were the basis for leveraging AFT resources to support Lao PDR's trade development aspirations.

6.4.2 AFT in Lao PDR

The budget for the implementation of the NESDP 7, as prepared by the Ministry of Planning and Investment, indicates that between 2011 and 2015, 26 to 28 per cent of resources will be provided through ODA. The role of AFT in ensuring that the trade-related objectives are met is therefore critical.

Lao PDR has been able to mobilize a steady flow of AFT resources over the past nine years, as shown in the 2009 and OECD 2011 AFT country review.⁴⁸

46. Report by the Director General, Ministerial Conference, Eighth Session, 2011.

47. UNDP (2009), *Guide to Conducting Aid for Trade Needs Assessment Exercises*, Geneva.

48. OECD (2009), *Aid For Trade at a Glance 2009 and 2011 editions*, Lao PDR Data Fact Sheet.

Table 19: Aid flows (constant 2009 US\$000s)

Aid for Trade	Commitments		Disbursements
	2002-05 average	2009	2009
Trade policy and regulations	646	2,345	1,262
Economic infrastructure	89,064	49,147	47,429
Building productive capacity	70,341 4,402	35,631 12	57,275 137
Trade-related adjustment	0	0	0
Total AFT	160,052	87,123	105,967
AFT per capita (US\$)	28	13	17

Source: OECD

The thrust for implementing the Lao PDR trade development agenda, through the VDCAP, has been given by the NIU – a core feature of the EIF NIA. The NIU is currently anchored in the Planning and Cooperation department of the MoIC as the lead AfT ministry.

At the policy level, the NSCEI provides the framework for technical development of trade-related strategies. Three sub-committees currently report to the NSCEI, namely the Lao IF Secretariat, the WTO Accession Secretariat and the Trade Facilitation Secretariat.

Initially a project implementation unit (PIU) set up for the needs of the EIF and the implementation of the DTIS 2006 action matrix, the PIU was transformed over the years into a National Implementation Unit and has become de facto the AfT coordination and supervision unit of the Government. Starting with only one project, the NIU has seen its role elevated over the years and it currently supports several projects from several development partners using diverse disbursement modalities. The Trade Development Facility (TDF), a multi donor trust fund financed by AusAID, the European Community (EC) and later Germany, and administered by the World Bank, has been the driving force behind the recent successes and achievements of the NIU, including its capacity to operate as a Secretariat of different task forces and committees and its ability to generate interest and resources from development partners. This role was also acknowledged fully by the Government in 2009, when the NIU was elevated

and institutionalized as the MoIC ODA Division, headed by a government official, and supported by a team of officials, international adviser and consultants.

At the time of writing, the NIU is divided into four desks (administration, procurement, finance, technical) and staffed by a mix of four government officials, nine national consultants, two international consultants and one adviser. Its main function can be broken down into two components: fiduciary (financial and procurement management of Development Partner or Project funds); and technical (administration, planning, coordination and monitoring of project activities).

In addition to the pure project management function, the NIU is supporting a number of AfT and trade-related secretariats and committees:

1. Secretariat to the NSCEI and Lao IF Secretariat.
2. Lao PDR Trade Integration Strategy (DTIS): leading and managing the DTIS update process, its promotion, implementation and future monitoring and evaluation.
3. TPSDWG: secretariat for the Trade and Private Sector Development Sub-Group (TPSDSG) and the recently upgraded full working group.
4. TEC: through the TPSDSG and the recently established Trade Executive Committee as well as through general planning and monitoring.
5. AFT Administration for future trade-related technical assistance projects, such as TDF and possibly TDF2, EIF Tier 2 projects.

An updated matrix of trade-related technical assistance projects is maintained by the ODA Division, MoIC.⁴⁹ Some projects currently supporting implementation of the first DTIS are listed below (not including funds provided under regional arrangements and modalities such as ASEAN and GMS):

- *The Trade Development Facility: A multi donor trust fund financed by AusAID, the EC and Germany, and administered by the World Bank (US\$7.6 Million, 2008-2013 executed by MOIC) and recently expanded and extended (TDF2).*
- *The Enhanced Integrated Framework – Tier 1 (US\$1.3 million: 2010-2013), enlarged in 2011 to incorporate additional DTIS update funding.*
- *The SECO – UN Trade Cluster (with UNOPS as Trust Fund Manager) (US\$4.04 Million – 2010-2013).*
- GTZ: HRDME (Human Resource Development for Market Economy) Project (EUR 14.1 m: 2004-2014).
- GIZ: Supporting Lao PDR integration into regional markets Project (EUR 850,000). 02/2011 – 04/2013.
- Japanese Social Development Fund (JSDF) project to support sustainable silk production in Lao PDR – implemented in conjunction with the TDF (\$1.8m, 2011-2014).
- USAID-LUNA (LUNA) Project: USAID (US\$5.2m: 2011-2014).
- EC-SME development programme in conjunction with the ADB (EUR3m: 2007-2010). ADB has committed another loan of US\$10Million for the second phase.
- ADB Small Holders Development Project (a second phase of the project for the next 4 years has been approved, US\$5 million).
- ADB support to Special Economic Zone (SEZ) Development (US\$700,000, 2012-2013).
- ODOP (One District One Product) Project – JICA (US\$2 million: 2008 – 2011).
- The Lao Customs and Trade Facilitation Project – World Bank (US\$6 million over 4 years, 2008-2012 executed by MoF).
- IFC: Lao Business Forum support (US\$1.1m: 2005-2011).

- Poverty Reduction Support Operation (PRSO) – led by World Bank (with additional support from Australia, the EU, and Japan) – \$20 million annually plus additional bilateral support, 2005-2011.

The NIU is playing a direct coordination role in the projects marked in italics above. For those projects and in particular for the five components under the TDF, technical agencies or GSEUs (usually departments of line ministries) are in charge of project implementation and the execution of activities. As the number of projects channelled through the NIU has grown, the number of GSEUs has increased from four to six, with the possibility of more being created in response to the effective mobilization of new trade-related technical assistance (TRTA) by the NIU.

Other development partners are invited to use a similar approach and structure, in an effort to harmonize assistance and reduce the administrative and technical burden on implementing entities.

6.5 Challenges and recommendations

As highlighted above, the Government has been successful in mobilizing more and better-aligned aid for trade resources to support its trade development agenda, in addition to its own limited resources. The robust institutional mechanisms in place, inherited from the IF Window II and the first DTIS, can be used to support trade-related strategies at the policy, supervision and technical levels.

However, no structure and strategy can ever be permanent, given the rapid change of the global economic landscape: the uncertainty surrounding the ability of developed countries to maintain their ODA commitments amid economic instability; the uncertain outcome of the Doha Development Agenda; the nature of AfT flows; and the bilateral, regional and multilateral trade agreements with which Lao PDR is involved. It is necessary to revisit the current institutional mechanisms for trade mainstreaming into NSEDP and to better mobilise resources for AfT. The DTIS update provides a unique opportunity to do so.

During the interviews conducted in the preparation of this chapter with key AfT and NSCEI stakeholders, the following challenges in AfT resource mobilization, coordination implementation and were identified:

49. http://www.laosaft.org/documents/DonorMatrix_consolidatedMaster2010_updated30Nov10.xls

Table 20: Key challenges

Key issues / category	Description
Aid disbursement rate	The heavy focus of the first DTIS on trade negotiations and the lack of clear responsibility for implementation resulted in lower than expected volumes of assistance being provided. In parallel, there is a widespread recognition among trade stakeholders benefiting from AfT flows, and in particular GSEUs, that the current disbursement modality leads to excessive delays in procurement and implementation of project activities.
Top-down approach to project proposal development and formulation	The current NIFGS, based on the DTIS 2006, has been perceived as more supply-driven than government-owned. The structure resulted in programme components with pre-defined projects, mirrored by the IF task forces, that resulted in important areas being omitted from donor support. Consequently line ministries had very little possibility of developing their own proposals outside the core components. The DTIS update features many more proposals formulated by line ministries and it will be important to follow this up in the design of follow-on projects.
Alignment of NIFGS with DTIS and AfT	Country-based formulations of trade-related needs and priorities need to better match national budgets and donor responses. For this to happen, the task forces and secretariat under the NIFGS need to be streamlined and some of them merged with other secretariats, to reflect new priorities emerging from the DTIS Update. There should be a clear relationship between the revamped TPSDWG and the newly created TEC.
Sustainability of NIU and GSEU	The focus of the NIFGS structure has been to decentralize implementation as much as possible. GSEUs are meant to take the lead in project implementation and supervision as those are the technical departments with the expertise in Lao PDR. The NIU has encouraged direct engagement between the GSEUs. However, the NIU is perceived by line ministries as primarily serving the needs of the MoIC rather than those of the trade community. Its institutional anchoring, previously as part of the FTPD, headed by a Division Director has limited the credibility and profile of the NIU as an AfT coordination unit. Its role is perceived as limited to handling operations (procurement, recruitment, finance) on behalf of donors. There is a continued need to strengthen the technical and substantive capacity of the NIU through additional allocation of government officials and increased technical training. In parallel, the limited absorption capacity and a rapid increase in the GSEU workload might have a negative impact on the quality of outcomes and the entire process of aid coordination. Their capacity to manage projects and consultants' inputs are still limited, their AfT-related functions not being considered core to their mandate.
Different systems for TRTA management	While there is agreement on the need to increase government ownership of TRTA and of the country's trade development agenda, there is also resistance from donors and elements of the Government on moving to more holistic sector development approaches. Awareness needs to be raised of the different aid disbursement modalities and the corresponding degree of integration in the country systems.
'Us and them' syndrome to AfT	There is still a widespread belief among trade stakeholders that the DTIS and NIFGS are donor-driven, or that they are temporary tools linked to donor support. This is reinforced by the difficulties of coordinating donor assistance, as there are many ongoing and pipeline projects assisting the implementation of the DTIS.

	The role of the Donor Facilitator, as a dialogue moderator between the Government and Development Partners needs to be reinforced through more regular consultations in and outside the TPSDWG.
Communication and advocacy gaps	Achievements and trade sector development efforts are often unknown or not communicated to domestic stakeholders and the population in general. A DTIS Implementation Communication Strategy could help in developing a robust communication action plan, using different media and messages for different targets. This could also apply to non-traditional development partners and to provincial authorities and SMEs.



7. MAINSTREAMING POVERTY, GENDER AND THE ENVIRONMENT IN TRADE AND PSD

7.1 Introduction

High and sustainable economic growth is a key aim of the NSEDP 7 and is critical for achieving the MDG and poverty reduction targets of Lao PDR. Empirically, there is a strong correlation between GDP growth and poverty reduction. The world average shows that for every 1 per cent in GDP growth there has been a 1-1.5 per cent decrease in poverty. However, in the case of Lao PDR this correlation is estimated to be 0.7 per cent; significantly below international averages. Hence, the relationship between GDP and poverty reduction needs further investigation and strengthening.⁵⁰

Furthermore, trade has been shown to be a key engine of economic growth, particularly in smaller economies such as that of Lao PDR. Indeed, evidence shows that it is very difficult for economies to grow at a significant pace without a large expansion in trade. Hence, trade is increasingly taking a central role in Lao PDR's development strategy. This should be further enhanced, as studies show that countries incorporating trade as a key part of their development strategy have grown at a faster rate than those that do not.⁵¹

However, the impact of growth on poverty reduction and sustainable development more broadly, can vary significantly (as indicated in the opening paragraph) and it is critically important to design trade (and growth) policies and programmes to maximise the positive links between trade and sustainable development. Hence, this DTIS focuses on the need to further mainstream and develop trade as a means to ensure sustainable growth, thus maximising the socioeconomic impacts (such as poverty reduction and gender equality) and environmental sustainability. A key theme that has emerged is the need to enhance the diversification of exports into sectors with high social impacts in order to ensure that trade has the maximum impact on improving the livelihoods of the poor. Specific measures are noted throughout the DTIS to boost the direct impacts of Aid for Trade interventions on the poor and disadvantaged, and to take environmental considerations into account.

Many factors related to poverty, gender and the environment have been considered and included in the analysis and recommendations throughout the DTIS. For instance, the NES sectoral action plans utilise Markets for the Poor (M4P) methodology, which maximises direct and scalable impacts on marginalised groups, such as the poor and women, and many chapters have dedicated sections considering social and environmental impacts and considerations relevant to the specific sector or area. This chapter synthesises some of the key aspects to consider in incorporating poverty, gender and environmental considerations into trade policy in Lao PDR.

7.2 Trade and poverty considerations

Although the link between trade and economic growth has been shown to be clear and positive, increased trade can have both positive and negative effects on the overall poverty incidence in a country. Thus, policies need to ensure that positive gains are maximised and that negative effects are mitigated as far as possible. It is useful to outline some of the key transition mechanisms through which trade can have an influence on poverty levels.

These links are usually considered through three main channels – the Enterprise, Distribution and Government channels such as identified in Winters (2000),⁵² and McCulloch et al. (2001).

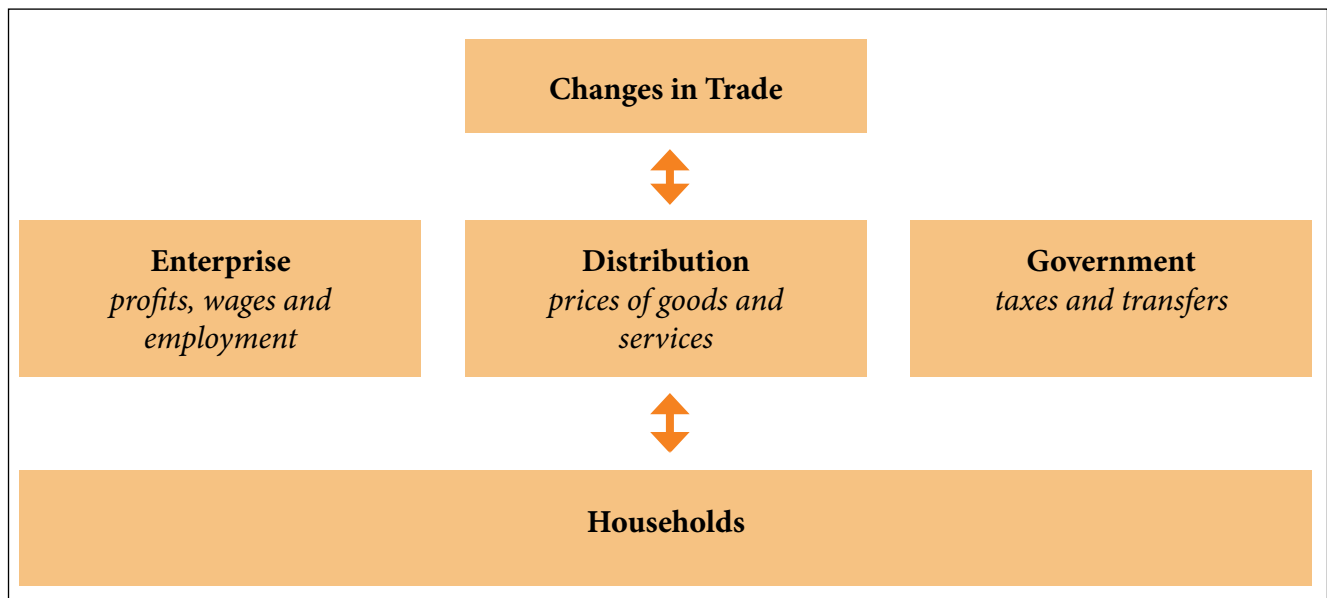
The Enterprise Channel: Trade has direct impacts on employment, wages and profits. Employment and wages in inefficient import competing industries could fall, but employment and wages in export growth industries are likely to rise. Over the last decade Lao PDR has benefited from asymmetric preferential access into markets such as ASEAN and the European Union (EU). However, in the coming years, and particularly with the implementation of the ASEAN Economic Community (AEC) the full costs of reciprocal import liberalisation are yet to be felt. In general, the negative impact on goods production is likely to be limited as there are relatively few domestic industries competing with imported products.

50. Fenton, Nina et al. (2010), "Lao PDR Development Report 2010: Natural Resource Management for Sustainable Development", the World Bank.

51. Higgins, K. & Prowse, S. (2010), *Trade, growth and poverty: making Aid for Trade work for inclusive growth and poverty reduction*. ODI Working Paper 313, London, UK.

52. Winters, L.A. (2000), *Trade, Trade Policy and Poverty: What are the Links*. CEPR Discussion Paper No. 2382, London.

Figure 11: Impact Channels of Trade



Source: Adapted from Winters (2000) and McCulloch et al. (2001).

However, industries with significant employment that could be negatively affected include steel, cement, beverages and agricultural products. On the other hand, exporting industries such as commercial agriculture and garments stand to benefit from employment gains through increased trade opportunities. Various service sectors, such as distribution and tourism could also be positively or negatively affected. In analysing the impact on each sector, it is important to ascertain the share of disadvantaged groups (such as the poor and women) likely to be affected in trade-related employment gains or losses.

Distribution Channel: Trade influences the price of goods and services. Overall, increased trade openness should lead to reduced prices. This is potentially beneficial for consumers who effectively have more spending power. However, it is also important to ascertain the extent to which the prices of products consumed, particularly by the poor, are likely to be affected. On the reverse side there may also be a negative impact on producers (for example, reduced prices of farm commodities). Increased openness can also lead to increased price variability, which may also have negative impacts on the poor both from a production (lack of storage facilities, increased incentives to diversify production to reduce risks) and consumption perspective (the poor often purchase in small quantities and are more vulnerable when prices are high).

Government Channel: Trade can also affect the poor through changes in taxes and transfers. For instance, reductions in tariff rates may lead to reduced income for the Government, with consequent impacts on social or infrastructure spending. Tariff reductions do not always reduce revenue, however, as demand for products may increase and incentives for smuggling are reduced. Given that Lao PDR is implementing a free trade agreement with its major trading partners in ASEAN and ASEAN+1 it is likely that there will be a reduction in tariff revenue (although there could also be increased VAT and excise revenues). Ongoing work using the Tariff Reform Impact Simulation Tool (TRIST)⁵³ simulation model will yield more concrete indications on the likely change in revenue, but preliminary results suggest that direct tariff revenues could fall by as much as 40 per cent if Lao PDR abolishes tariffs on all imports from ASEAN member states in 2015.⁵⁴ Between 2006 and 2009 customs duties averaged around 14 per cent of total tax revenue. The Government also obtains additional revenue through trade when royalties, dividends and taxes on exported natural resources and VAT and excise duties from increased volumes of trade are included.

Cutting across the above three channels are household-related factors that impact on the ability of people to react to the changes brought about by trade liberalisation, including levels of education and access to capital. Of particular note is the

53. *Tariff Reform Impact Simulation Tool*, The World Bank, International Trade Department.

54. World Bank (2012), *Estimating the impact of ASEAN liberalization commitments*, draft working paper.

extent to which gender considerations should be taken into account, as the impact of trade through the various channels varies across the different categories of the population. Of particular concern are the effects on vulnerable groups such as the poor and women. Gender aspects are considered further below, and are mainstreamed in the social impact sections of various chapters of the DTIS. Likewise, environmental impacts are likely to impact most severely on the poor, such as through changing weather patterns and loss of access to forests and non-timber forest products (NTFPs). NTFPs form an important contribution to the income and welfare of the rural poor in Lao PDR.

Higgins and Prowse (2010) highlight other aspects that need to be taken into account when considering the impact of trade policy on poverty. These include:

- The types of goods and services traded – some products and sectors may have more spillover effects than others. The chapter 10 indicates the relatively small links to the wider economy of the resource-based economy, and makes the case that diversification of the economy is necessary for higher socio-economic gains.
- The political economy context – promoting ‘inclusive growth’ by ensuring opportunities for the poor to be involved and for smaller firms to grow. Again, this is a key theme of analysis in the DTIS, including a focus on small- and medium-sized enterprises (SME) promotion policies and M4P sectoral analysis. In addition, the public provision of safety nets alongside trade reform is necessary (such as guarantees of increased social expenditure from government hydropower revenues).
- Investment and general business climate – trade reforms need to be complemented by an environment in which businesses can grow. In addition, women tend to be predominant in the informal sector where they face further constraints. An efficient business environment will encourage a greater level of formal business participation. The migration of the poor into the formal economy also needs to be considered. The DTIS places significant emphasis on improving the business environment in Lao PDR.
- Macroeconomic stability – Another central fea-

Figure 12: Gini coefficients, 2008

Country	Coefficient
Lao PDR	34.1
Vietnam	34.4
Cambodia	41.7
Thailand	42
China	46.9

ture of NSEDP 7 is macroeconomic stability, which promotes greater investment. In addition, inflation impacts upon the poor disproportionately and should be managed carefully. The chapter 4 shows that Lao PDR generally has a stable macroeconomic environment that should help lay the base for pro-poor growth strategies.

- Inequality- high levels of inequality are likely to skew the benefits of trade towards those with greater resources. Kyophilavong et al (2010)⁵⁵ indicate that trade liberalisation through likely WTO commitments will lead to a net welfare gain, but the rural poor will be most likely be negatively affected. Inequality will be another indicator that will be important to monitor alongside economic growth. It appears as though income inequality has been increasing over the last two decades, with a rise in the Gini coefficient from 30.5 in 1992/3 to 32.6 in 2002/3. The latest estimate for this coefficient, from 2008, is 34.1.

7.2.1 Lao PDR poverty profile and policies

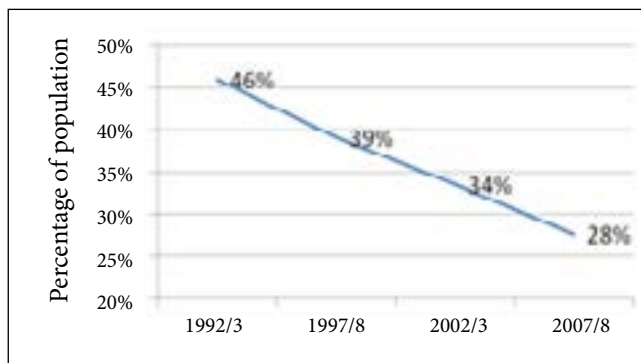
While Lao PDR currently has a substantial poverty incidence of 28 per cent (2008), there has been substantial progress in reducing this level, from 46 per cent in 1992. This represents a faster reduction than in Cambodia and the Philippines but slower than in Vietnam, China and Indonesia.

The proportion of the population living under the national poverty standard varies among the provinces: the highest being Huaphanh at 74.6 per cent and the lowest being Vientiane at 12.2 per cent (1997-98).⁵⁶ Policies in Lao PDR tend to focus on the poorest areas (such as mountainous and rural areas) where the highest proportion of poverty is found. This is important from a trade perspective as these communities are unlikely to benefit as quickly as households in more accessible areas. However, it should also be noted that although the

55. Phouphet Kyophilavong, Shinya Takamatsu, and Jong-Hwan Ko. 2010. *The Impact of Laos' Accession to the World Trade Organization. Paper presented at the Thirteenth Annual Conference on Global Economic Analysis 15th April 2010.*

56. Fenton, Nina et al. (2010), "Lao PDR Development Report 2010: Natural Resource Management for Sustainable Development", World Bank.

Figure 13: Percentage of the population living in poverty



proportion of poor may be lower, in absolute terms the largest number of poor are found in lowland (including urban and peri-urban) areas of Lao PDR.

Furthermore, Lao PDR fares relatively poorly on the Human Development Index, mainly due to the following inequalities: only 68 per cent of children attend primary school (and this figure is lower for girls); the infant mortality rate has risen in five provinces between 1995 and 2005; the incidence of child malnutrition is up to 50 per cent in some areas; and only 35 per cent of the population have access to potable drinking water, and this figure is as low as 10 to 20 per cent in the north. Unemployment is estimated to be as high as 12 to 15 per cent in rural areas, and higher for women, the landless, smaller farmers and ethnic groups.⁵⁷

However, more can still be done, despite the last decade's impressive 7 per cent GDP growth. As mentioned earlier, the ratio of growth to poverty reduction remains at 0.7 per cent – well below the global average. This may partially be attributed to this growth being driven by hydropower and mining, which are highly capital-intensive industries. The majority of Lao PDR's poor live in rural areas (where 80 per cent of the population lives), and most depend on agriculture. Even though the number of people who rely on agriculture is declining (currently estimated at 75 per cent), this proportion is declining at a slower rate than agriculture's contribution to GDP, which fell from 51.3 per cent in the early 1990s to an estimated 30.2 per cent in 2010. The distribution of resources, infrastructure, social services and job opportunities strongly favours urban areas. Widespread food insecurity, coupled with high levels of acute and chronic malnutrition, impedes

social, human and economic development and contributes significantly to poverty. Food insecurity is defined by inadequate availability, access, utilization and stability. Shortfalls in these areas are commonplace and are most pronounced amongst farming households in rural areas. Consequently, increasing numbers of young people are moving from rural to urban areas, leading to high rates of urbanization and the creation of an urban poor. The urban growth rate of 4.6 per cent in Lao PDR is the second highest in Southeast Asia, next to 5.5 per cent in Cambodia. Both international and internal migration is increasing through major construction works and improved road networks connecting Lao PDR to neighbouring countries. Although the rates of urban poverty are still lower than in rural areas the proportion of the poor in urban areas is rising.⁵⁸

7.2.2 Poverty reduction strategies

Poverty reduction is an essential element of government policy and features as a core focus of the NSEDP 7 (2011-2015),⁵⁹ which lays out the Government's programme for poverty reduction. The core ambition is to decrease the percentage of the population living below the poverty line to less than 19 per cent by the end of the planning period. The main thrusts of this programme are through rural development and growth in agriculture. In rural development, the important strategies include: extending electricity to 80 per cent of the rural population; allocating more land to farmers; expanding disbursements under the poverty development funds; stimulating more private sector investment in agriculture; and linking agricultural production with processing and service enterprises. In agricultural growth, the key strategies include: expanding food production; increasing the forest cover from 40 to 65 per cent; improving yields, productivity and quality; modernizing agriculture and forestry with better technologies through 500 extension centres; increasing irrigated land to 300,000 hectares in the dry season and 500,000 in the wet season; focusing on commercial production; and using tax incentives, trade facilitation and the upgrading of physical markets and logistics to increase the access of agricultural produce to markets. Increased availability and quality of education and health services will also play an important role in sustaining poverty reduction.

57. National Human Development Report, 2009 the United Nations.

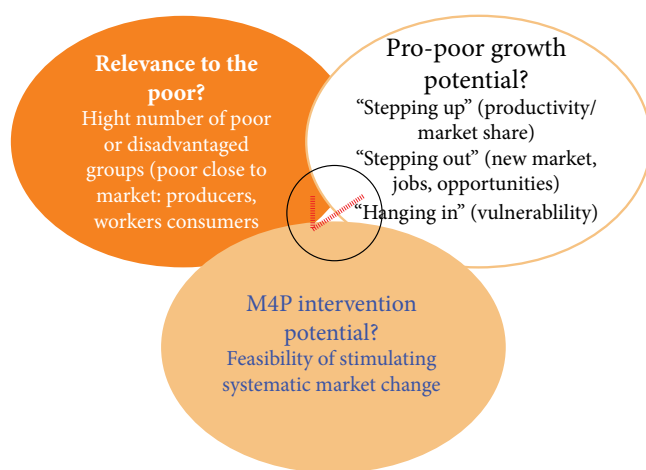
58. National Human Development Report, 2009, the United Nations.

59. Ministry of Planning and Investment, "Draft 7 of the National Socio-Economic Development Plan (2011-2015)", (2010), Vientiane.

7.2.3 Linking trade to poverty reduction: Making Markets work for the Poor⁶⁰

A common criticism of trade projects and programmes is that it is often difficult to see the direct link with impacts, and particularly impacts on poverty reduction. The M4P approach places greater emphasis on the use of public funds to help the poor to develop sustainable business relationships that add long-term and competitive value to production, removing the need for continued inputs from donors or the Government.

Figure 14: The M4P approach



The delivery of this value-adding change to the poor's production often comes from a market actor that also shares in the benefit of this change. For example, it may be imagined that the textile weaving sector, with its 70,000 female weavers scattered throughout the country, needs good design as a critical element to product development and income growth. The 'direct support' approach would involve establishing a public design centre that caters to the textile sector. This would require continuous public subsidies and the outreach would most likely be small, of poor quality and last for only a few years. The M4P⁶¹ approach, on the other hand, would start by examining the market for design. Design is well recognized by all small producers, no matter how remote, as a critical element in establishing the sales price of a fashionable product. With this assessed value of 'design', the promoter would then look for the market actors that may have a long-term commercial interest in supplying designs and design services. It would then work with these market actors to explore how design could reach large numbers of textile

producers in a commercially sustainable way. One potential solution could involve stimulating private investment in a design school in one of the existing private vocational schools in Vientiane (the market actor). Both long- and short-term courses could be offered on a commercial basis to that portion of the 70,000 small weavers who wish to respond to the growing US\$40 million per annum domestic market and US\$8 million export market for woven products made from silk and cotton.

How would interventions like this be funded? In the above-mentioned example the main resource elements are 'guidance' and 'seed money'. In the context of the DTIS and the Action Matrix, an Export Competitiveness Challenge Grant is being proposed to fulfil this function. The core rationale of a challenge or matching grant fund is that a public entity can effectively influence private sector growth patterns so that they are simultaneously responsive to a set of public objectives, such as 'growth with equity'. By targeting public funds at areas where there are obvious market failures, the intention is to stimulate and accelerate private sector competitiveness while also achieving greater spillovers that benefit the wider public. This challenge grant instrument would be used to optimize the link between trade and poverty alleviation.

7.2.4 Poverty reduction recommendations

For trade to reduce poverty, the poor will need to be better integrated into the production process in a sustainable and competitive way. For the poor to participate, it is essential that sectors that afford opportunities for this integration are chosen. While acknowledging that capital-intensive industries like hydropower and mining will continue to play a strong role in economic growth, from a poverty reduction point of view the focus of government policy can be to facilitate a shift to those sectors in which: a) long-term and competitive growth potential exists; b) a lower income quintile of the population is engaged; and c) where there is scope for market development interventions. These sectors include textile weaving, garments, tourism and several agro-related production value chains (see chapters 11 to 14).

If the target in these sectors is enhanced competitiveness and this competitiveness is

60. The term "making markets work for the poor" has emerged in the last 5-7 years as the preferred approach to private sector development for most of the donor agencies involved in the funding of enterprise development projects. The approach aims at achieving significant and measurable impact on large numbers of enterprises with the realization of sustainability through systemic change.

61. A good example of this is the Handicraft Design Centre established in Vientiane with funds from the Chamber of Commerce from Koblenz in Germany in 1997. When the funding for this project ran out the Design Centre shut down.

derived mainly from productivity improvements at the primary production levels, two developments might be expected: an increase in the income of primary producers (for example, farmers, garment workers and weavers), and an increase in the number of low income people participating in the growth of these sectors.

In addition, investments in hydropower and mining should be required by MPI to adhere to good practice, including the Extractive Industries Transparency Initiative (EITI). Similarly, MPI should require agribusiness investors producing commodities for export to develop business plans consistent with the Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods, and Resources. This code of conduct was formulated by a consortium of international organizations comprised of the FAO, the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank Group to guide agricultural investments. It provides a framework for agribusiness enterprises to consider when planning their export-oriented investments in agricultural land, water, grassland and forested areas in developing and emerging countries.

It will also be important to conduct more in-depth studies on the various channels of impact of trade on poverty (for example, distribution), to continue to promote economic and export diversification, and to promoting 'inclusive growth' through a supportive SME environment and M4P considerations in programme and project design.

7.3 Gender and trade⁶²

Gender considerations are a critically important factor of trade policy and need to be carefully considered in policy and project interventions. Gender considerations and policies are often closely linked to those for the inclusion of marginalized groups in general, and many of the recommendations emanating from this section will also be relevant to poverty reduction considerations.

To date, limited research on gender- and trade-related impacts has been conducted in Lao PDR.

However, international research⁶³ in the area shows that:

- If the ratio of female to male workers in India were increased by 10 per cent, the Gross Domestic Product (GDP) would rise by 8 per cent.
- In sub-Saharan Africa agricultural productivity could increase by up to 20 per cent if women's access to resources such as land, seed and fertilizer were equal to that of men.

The Lao Government has made important commitments to gender equality in both its national socio-economic development planning and a number of international agreements. This commitment is evidenced by well-established systems for women's representation and gender mainstreaming in Lao PDR government structures (see Box 4).

The 2011-15 National Socio-Economic Development Plan (NSEDP), further highlights the emphasis on gender, as outlined below:

Gender and development: The plan will aim to strengthen women's status in the domestic sphere, education, health and the labour market. Effort will be made to upgrade their professional and technical knowledge for them to be able to participate in national development. The government will strive to eliminate all forms of discrimination and violence against women and promote opportunities for their inclusive participation in social and economic fields. Quantitative targets have been set for women's training and placement at different levels.⁶⁴

However, the discussion on how trade impacts on gender and vulnerable groups in the NSEDP 7 is not explicit. The NSEDP provides general directions and measures on women's advancement, especially from the promotion of gender roles and equality in society (and in ethnic groups). The Plan also indicates women's empowerment and participation in the national development process by creating favourable conditions for women to advance their professional and technical knowledge, and encouraging women to be employed in various services and to be involved in art and handicraft industries. Most recommendations are oriented to 'gender sensitized' approaches to project design,

62. This section has been adapted for the DTIS 2012 from the TDF and World Bank's Gender Action Plan-funded research Fontana, Marzia. 2012. Lao PDR. Mapping the gender dimensions of trade: A preliminary exposition. The World Bank.

63. DAC guiding principles for aid effectiveness, gender equality and women's empowerment. Endorsed by the DAC Senior Level Meeting, December 2008.

64. Ministry of Planning and Investment (2010), "Draft 7 National Socio-Economic Development Plan 2011-15 Abridged version, Vientiane.

monitoring and implementation.⁶⁵

However, gender has been increasingly mainstreamed in the industry and commerce sectors during the last few years, through a number of case studies prepared by the Government in collaboration with the interested development partners, such as a 2009 survey Promoting Women's Entrepreneurship Development and Gender Equality. The Ministry of Industry and Commerce (MoIC) has also developed its own Strategy for Women's Advancement in Industry and Commerce 2011-2015. The Strategy focuses on improving both business managerial skills as well as general educational background of women working in general manufacturing and service sectors.

Women, however, continue to face a number of disadvantages, which tend to be reinforced by other factors such as ethnicity and location. Lao PDR has one of the highest maternal mortality rates in the world and the gender gap in schooling remains high, especially among non-Lao speaking girls and boys from remote rural areas. In the economy, women tend to be heavily concentrated in agriculture and few other sectors while men are more evenly distributed across sectors and

occupations. The gender division of labour is even more evident in the distribution of unpaid housework.

These twin policy goals of trade-driven economic growth and gender equality cannot be viewed in isolation: trade matters for gender and gender matters for trade. As the structure of the Lao economy changes following trade liberalization, so too will the opportunities available to women. This process will inevitably continue as the effects of the current natural resources boom resonate throughout the economy. Similarly, women's economic empowerment has been strongly affected by regional economic integration, with the growth of labour-intensive manufacturing industries and increased cross-border investment and trade. It is highly likely that this process will continue as the trade regime is further liberalized.

Trade always has distributional impacts: the benefits and the risks of trade are experienced differently by different groups, with some gaining more than others. The effects of trade on a particular individual or group will depend on their position and role in the economy. Because gender is a key determinant of men and women's access to economic resources, it is also an important determinant of trade-related

Box 5: Women's representation and gender mainstreaming in Lao PDR institutions

There are well-established systems for women's representation and gender mainstreaming in Lao PDR within the Party, the Government and the National Assembly. These platforms can be effectively used to support the promotion of a sound gender-equitable trade agenda.

The Lao Women's Union (LWU) is a central mass organization of the Lao People's Revolutionary Party mandated to represent the interests of women from all ethnic groups. The LWU has extensive networks at all levels of the State's administrative structure and thus serves as an important bridge between the Party – the Government – and the People for disseminating information on gender issues and mobilizing women's participation in development and trade integration activities.

The Gender Development Group (GDG) is one of the most prominent non-governmental associations active in the area of gender and development. It operates as a network of international non-governmental organizations and Lao organizations promoting the exchange of experience in gender-related initiatives in communities within the country. It also provides training, including supporting the Government's gender mainstreaming efforts, for example by working closely with the Ministry of Agriculture and Forestry on their gender strategy.

The Lao National Committee for the Advancement of Women (NCAW) is chaired by the Deputy Prime Minister and is responsible for formulating and implementing national policy for the advancement of women as well as mainstreaming gender in all sectors. Sub-Committees for the Advancement of Women (Sub-CAW) have been established throughout the country at central and provincial levels, creating a broad network of gender focal points within public administration.

65. ADB (2011), "Trade Mainstreaming, Country Review".

distributional impacts.⁶⁶ Trade reforms can either enhance gender-equalizing trends or exacerbate existing gender gaps, depending on the way they are designed and implemented.

Gender inequities may also act as a constraint to trade expansion. Any factor that limits individuals (and households, firms and communities) from responding to economic opportunities will constrain the economy's ability to develop to its full potential. The different roles and responsibilities of men and women in the economy mean that those constraints may not necessarily be the same, and as such it is important to consider gender issues when seeking to maximise the benefits from trade. In addition, gender disparities – in access to education, land, finance and other assets – are a significant constraint to the country's capacity to benefit from trade expansion. Gender inequality

may limit the gains from trade, for example through its negative impact on the process of innovation in export-oriented manufacturing, or by undermining supply responses in agriculture. A gender wage gap and other inequities may also depress women's productivity, acting as a drawback to growth (UNCTAD 2008).⁶⁷

To map the relationships between gender and trade requires looking at the economy of a country as a gendered structure. Box 6 shows in more detail how men and women typically have unequal roles in an economy as producers, workers, traders, household managers, taxpayers and consumers of public services. To tease out the relationships between gender and trade requires that the researcher, where possible, interrogates how these varying roles in an economy interact with policies aimed at promoting exports.

Box 6: The economy as a gendered structure: unequal roles played by women in an economy

Women as producers and workers

Women tend to be clustered in fewer jobs and occupations than men. Although, of course, there is variation across regions and countries, data reveals in most cases that women tend to be concentrated in fewer sectors (for example, food production in agriculture, textiles and garments, and domestic and other social services) than men, who tend to be more evenly distributed across a larger range of occupations and productive activities.

Women are also more likely than men to be found in precarious forms of work. A recent ILO report on women's employment trends (ILO 2010)⁶⁸ shows that, in all regions of the world, women constitute a larger share of contributing family workers. This gender difference is particularly marked in South Asia where unpaid family work accounts for 51 per cent of women's employment compared with 14 per cent of men's. In Southeast Asia the corresponding figures are 35 per cent for women and 10 per cent for men. A 'contributing family worker' is in the most vulnerable form of employment, as her status implies no independent access to income.

Women face many demands on their time related to their domestic responsibilities. Importantly, viewing the economy through a gender lens involves counting not only productive but also reproductive activities. Activities such as food preparation, water and fuel collection, housework and child care contribute to the productivity of the labour force and maintain the daily wellbeing of the population. Responsibility for these activities falls disproportionately on women's shoulders. The burden of unpaid work is particularly heavy for rural women in remote areas, mostly because of poor physical infrastructure. This is likely to undermine the capacity of these women to contribute to paid productive activities and increases the probability that they will be involved in informal, low-return forms of employment. Information on the time spent providing unpaid services for the nurture of family and neighbours can be gleaned from Time Use Surveys, which are carried out in a growing number of developing countries.

Women face greater disadvantages than men in responding to new economic incentives not only because they are more time-constrained but also because their access to productive resources

66. Other important factors affecting people's exposure to economic benefits and risks are location, ethno-linguistic affiliation, poverty levels, etc. These often intersect with each other and with gender. This paper focuses on the gender dimensions of trade, but refers to other dimensions when possible.

67. UNCTAD (2008), *Mainstreaming Gender into Trade and Development Strategies in Africa*, United Nations, New York.

68. ILO (2010), *Women in Labor markets: Measuring Progress and identifying challenges*, ILO, Geneva.

is restricted. A large body of empirical evidence from many different countries shows that female farmers are just as efficient as their male counterparts but they have less land and use fewer inputs, so they produce less (FAO 2010).⁶⁹ With regard to credit, because women tend to receive only very small loans, they often remain trapped in low-value activities, which may help them in meeting their practical needs but do not contribute towards widening their opportunities. With regard to education, women and girls' limited access to skills, including in cutting-edge technical fields, limits their upward mobility for employment opportunities related to trade.

Women as traders

Female traders tend to have weak bargaining power. Women in many countries have to deal with cultural bias related to what are considered 'appropriate' modes of transport (many women travel on foot and carry head loads, and their control over simple transportation advances such as draft animals, bicycles and carts is limited). Their time constraints prevent them from travelling regularly and the markets that offer the best prices and fairer conditions are often far away. Furthermore, they often face harassment by market or trade officials. As a result, they tend to be paid too little for what they sell and pay too much for what they buy.

Women as household managers

Time and resources within households are not distributed equally between women and men, girls and boys. Women are not only producers, workers and traders, but also play an important economic role as household managers and purchasers of food and other goods for their families. Any economic shock resulting in changes in the relative price of necessities is therefore likely to have a different impact on female and male household members.

Women as taxpayers and users of public services

Because of their different economic roles and responsibilities, women and men are also likely to be affected differently by fiscal reforms. A change in income tax, for instance, would impact more directly on men as they usually earn more and own more wealth. A VAT on basic consumption goods may impact more directly on women due to their responsibility as primary household caregivers.

7.3.1 Gender characteristics of the Lao economy: sector overview

This section presents a broad-brush picture of the gender structure of the Lao economy through some basic statistics on the different economic sectors. Aggregate sectoral statistics can offer an immediate and effective snapshot of the gendered structure of production and trade of Lao PDR and hence constitute a useful starting point for more in-depth analyses. The information presented here offers an initial indication of those sectors in Lao PDR that may have potential for export expansion, and that could benefit women.

Agriculture is the main source of employment in Lao PDR, particularly for women. Table 21 shows

that while agriculture employs a very large share of the Lao labour force (78 per cent of the total female labour force and 76 per cent of the total male labour force, respectively), it represents only about 34 per cent of GDP, suggesting low productivity levels in this sector. The proportion of women in agriculture is slightly larger than the proportion of men and the only sector in the economy with a higher female intensity is manufacturing. More disaggregated data at the sub-sectoral level show, however, that women working in manufacturing are clustered in the garment sector, while other manufacturing is dominated by men.

69. FAO (2010b), *The State of Food and Agriculture: Women in Agriculture, closing the gender gap for development*, FAO, Rome.

Table 21: Gender patterns of employment by sector

Sector	GDP (%)	Male labour (%)	Female labour (%)	Female intensity*
Agriculture	34.4	76.0	78.0	50.4
Mining	11.5	0.4	0.2	35.7
Electricity, Water and Construction	7.5	0.2	0.0	16.9
Manufacturing	8.2	5.5	6.2	52.9
Services	38.5	17.9	15.5	46.2
Total	100.0	100.0	100.0	-

* Percentage of the labour force in the specific sector that is female

Source: LECS 4 for labour data, World Bank for GDP data

Copper and electricity constitute about 45 per cent of total exports (and are predicted to grow further) but their contribution to the overall labour force is limited. Table 22 links data on key exports with information on the gender composition of the labour force. Power and mining are both capital-intensive sectors and their contribution to the overall labour force, for both male and female workers, is minimal (making up 0.6 per cent and 0.2 per cent of their respective work-forces). Low levels of female employment are found also

in wood production, which constitutes about 18 per cent of total exports. The female intensity of the labour force in these sectors is low, but their limited direct employment potential would suggest that a more balanced gender employment in these sectors would have a small overall impact on the equality of employment in the wider economy. Of potentially more significance in gender terms is how the additional revenues generated from investment in the mining and power sectors is utilized.

Table 22: Gender patterns of trade

Key Export	% of total exports	Export intensity	Female Intensity	% of total female labour
Copper (a)	37	90	Low	-
Wood and wood products (a)	18	82	Low	-
Garments (b)	14	100	Very High	2
Electricity (a)	8	66	Low	-
Coffee and tea(c)	2	89	Medium High	78
Rice, maize and other grains(c)	2	4	Medium High	
Vegetables and fruit (c)	1	14	Medium High	
Total	81	-	-	-

Sources: (a) Estimated output (World Bank); (b) Estimated output (Association of Lao Garments Industries); (c) FAO statistics; (d) WITS, World Bank

The garment sector is the most export-oriented sector in the economy (100 per cent production is exported) and it is also the most female intensive, so its further expansion would have gender-equalizing effects. However, as can be seen from Table 22, the garment sector employs only about 2 per cent of the total female labour force, so the gender impact of its growth is likely to be positive but modest, at least in the short term.

The high proportion of workers involved in the agricultural sector means that to generate wider benefits, trade-related interventions ought to give attention to improving women's productivity and equitable access to opportunities in agriculture. Table 22 shows that most agricultural goods are at present produced for domestic consumption. For example, only 14 per cent of vegetable and fruit production is exported and their current overall contribution to total exports is also low. Tables 21 and 22 show that women's participation in this kind of production is quite high, in both relative and absolute terms.

This type of analysis considers the existing sector structure of the Lao economy, but a more open trade policy would be expected to lead to a shift in the sector composition of the economy and exports. As such, this type of analysis is usefully complemented by a more detailed analysis of trade competitiveness, which may point to possible changing dynamics in overall export composition.

In the short-term, a number of policy interventions would make it easier for women to access export markets, including:

- Strengthening women's groups and support for women's inclusion and influence in farmer associations and trade unions can be effective measures for facilitating women's access to markets.
- The Government and partners could look at ways of better tailoring extension services to female farmers' needs, for example by: adopting participatory methods; focusing on tasks in which female farmers specialize; increasing the number of female agents; and using illustrated instructions rather than written material, which is easier for people with weak reading skills to understand.
- Promoting communication technologies such as mobile phones can play an important role in

supporting disadvantaged producers and users of goods and services in market negotiations without the intervention of powerful intermediaries. Women are likely to benefit more from ICT services because of their lower literacy and mobility.

In the medium term, the Government, both as an investor and by mobilizing private sector and development partner, can make infrastructural investments:

- Better provision of transport networks and physical infrastructure, including electricity and water as well as women-friendly ICT innovations, are key to ensuring that goods and service providers reach markets in a timely manner, and have the additional benefit of reducing the heavy housework burden that limits many women's involvement in income-generating activities.
- Customs automation can significantly contribute to overcoming the difficulties women tend to experience in border procedures and save more of their time.

The private sector also has a vital role in addressing constraints that limit expansion of trade:

- In rapidly expanding access to services such as education and health.
- In agriculture, the financial sector has a clear role to play in facilitating access to financial services to address the constraints that farmers face in accessing the credit often necessary for modernization of farming methods.
- Companies may also be able to leverage some of their advantages by finding innovative approaches to better tailor extension services to female farmers' needs.
- In the manufacturing sector, the private sector would be best placed to advise on current skills gaps. Companies could take a more active role in advising on curricula for formal education and vocational training.
- The private sector, the Government and existing labour organizations could work in tandem to put plans in place to improve working conditions and the representation of workers in the garments sector.
- The existing work by the Department of Trade Promotion and Product Development to support

the technical training of silk farmers in rural areas and strengthen links with lead weaving firms could serve as a useful model for the private sector, as a means of ensuring better access to locally-sourced raw materials for handicraft production.

Gender-trade mapping has also highlighted that mining and hydropower constitute a significant and growing proportion of exports and GDP, bringing a number of potential risks and benefits that will depend upon the complementary policies and benefit sharing mechanisms put in place. The capital-intensive nature of these sectors means that opportunities for direct employment for men and women will be limited. There is also a risk that without prudent fiscal policies in place, growth in these sectors could negatively impact upon non-natural resource sectors through ‘Dutch disease’ effects.

However, increased trade flows in these sectors also bring significant revenues both to the Government and the private sector. The impact of increased trade flows on gender equality will therefore largely depend upon how increased resources are managed and how the benefits of increased revenues are shared.

On the government side:

- Fiscal policy will be key to mitigating the potential negative macroeconomic effects of natural resource extraction.
- With the support of Development Partners, the Government should seek to drive forward its agenda to strengthen public financial management (PFM) systems to ensure that additional resources are aligned to the goals of NSEDP 7. Some of the increased revenues could be channeled into investing in infrastructure improvements aimed at addressing constraints in the non-natural resources sectors.

For the private sector:

- Prospective mining and hydro companies should work with the Government to ensure all new natural resource projects meet the standards set out in the Water Resources and Environment Administration (WREA) Decree on Environment and Social Impact Assessment.

- Women’s involvement should be sought at every stage of projects supporting alternative income-generating activities, from design to implementation.
- Benefit-sharing mechanisms such as ancillary employment services, preferential rates, services and access, community development funds and public private partnerships offer women affected by resource-based projects opportunities for new livelihood flows.

There is a clear need for the Government to work on the development of more reliable evidence and more in-depth studies of gender in specific sectors. In particular, efforts should focus on:

- Conducting gender-focused value chain studies of particular products and sectors, in order to: examine with precision where women and men are in the various segments of the chain; identify ways to overcome power imbalances that may characterize relations between them; and give full visibility to those areas of women’s work often overlooked in development interventions. The rice milling and silk projects currently being implemented in some parts of Lao PDR could constitute a good model for similar analyses and interventions in other sectors and regions.
- Collecting gender-disaggregated statistics at a highly disaggregated level, in a timely manner and at regular intervals (without an understanding of trends and changes over time, an accurate assessment of gender-differentiated impacts is impossible).
- Collecting more information on rural sectors in particular, focusing more specifically on how different family members allocate time and resources to various crops and other sources of livelihoods, and on their status and bargaining power within the family farm. The 2011 Agricultural Census by the Ministry of Agriculture and Forestry is an important step in this direction. This effort could be further strengthened by promoting more regular monitoring of key gender-disaggregated indicators on an annual basis.

The following table from Fontana (2012) highlights the specific gender-related constraints faced in Lao PDR.

Table 23: Addressing constraints to trade expansion

Sector	Constraint	Potential complementary interventions	Implementation requirements
Agriculture	Access to inputs and credit	Financial inclusion programmes to increase access to finance	Requires long-term programme
	Access to extension services	Participatory extension services using illustrated instructions	Largely policy-based
		Infrastructure improvements in transport networks and electricity, which can ease access to extension	Investment in infrastructure required
	Access to information on markets	Institutional strengthening of women's groups and support for women's inclusion and influence in farmers' associations and trade unions	Largely policy based
		Facilitate access to communication technologies	Policy and infrastructure
Garment	Labour attraction and retention	Strengthened public-private partnerships to increase skills and productivity, and interventions to improve management, working conditions and representation of workers	Largely policy-based
Handicraft	Lack of raw materials	Support and technical training of silk farmers in rural areas; facilitating sustainable partnerships between them and lead weaving firms	Policy-based
Manufacturing	Technical skills	Better design of curricula so as to be more relevant to the technical knowledge required in key export-oriented sectors	Policy-based
		Support to firms to undertake on-the-job training for female employees	Policy-based
Cross-cutting	Difficulties experienced at the border.	The introduction of modern, electronic customs clearance systems	Requires infrastructure investment
	Basic skills and literacy	Incentives for teachers to work and remain in rural schools	Policy-based but may require significant budgetary resources
		Building new schools and improving physical access to them	Requires infrastructure investment
	Limited transport networks	Improvements to road network	Requires infrastructure investment
	Electricity provision	Providing the poorest households with interest-free loan for electricity grid connections	Policy-based
Investment in electricity transmission network		Requires infrastructure investment	

7.4 Trade and the environment

Environmental considerations are important in sustainable trade, and are often closely linked to poverty and gender considerations. The accelerated pace of development in Lao PDR and increase in trade has socio-economic and environmental impacts, both positive and negative. To date (and for the foreseeable future) Lao PDR's path to development has been firmly rooted in developing its abundant natural resources, including water, minerals, wetlands, forests and biodiversity, which has a significant environmental impact. These issues have received increasing domestic attention (for example, from the National Assembly) with concerns being raised over the long-term sustainability of the current resource-dependent development path. This is seen not only in terms of the limitations of socio-economic links and benefits, but also in terms of environmental impact, including increased deforestation for timber, and concessions for mining, hydropower and agricultural production.⁷⁰

The United Nations Environment Programme (UNEP) and International Institute for Sustainable Development (IISD) handbook on Environment and Trade (2005) notes that trade and the environment are intrinsically linked, as all economic activity is based on the environment. The environment provides the inputs (for example, minerals and soil), energy and waste disposal for economic activity. The report notes that the links between trade and the environment are multiple, complex and important, and that the net result will depend on the supporting economic and environmental policies at national and international level. Furthermore, current global developments are linking international regulations on trade law (for example, through the WTO) and environmental law (for example, through various multilateral environmental agreements, national and sub-national regulations).

7.4.1 Lao PDR Environmental policy

The Political Report to the 9th Party Congress stresses that sustainable development is dependent on environmental protection, which ensures equitable economic and social development. A resilient environment, therefore, is necessary for transformation to an industrialized and modern nation. To this end, the Government will pursue the following policies and policy implementation measures:

- The Government will focus development projects in several priority areas, including the preservation⁷¹ of natural resources and the environment, and allocating land for settlement and livelihood linked to creating permanent jobs to bring an end to slash and burn cultivation.
 - The Government will implement programmes to save raw materials and energy, and reduce pollution, and promote new and innovative technologies that are environmentally friendly and that contribute to human security and sustainable development.
 - To achieve industrialization and modernization, the Government will continue to give priority to increasing the production of agricultural and forestry products for processing, and developing energy for industrial development, including hydropower, while protecting forests and water resources and developing alternative energy, such as thermal energy, biogas and solar power.
 - The mining industry will be developed in a focused and thorough manner, to create the foundation for future national growth.
 - The Government will participate in regional and international forums to respond to global warming and climate change consistent with national interests, and those of other developing nations, and all mankind.
 - Increase efforts and capacity to research and develop: market-oriented mechanisms; sustainable development; creation of a harmonious society; impacts of globalization; and international integration of the country.
- NSEDP 7 offers measures for rural development, poverty eradication and environmental protection to achieve sustainable development, namely:
- Allocate land and forest to landless farmers, creating permanent settlements, and invest in priority programmes for poverty reduction at the village cluster (kumban) level.
 - Eradicate poverty at the grassroots level through participatory planning while building the capacity of staff at the district and provincial levels.
 - Develop labour markets by creating networks that reach the poor to improve rural livelihood opportunities.
 - Raise awareness at all levels through participa-

70. RTEA (2007).

71. NB. different from conservation.

tion in water and environmental management; classify and allocate land for socio-economic development; update weather forecasting procedures; and invest in projects that address key environmental problems in a timely manner.

Measures are also presented on coordination between sectors relating to cross-cutting issues, including the environment, specifically:

- For more effective water resource and environmental administration, central and local authorities responsible for natural resources management and exploration will coordinate, with the objective of reducing environmental degradation and pollution.

Several priority programmes and projects in different sectors that may impact on poverty and environmental conditions are proposed by NSEDP 7. The Plan also proposes mega-projects⁷² in 21 different trade, investment and commercial development categories. Projects in the 19 sectors listed below will have minor, moderate, or significant implications for the physical environment.

Although extractive industries are required to take into consideration the conservation of resources

1. Railways	9. Inland waterways and bank erosion protection	16. Irrigation construction
2. Roads		17. Industrial factories
3. Highways	10. Building construction	18. Irrigated agricultural development
4. Health infrastructure	11. Education infrastructure	19. Telecommunication and information technology
5. Airports	12. Electricity transmission lines	
6. Mekong bridges	13. Mining development	
7. Urban development	14. Hydropower development	
8. Tourist site development	15. Manufacturing	

and protection of the environment, capacity for enforcement and official commitment remains weak. The 7th Plan proposes: building 10 additional large dams by 2015, seven of which are expected to produce about 3,436 MW of electricity; initiating the construction of 10 more projects producing about 5,015 MW; and processing mining and mineral products into finished or semi-finished products.

The MoIC Action Plan for NSEDP 7 has a

programme for developing industrial and commercial regulations for foreign trade, including safeguard measures consistent with regional and international regulations, including the trading of selected chemicals, hazardous products, prohibited wildlife and endangered plant species and products.

The Ministry of Agriculture and Forestry (MAF) Agricultural Development Strategy to 2020 has two long-term development objectives, one of which is related to conserving the environment: Upland ecosystems are conserved to ensure food security and to improve livelihood opportunities for rural communities.

The MAF strategy also proposes the implementation of 'smart agriculture' when investing in irrigation, rural market access roads, and other high-cost rural infrastructure. The smart agriculture approach links agribusiness investments to a set of social and ecological conditions to ensure that such investments benefit not only the investors, but also Lao society and rural smallholders. This concept is linked to the 'triple bottom line investment' proposed in Chapter 12, which also includes minimizing impacts on the environment.

The Agricultural Development Strategy to 2020 has four goals related to promoting sustainable agricultural development. Goals three and four relate to environmental conservation, specifically:

- *Goal 3: Sustainable production patterns, including the stabilization of shifting cultivation and climate change adaptation measures, are adapted to the specific socio-economic and agro-ecological conditions in each region.* To this end, MAF will work with key stakeholders in

72. Definition: A mega-project is the project or group of projects with a direct cost of at least US\$50 million.

the agriculture and natural resources sector to develop fiscal policy measures that provide incentives for smallholder upland farmers to adopt carbon-neutral farming practices and further reduce deforestation and upland degradation. Capitalizing on lessons learned from other successful projects, the fiscal policy measures will emphasize benefit-sharing and payment for environmental services, with farmers acting as eco-stewards. Climate change adaptation measures will be based on a sub-basin agro-ecological analysis that takes into consideration socio-economic conditions and the environmental services being provided by the landscape and natural resources managed by farmers in each location.

- *Goal 4: Sustainable forest management will preserve biodiversity and will lead to significant quantitative and qualitative improvements of the national forest cover, providing valuable environmental services and fair benefits to rural communities as well as public and private forest and processing enterprises.* MAF emphasizes that forests are key to eco-system management. Other measures will include: improved effectiveness of law enforcement; reduced illegal logging; stringent prevention of land encroachment; increased rehabilitation and reforestation; and innovative initiatives for watershed management.
- A principal target of the MAF Strategy is to restore forest cover to 65 per cent of the total land area through the implementation of co-management of biodiversity and watersheds for conservation and protection. Note that the Agricultural Development Strategy does not regard the cultivation of industrial trees as contributing to increased forest cover.

MAF expects to increase inspections of the technical parameters of agricultural land concessions including applying the principles of participatory land use planning and contract farming. MAF will evaluate the socio-agro and environmental implications of land-based investments. In addition, MAF will ensure that advanced technologies, improved seeds and breeds, and exotic and alien species imported by investors are compatible with the local conditions and do not pose threats to indigenous species, local environments or communities.

The Strategy of the Ministry of Natural Resources and the Environment (MoNRE) for 2011-2015 emphasizes strengthening the agency's own capacity and monitoring the environmental management plans of various development projects. Until 2015, MoNRE expects to minimize the impact on the natural environment of development projects, while improving and protecting forest resources. Consistent with NSEDP 7, forest cover will be 65 per cent by 2015, and 65 per cent of the country's mineral resources will be retained and protected.

MoNRE proposes rehabilitating environmental losses and integrating the administration of water resources using a river basin management approach, specifically for the Mekong River and its tributaries. MoNRE also will ensure environmental protection in urban and rural communities and preserve an abundant supply of land, water and air. However, no targets are provided.

Other than mentioning the monitoring of environmental management plans of 'development projects', the MoNRE Strategy to 2015 does not mention any potential environmental impact from trade. However, 'development projects' are likely to include investments in hydropower, mining, and perhaps agricultural land concessions.

The Government has enacted a wide array of legislation, regulations and action plans for environmental conservation and protection, including in other sectors such as health. The Environmental Protection Law of 1999, supported by its Implementing Decree of 2002, is the principal environmental legislation. It includes measures for the protection, mitigation and restoration of the environment, and guidelines for environmental management and monitoring. This Law outlines protocols for conducting environmental impact assessments (Article 8); greening production processes (Article 9) and construction projects (Article 10); protecting natural resources (Articles 11), legislation, regulations, and action plans for environmental conservation and preventing and mitigating natural disasters (Articles 17–19).

The Prime Minister's Decree on Health Impact Policy was enacted in 2007 to safeguard public health. National Environmental Health Action Plans are being drafted to provide multi-sectoral collaboration and cooperation on environment and health programmes.

The Forestry Law was amended in 2007 to strengthen sustainable management of forests, and the Wildlife Law also was enacted to provide a stronger legal framework for biodiversity conservation. However, implementation and enforcement of these laws are weak and targets go unrealized. The lack of quantitative targets on the environment has made effective monitoring difficult.

7.4.2 Trade and Environment links in Lao PDR

The Organization for Economic Cooperation and Development (OECD)⁷³ defines the links between environment and trade in terms of product effects, scale effects, structural effects, direct effects and then legal and broader policy links.

- **Product effects** are related specifically to the type of products being traded and can be positive, such as through importation of 'greener' production technologies or less polluting goods, or negative, such as the risks associated with transporting hazardous materials over longer distances. There is often a technology-linked aspect in this effect. Hence, Lao PDR's trade and investment policy and process should continue to promote the transfer to new, and in particular, cleaner production technologies.
 - **Scale effects** can also be beneficial through increased wealth or efficiency gains from economies of scale, or they can refer to the sheer increase in volume of production and associated emissions. This will be particularly important to high growth sectors in Lao PDR, such as in relation to the impact of mining and expanded hydropower operations (the environmental links are covered in the relevant chapters).
 - **Structural effects** where trade causes the country to produce more goods in which it has a comparative advantage, and fewer goods in which it does not. The net effect will depend on whether the sectors of comparative advantage (such as hydropower and mining) have more or less impact on the environment. Trade with a country that demands green goods can also lead to structural changes, such as providing incentives for organic production.
 - **Direct effects** relate to the environmental costs of the act of trading, such as pollution from transport, or the import of pests and diseases. This links to the importance of establishing an effective sanitary and phytosanitary (SPS) regime, including pest risk analysis and surveillance (covered further under section 8.8).
- Furthermore, there are numerous regulatory and policy effects at both the national and international level. Nationally, these include subsidies, environmental labeling, intellectual property rights, agriculture, investment and government procurement, and national-level environmental standards. Internationally, it is important to consider the interaction of the multilateral system of trade with the multilateral regimes for environmental management.
- A number of these are pertinent to the current situation and trading environment in Lao PDR, for example:
- **Processes and production methods (PPM)**, where the effect of the production method on the environment or safety or other features of the final product are considered. Markets may require products to be produced in a manner that reduces environmental impact. This impacts on, for example, Lao PDR's potential wood exports, for which the EU has recently required proof of sustainable sourcing. Methods to promote cleaner and more efficient production processes should constantly be sought and considered, particularly in investment applications.
 - **Environmental standards and competitiveness** are standards required either by markets related to safety and related concerns, or global regulations to stop a 'race to the bottom' in environmental standards. Much of this is covered under section 8.8 on SPS and section 8.10 on technical barriers to trade (TBT), which refer to the WTO SPS and TBT agreements. However, the majority of requirements in this area now come from purchasing firms and not governments, such as compliance with good agricultural practice (GAP), hazard analysis and critical control points (HACCP) and International Organization for Standardization (ISO) requirements. Often these are also related to social standards. The proposed Matching Grants facility would be one means of assisting domestic firms to comply with the myriad of export market requirements in environmental and social areas.
 - **Eco-labeling and environmental management (EM) certification** programmes, provide a

73. OECD. *The Environmental Effects of Trade*, Paris: 1994.

mechanism to overcome various process and production methods (PPMs) and for Lao PDR have been shown to be a means of focusing on niche products and markets. Eco-labels are generally voluntary and can be administered by various organizations. These would apply to specific products that could then be sold, for example, as 'organic', 'Fairtrade', 'Rainforest Alliance', or 'Utz' certified. The importance of these labels is underscored by the ITC launching a 'Standards Map' that tracks and provides information on these various schemes. It is recommended that Lao PDR continue to promote and facilitate the uptake of these schemes. Given the relatively small production base of Lao PDR it would be possible to build a 'brand' for Lao PDR as a source of environmental and socially sustainable products. Environmental Management certification refers to the overall handling of environmental issues by a firm and is not necessarily product-related, and includes programmes such as ISO 14001.⁷⁴ Today, there is an increasing crossover between eco-labelling and EM programmes, particularly at the sector level. For example, the Forest Stewardship Council (FSC) standard for sustainably harvested forestry products, which has led to a number of large buyers only sourcing from FSC-certified suppliers. Lao PDR has an opportunity to move to the forefront of this initiative and establish the country as a source of sustainable wood. However, the cost of compliance with these schemes can often be particularly high in a developing country context. Furthermore there may be scale economies that would reduce the average cost to domestic producers. Hence, this is also envisaged as an area in which broad policy and interventions could have broad-based impact. The Government needs to encourage and facilitate this process through strong commitment to this policy, a broad programme of support and partnerships with the supply chain arms of private firms and non-governmental organizations involved in this area. The beginning of this process can be seen in the focus on organics in the Agriculture Strategy and on ecotourism in the Tourism strategy.

- WTO and Multilateral Environmental Agreements (MEAs). Environmental aspects of trade are regulated both through the WTO and at least 20 different trade-related multilateral environ-

mental agreements (MEAs). Lao PDR is a party to the main MEAs, including: the Convention on Biological Diversity (and the Cartagena Protocol on Biosafety); the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); the United Nations Framework Convention on Climate Change (and the Kyoto Protocol); the UN Convention to Combat Desertification; the United Nations Convention on the Law of the Sea; the Montreal Protocol on Substances that Deplete the Ozone Layer; the Basel Convention on the Transboundary Movement of Hazardous Wastes; the Stockholm Convention on Persistent Organic Pollutants (POPs); and the International Plant Protection Convention.

- Intellectual property rights (IPRs), IPRs can take various forms including Patents, Copyrights, Geographical indications, Trademarks, Industrial designs, Integrated circuits, Undisclosed information, and Classified information of commercial value. IPRs are covered under the Trade Policy section where global interaction is governed by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). However, of particular interest to this chapter is the general concept that IPR security can increase the flow of technology, leading to more environmentally friendly processing and products and the potential benefit of securing geographical indications and patents. Given Lao PDR's focus on niche markets and products and rich biodiversity, there are unique opportunities for registering products of Geographical Origin, such as Boloven Coffee, and securing the rights to traditional knowledge and inputs in Non-Timber Forest Products (NTFPs) such as herbal/pharmaceutical remedies. The rules of engagement in this area are regulated by the Convention on Biological Diversity (CBD), which seeks to ensure that the home country benefits from the commercial exploitation of this knowledge or product. Benefit sharing should also be part of domestic intellectual property rights law.
- Green Goods. In an age of increasing climate change and environmental awareness Lao's unique biodiversity and ecosystems are incredibly valuable both to Lao PDR and the wider world. However, the current pricing of this value is not truly reflected partly due to low public awareness. Hence, Lao PDR needs to play

74. ISO 14001 implementation is primarily about identifying organizations aspects that affect the environment, evaluating its level of impact in the environment and making planned efforts to continually reduce the level of impact.

an active role at the forefront of opportunities to promote of environmentally related goods. This will include taking maximum advantage of carbon trading and similar initiatives, and participating effectively in international discussions. A good start has been made by the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD) initiative in Lao PDR.

- Sectoral policies and impacts. Sectors have different impacts on the environment. A Rapid Trade and Environment Assessment (RTEA) on Lao PDR was published in 2007 by the International Institute for Sustainable Development (IISD) and the World Conservation Union (IUCN). The study provides analysis and recommendations on the key export sectors in Lao PDR, many of which are directly included in this section and mainstreamed into National Export Strategy Action Plans.

7.4.3 Policy and Regulatory Challenges

Institutional Challenges in Lao PDR

Although natural resources and environment-related issues have recently been raised to the ministerial level with the establishment of MoNRE in 2011, which replaces less authoritative offices and agencies, policy implementation is likely to remain weak in the medium term. Despite the existence of environmental policy and a well-intentioned regulatory framework, environmental regulators lack manpower, budgets, knowledge, leadership and commitment to monitor compliance and enforce legislation that would protect food security and livelihood systems. Environmental administration is ineffective, unable either to produce or maintain comprehensive natural resources data or to exercise full power over foreign and domestic investment across national and provincial authorities. Significant improvements are required in the control of investment. Environmental administration and regulation are inadequate to ensure sustainable agricultural development and food security in the face of the multi-faceted demands and powerful agro-economic influence of investment and trade generated by the 'big push' from policy, and the 'big pull' of expanding markets.⁷⁵

Furthermore, the RTEA (2007)⁷⁶ study notes that

the implementation of the MEAs will provide an institutional framework to better enable trade liberalization in relevant areas to support environmental conservation and protection. For example, within the context of the Basel Convention and CITES, Lao PDR prohibits the import and export of certain goods, including hazardous waste and endangered wildlife and plant species. Nevertheless, implementation is an issue of concern. For example, following Lao PDR's accession to CITES in 2004, the wildlife trade-monitoring network reported that the wildlife trade has become less visible, but local and regional demand has continued to flourish unabated (TRAFFIC, 2004). Improved access to remote areas has facilitated the commercialization of the trade in wildlife, primarily for traditional medicine. As wildlife populations decline, the value of wildlife products increases and the lure of lucrative profits make it even more difficult to curb illegal trade along long and porous borders. Moreover, a significant source of this trade comes from in or around National Protected Areas (Than, 2006; ICEM, 2003).

The capacity of various institutions to implement and enforce environmental regulations and environmental action plans is weak. In addition, awareness of environmental issues is often poor among the public, including importantly, the correlation between environmental protection and public health.

Strategic policy recommendations

A number of general recommendations, many of which emerged from the RTEA study, show how environmental impacts of trade and investment liberalization could be addressed, including:

- Continue to raise awareness of the links between trade and environment in diverse constituencies from local to national level.
- Enhance policy coordination and coherence on trade and the environment among the relevant government policymakers by assessing gaps in institutional capacities and strengthening institutional ability to meet changing priorities in Lao PDR.
- Recognize that economic growth based solely on natural resources is not a panacea for development. The extent to which the natural resource base is sustainably managed will

75. Fullbrook (2009), p. 6.

76. Rapid Trade and Environment Assessment (RTEA). National Report for Lao PDR. September 24, 2007. IISD & IUCN.

determine longer-term growth potential.

- Enable an inclusive domestic trade policy-making framework and explore options for incorporating more environmental concerns into this process, such as the inclusion of MoNRE in trade decision bodies.
- Joint research projects on trade, production and environmental issues should be undertaken, with the Agricultural and Forestry Policy Research centre APRC collaborating with the MoIC Economic Research Institute for Trade (ERIT), and MoNRE's Environmental Research Institute.
- Strengthen the role of the private sector in addressing environmental challenges in key sectors and facilitate a domestic environment that attracts responsible business and encourages international best practice.
- Ensure the appropriate institutional and regulatory frameworks are solidly in place and enforced in each sector. Enact and ensure compliance with regulations and policies for environmental management in order to provide an environmentally optimal enabling framework for trade liberalization to take place.
- Undertake strategic impact assessment of new policies, regulations, investments and projects in all sectors and raise awareness among stakeholders of the environmental and social impacts and possible mitigation measures.
- Strengthen regional cooperation to address the environmental impacts of economic integration. Of particular importance is managing the growing demand for natural resources in the Greater Mekong Subregion in pace with the development of infrastructure to facilitate the freer movement of goods, services and investment.
- Enhance monitoring and assessment of the environmental impacts of trade liberalization in order to ensure that investment and economic development priorities do not cause undue or avoidable social and environmental damage.
- Continue to collect data on the current state of the environment, trade flows and potential environmental impacts to aid in the policy-making and environmental management process.

7.4.4 Sectoral Environmental Concerns

Specific environmental analysis of Lao PDR's predominant sectors has been included in the overall sectoral assessment chapters of the DTIS. However, some summary recommendations, primarily sourced from the RTEA⁷⁷ are repeated here:

- As broadly mentioned in NSEDP 7, Lao PDR needs to continue to carefully consider prioritization and sequencing in the development of concessions and natural resources. Furthermore, with regard to natural resources and their social and environmental effects, it is important to 'do the right projects' and then 'do projects right'.
- Given the rapid pace of legislative reform in recent years, there is a growing gap between de jure and de facto policy and legislation. This is most acutely relevant in the natural resource sectors such as forestry, where there is an increasingly strong and international standard regulatory framework for timber trade, but poor implementation. There needs to be an increased emphasis on attaining NSEDP goals through more focused implementation and enforcement of regulations.
- Improve environmental governance at the same pace as current trends in foreign direct investment in the mining, hydropower and construction materials sectors, by encouraging companies to commit to a high standard of socio-environmental performance and ensuring clear investment laws and coordination mechanisms related to environment impact assessments.
- Encourage value-addition in the wood and processed wood sector to stimulate processing industries and obtain greater economic returns while ensuring sustainable resource use, including the promotion of forest certification and chain-of-custody verification.
- To enhance sustainability in the tourism sector, strengthen the Lao National Tourism Administration's ability to engage with the private sector and investment decision-makers to encourage the development of successful ecotourism models.
- Promote quality assurance in the organic agricultural products sector by strengthening systems that fully take into account environmental and social considerations to help 'green' exports meet

77. *Ibid.*

international standards.

- The Government should implement the National Export Strategy for the silk handicraft sector and work with the Lao Handicraft Association and the Lao National Chamber of Commerce and Industry to promote value-addition and foster diversification of the sector.
- Develop and enforce laws and regulations related to the forestry sector as a whole, and especially to NTFPs, such as medicinal plants and spices.
- Draft a national biofuels policy that clearly outlines environmental and social policies and is integrated with, and included in, a national energy production and management plan.

7.5 Conclusions and recommendations

Whilst Lao PDR has made significant progress in poverty reduction, gender representation in the workforce and among business owners is strong in some areas, and environmental concerns are being addressed, more can be done to alleviate poverty, raise the economic role of women and

address environmental issues. The increasing role of natural resources in the economy has potentially serious consequences, not just from a purely economic point of view (principally via ‘Dutch disease’), but because it threatens to despoil the environment and physically limit the possibility for trade development to translate into meaningful improvements in the livelihoods of the Lao population. With these realities in mind, a number of recommendations in the areas of trade, poverty reduction and environmental sustainability have been made in this chapter, and mainstreamed elsewhere throughout the DTIS. Several of the recommendations address all three objectives. As in the rest of the DTIS the focus is on achieving a number of achievable, strategic goals that do not require persistent long-term government or donor intervention.





PART III: TRADE FACILITATION AND BUSINESS ENVIRONMENT

8. TRADE FACILITATION

The landlocked nature of Lao PDR affects its ability to participate effectively in the world economy, placing significant pressure on the quality of its trade and logistics environment. Scope for improvements to trade and logistics is considerable, and any initiative that will reduce the costs of international trade operations will significantly contribute towards a boost in trade performance, enhance national competitiveness and increase the country's reputation as a destination for foreign investment. Lao PDR has made a considerable commitment to becoming 'land-linked' rather than landlocked. Although more can be done, highlights include: an ambitious Trade Facilitation Strategy; the inauguration of a National Trade Facilitation Secretariat; extensive investment into trade and customs; and improvements to the transport and logistics infrastructure. This chapter provides an overview of the current trade logistics environment and Lao PDR's commitment to reform, and highlights areas with scope for improvement in trade facilitation, sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT).

Although significant trade liberalisation has taken place and tariffs are not the primary obstacle to trade, much more can be done to enhance the flow of trade-related activities behind the border and at the border. While Lao PDR's neighbours Thailand, China, Vietnam and Cambodia are amongst its main trading partners, trade with the wider world community is usually dependent on transit through Thailand or Vietnam and shipment from their ports. Detailed cost-benefit figures have not yet been collated, but it is thought that the scope for reform in the trade and logistics environment is significant. For example, on the World Bank Logistics Performance Index (LPI) Lao PDR ranked 118th out of 155 economies in 2010. The costs relating to trade and customs procedures are thought to particularly high.

In this context it is also worth noting research by the World Bank (2011), which shows that

Lao exporters spend much more time dealing with regulatory procedures than businesses that do not trade. In view of this comparatively poor performance by Lao PDR, the pressure to improve the trade and logistics environment is forceful. This has manifested itself into a wide range of national, regional and international commitments (Box 7).

8.1 Trade and transport procedures

Although considerable reform momentum can be observed – especially in the areas of legislation, organizational structure, computerization and customs clearing procedures – there is considerable need for further improvement.

Existing studies – such as the World Bank's 2006 "Building Export Competitiveness in Lao PDR" report, the 2008 "Import and Export Process Mapping in Lao PDR", the 2009 "Time Release Study" and the 2011 "Transportation and Logistic Corridor Assessment" – largely focus on the institutions and procedures specific to Lao PDR but neglect the transit procedures through neighbouring countries. While helpful, more work needs to be done on detailing the commercial procedures (such as for arranging trade finance, insurance and transport and payment). However, these studies do describe a complex trade and customs environment in which traders are exposed to a wide range of trade document requirements as outlined in Figure 15.

Additional documents that may need to be obtained in Lao PDR to support import clearance in the country of arrival can (but not necessarily) include: a Certificate of Origin; GSP Form A; CITES Certificate; Wood Packaging Certificate; Fumigation Certificate; Animal Health Certificate; Phytosanitary Certificate; Organic Certificate; the Dangerous Goods Note; and Material (or Product) Information Sheets. Again, detailed studies for Lao PDR are not available, but it is thought that the timeframes and bureaucracy associated with each of these documents is likely to vary significantly. Some anecdotal evidence suggests that the

Box 7: Policy drivers for reform as identified in the National Trade Facilitation strategy

National level:

- The seventh National Socio-economic Development Plan, which aims for economic growth by at least 8 per cent per year and further poverty reduction in line with the 2015 Millennium Development Goals.
- National competitiveness considerations and the desire to attract business to Lao PDR.⁷⁸
- The strategic desire to evolve from a landlocked to a landlinked country.
- The national trade facilitation strategy and action plan.

Bilateral and regional level:

- Transit specific agreements within the Greater Mekong Sub-region context, and within the context of bilateral Cross-border Trade Agreements with neighbouring countries (by 2015).
- Trade facilitation specific commitments made in the context of the ASEAN Free Trade Agreement, the ASEAN Community Framework (by 2015) and the ASEAN interoperable national single window systems by 2012.
- 15 bilateral trade agreements between Lao PDR and its trade partners.

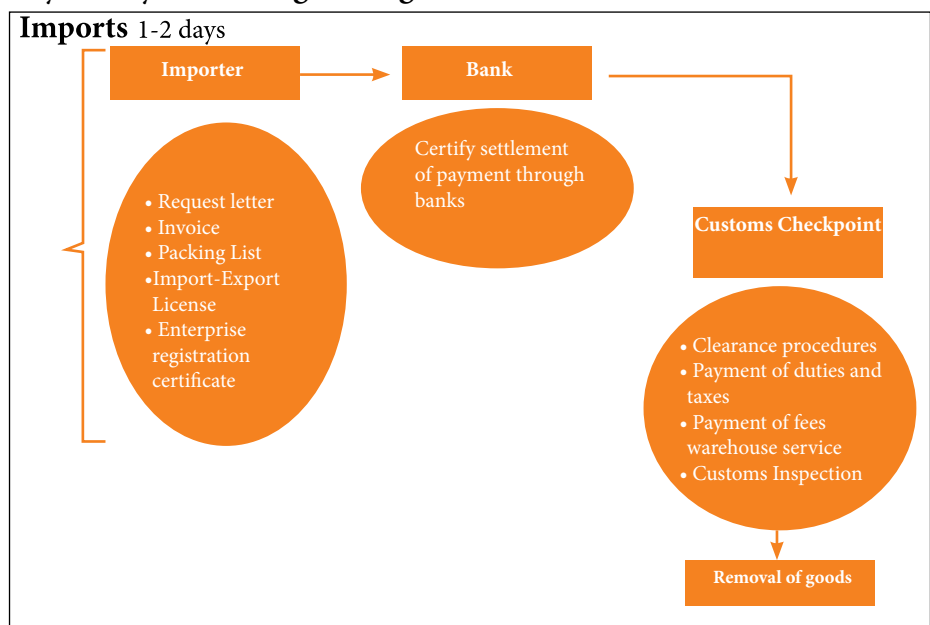
International level

- WTO accession negotiation, in particular those articles pertaining trade facilitation: GATT Article V (Freedom of Transit); GATT Article VIII (Fees and Formalities connected with Importation and Exportation); GATT Article X (Publication and Administration of Trade Regulations); Agreements on customs valuation, and import licensing.
- Best practice recommendations from international organisations, including the: World Customs Organisation (WCO); the United Nations, through its Centre for Trade Facilitation and Electronic Business (UN CEFAC); and the International Civil Aviation Organization (ICAO), amongst others.⁷⁹

institutional capabilities and business processes for some of these trade documents may be very limited or non-existent, especially in the context of animal health, phytosanitary certification and wood packaging).

Apart from the procedural complexity and lack of transparency, trade in or with Lao PDR is also inhibited by the requirement to use authorized import-export companies. Anecdotal evidence suggests that these companies typically levy a 3 per cent charge on top of the Cost Insurance Freight (CIF) value.

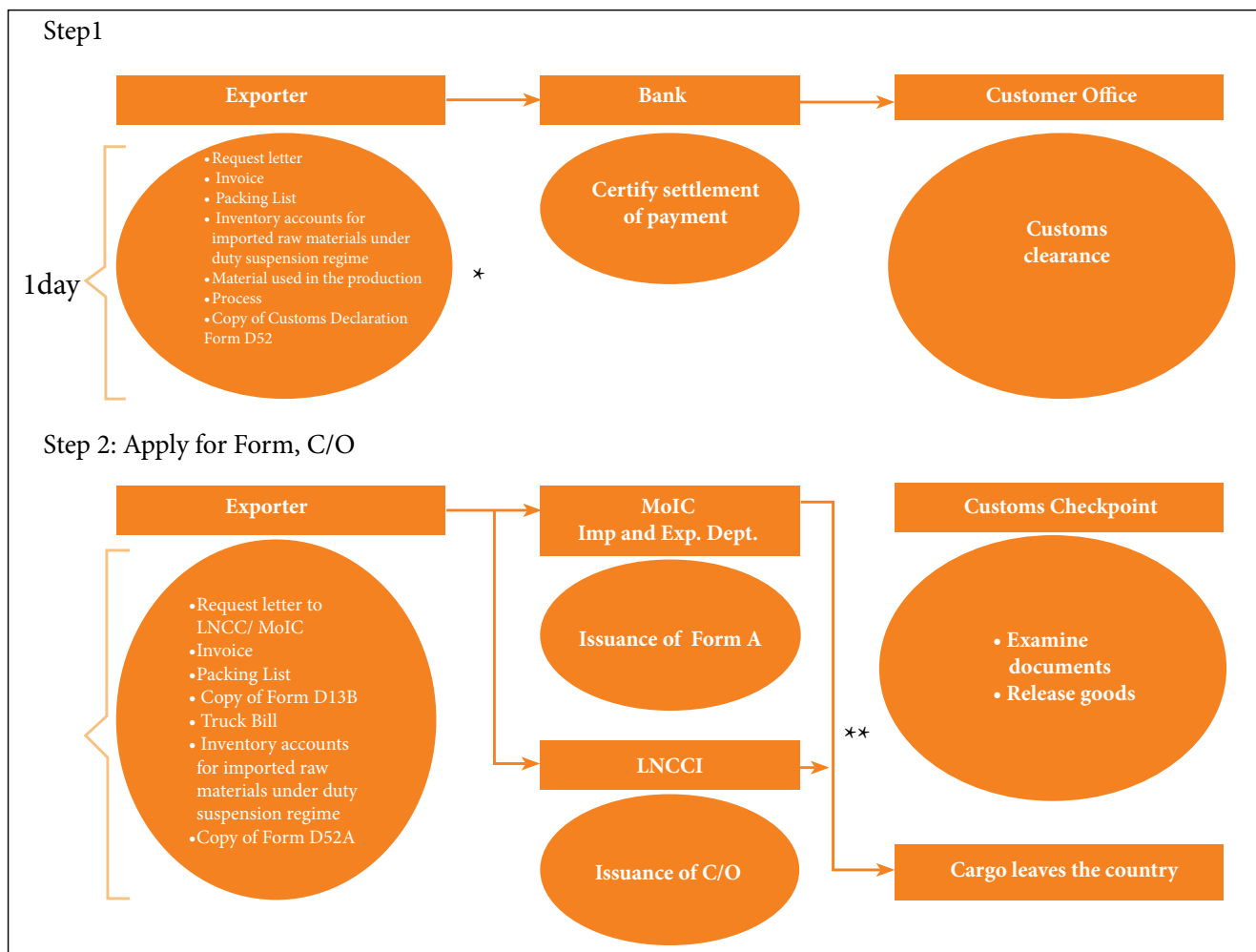
Figure 15: Import and export processes for general goods



78. The FDI target is approximately US\$1.25 billion per year according to the National Investment Strategy for Lao PDR 2011.

79. See for example: United Nations (2001) "Compendium of Trade Facilitation Recommendations"[<http://www.unece.org/cefact/publica/01comp.pdf>].

Exports



Notes:

* Form D 52 is only required under temporary importation regime.

** Apart from form A, MoIC also issues other forms such as AJ, AK, E, SPT, CO Korea, S, D, AI, and APTA.

Source: World Bank (2009) Time Release Study

Also noteworthy is that most trade compliance operations require multiple steps. These may include the requirements to register with relevant authorities, purchase blank documents from licensed stationery suppliers, and administrative practices which require applicants to stand in long queues or apply for formal appointments with the right officials. Unless traders are well connected, many of these preliminary requirements are thought to be particularly cumbersome and act as a major barrier to entry.

Adding to the compliance challenge is the fact that some procedures are dependent on supporting documents, such as the commercial invoice as well as transport, insurance and banking documents. Again, no detailed study on any issues relating to the interdependencies between these commercial documents and official documents has yet been undertaken.

8.2 Customs and customs procedures

Lao PDR's Customs Department is one of three agencies physically present at the border (the other two are Immigration and the Quarantine Inspectors), and is responsible for the administration of customs procedures, the collection of import duties and the inspection of goods. In continuing to develop, the Customs Department and the procedures it enforces are being modernised and developed. For example, the basic customs regime was formalised in the 2005 Customs Law, and recently replaced by a revised 2011 Customs Law, which now meets many of the conformity requirements of WTO accession. As part of a necessary step towards WTO accession, the Customs Department is also in the process of progressively abolishing the use of 'minimum' or 'reference' prices in order to become compliant with the WTO Customs Valuation

Agreement. Modernized risk management approaches are being rolled out as part of the deployment of an automated customs declaration processing system, providing for a move away from lengthy physical inspections of all inbound cargo at the border. An amended customs law was approved by the National Assembly in December 2011. It builds on the 2005 Law and introduces new articles including those providing for the use of e-transactions and electronic signatures and approvals, the application of administrative appeals, the basis for risk management approaches, advance rulings, post clearance audit and measures for infringement. While Lao PDR is a member of the World Customs Organisation and contracting party to the Harmonized System (HS) convention, it has not signed the Revised Kyoto convention on the simplification and harmonisation of customs procedures.

The customs department is also seeking to standardize its documents and in 2011 it introduced a national Single Administrative Document (SAD) in line with ASEAN standards and international best practice. This is based upon international best practice, but the form differs from the Greater Mekong Subregion (GMS) Single Administrative Document (SAD) document used in GMS transit.⁸⁰ This discrepancy leaves scope for confusion, particularly with regard to converting data elements from one format to another. Another known issue with the new SAD is that administrative practices do not provide for a continuation form, effectively restricting traders to no more than four items per declaration.

Findings made during the Time Release study (2009) suggest that the actual time taken to complete all clearance procedures varies significantly between checkpoints. Subsequently traders are unable to predict or plan the time it takes to move goods across a border checkpoint. The temptation to 'circumvent' the system is great – for example by choosing unofficial cross-border routes. Larger freight forwarders generally state that they have no problem dealing with customs whereas smaller players have said that treatment is not equal and that their goods take up to four times as long to clear (World Bank, 2011).

Revised customs clearance procedures went into effect on 1 January 2012 with the deployment of the new automated customs declaration processing

system (ASYCUDA World) for all import and export transactions at the key Thanaleng/Lao-Thai Friendship Bridge 1 checkpoint. This accounts for more than half of all Lao trade. The new system allows for risk-based selectivity using red, yellow, green and blue channels. This provides for the movement away from 100 per cent physical inspection, providing stronger incentives for compliance among traders and reducing time and cost. The new Customs Law (December 2011) provides for the introduction of systems including: modernized customs procedures; including electronic approvals; signatures and payments; post-clearance audit; advance rulings; administrative appeals; and risk-based approaches. The new system provides for a revised customs declaration processing path, reducing the number of steps for import clearance from 11 to 5, and for export clearance from 7 to 4. Remaining international checkpoints will be progressively automated during the second half of 2012 and into early 2013, along with the extension of direct trade entry.

In August 2008 the Government, with the support of the World Bank committed itself to the development of a fully electronic customs system based on ASYCUDA. Full implementation involves multiple implementation phases. The first involves the Friendship Bridge I (regional customs office I) in Vientiane Capital. The second phase involves installation of the system at the major border checkpoints. The third and last phase will see installation across the country's customs offices.

The customs department was also recently transformed into a centrally managed organization. Within this new vertical structure regional offices are held accountable by the head office in Vientiane.

In order to facilitate its reform process, the Customs Department is in the process of finalizing a comprehensive medium-term strategy, which among other things, is expected to cover measures in areas of organization and management, revenue and compliance, and modernization of procedures.

According to the transportation and logistics corridor assessment (World Bank, 2011) it is common for traders to pay informal fees at the border. However, these fees tend to be considered as a form of tipping and not necessarily a major hindrance.

80. The six Greater Mekong Subregion countries are China, Lao PDR, Vietnam, Cambodia, Thailand and Myanmar.

Research indicates that the Savannakhet and Champasack checkpoint clearance process requires 5 to 10 signatures with total informal fees amounting to roughly US\$50 per shipment.

A number of industries are predisposed to sector specific trade and customs procedures. Goods subject to phytosanitary and veterinary controls are particularly heavily exposed (see section 8.8 on SPS). Typically, industries that are highly exposed to additional trade regulation will include: the food and agriculture sector, such as rice (especially if subject to trade quotas, fixed prices and licensing requirements); road vehicles; petroleum and gas; logs; timber exploitation machines; steel; iron; cement; publications; minerals and mineral products; dangerous chemicals; bullets and weapons and war vehicles; opium; destructive fishing tools; pornographic media/materials; banknote paper; banknote ink; banknote printer and coin making machines; archaeological objects including Buddha statues, angel statues and holy objects; national heritage artefacts with historical and cultural value of 50 years old or older; and bat guano/manure. No specific study on these industries has been conducted. It would be helpful to get a better understanding of the specific burden these sectors face.

8.3 Commitment to reform

A number of initiatives aimed at improving Lao PDR's trade and transport have been put in place. They include: approval of the first National Trade Facilitation Strategy and Action Plan; the Customs Law; and the introduction of a non-discriminatory trade facilitation regime through reforms to legislation on the import and export of goods that ensures trading rights and introduces principles of national treatment into Lao law, revised import licensing procedures (moving away from non-automatic to automatic licensing except for the negative list), and the abolition of the annual import plan. The primary ministries with policy or executive responsibilities for controlling and regulating the international movement of goods include: the Ministry of Industry and Commerce (MoIC); the Customs Department in the Ministry of Finance (MoF); and the Department for Transport within the Ministry of Public Works and Transport (MPWT). Further ministries with responsibilities for industry sector-specific policy and controls with international trade elements

include: the Ministry of Planning and Investment (MPI); Ministry of Agriculture and Forestry (MAF); and the Ministry of Health. Policy dependencies across Lao PDR's machinery of government extend to the Government Office, the MoF Treasury Department, the MoIC Provincial office, the Ministry of Science and Technology, and the Ministry of Information, Culture and Tourism. Occasionally there will also be links with the Ministry of National Defence, Ministry of Public Security and Lao PDR law enforcement agencies, especially in relation to cross-border organized crime, illegal immigration and corruption, and the import-export of arms and weapons.

A comprehensive corridor performance analysis conducted by the World Bank as part of the bigger Trade and Transport Facilitation Assessment showed that trade corridors between Lao PDR and Thailand perform well in terms of time and reliability, but the main concern is over cost of services, which is largely due to relatively small volume traffic and the large imbalances between export and import traffic.

The World Bank study also suggested short- and long-term measures to reduce costs. The short-term measures should aim at further liberalizing the logistics services markets to facilitate creation of full integrated cross border logistic operations. This may require going beyond the measures contained in the Cross-border Transit Agreement (CBTA). The long-term measures will involve developing a rail-linked dry port in Northeast Thailand, which could help consolidate traffic, serve as a mode interchange location, address strict time limits imposed by shipping lines on the return of empty containers, and reduce costs by linking the dry port with trade logistics in that part of Thailand. Success in implementing the proposed measures will largely depend on cooperation between Lao PDR and Thailand.

Trade facilitation itself is currently coordinated through a small team of officials based in the Trade Facilitation Division at the MoIC Import Export Department (DIMEX), following the approval of the National Trade Facilitation Strategy in 2011. Its key aims are to make trade and customs procedures easier and to reduce the costs of trading to businesses.

Box 8: Trade Facilitation strategy: Objectives and guiding principles

Recognising that there is considerable scope for reducing the costs of regulatory compliance and for improving the level of public service to the Lao-based business community, the **primary trade facilitation objectives** in supporting trade led growth are:

- **To make international trade and customs procedures simple.**
- **To reduce the costs of trading, particularly to business.**

The guiding principles in meeting these two objectives are:

1. Work towards simplifying, harmonising, standardising and modernising international trade and customs procedures. In particular by:
 - a. **Eliminating unnecessary costs and duplication in the administration of trade and customs procedures, including the rationalisation of document and information requirements**
 - b. **Speeding up administrative and inspection practices**
 - c. **Enabling the use of information technology**
 - d. **Aligning control and administrative practices with the requirements of the business community**
 - e. **Applying rules and procedures in a fair and consistent manner**
2. Implement best practice trade facilitation measures that are based on:
 - a. **International recommendation; and**
 - b. **Consultation with private and public stakeholders**
3. Work with neighbouring countries to improve and reduce the cost of cross-border and transit procedures, transforming Lao PDR from a landlocked to a land-linked country
4. Implement international, regional, sub-regional and bilateral trade facilitation commitments
5. Help Lao PDR-based business take full advantage of bilateral, regional and international trade agreements
6. Ensure that rules and procedures are:
 - a. In proportion [correct relation] to the risk against which they seek to protect
 - b. Clear and easy to understand
 - c. Published and easily accessed by the wider public
7. Fees shall not exceed the costs of services provided

Supporting this strategy, in October 2010 the Government established a dedicated Trade Facilitation Secretariat. This reports to the National Steering Committee for Economic Integration (NSCEI), which has the Deputy Prime Minister (Minister of Foreign Affairs) as its president. The Minister of Industry and Commerce serves as Vice-Chairman and the Ministers of relevant line ministries are also members of the NSCEI. As such, the Trade Facilitation Secretariat has access to the most senior levels of trade and transport policy making.

The authority of the Secretariat is to oversee the implementation of the Trade Facilitation Strategy (TFS), to monitor progress, to eliminate all barriers to its implementation, and to accelerate inter-agency communication and coordination. The Secretariat will normally convene once a year, but more frequent meetings can be arranged depending on the issues to be addressed. It is supported by a dedicated team of administrative staff and personnel. Bespoke Working Groups and Task Forces involving both public and private sector representatives are envisaged to be set-up as required.

Figure 16: Structure of the Trade Facilitation Secretariat

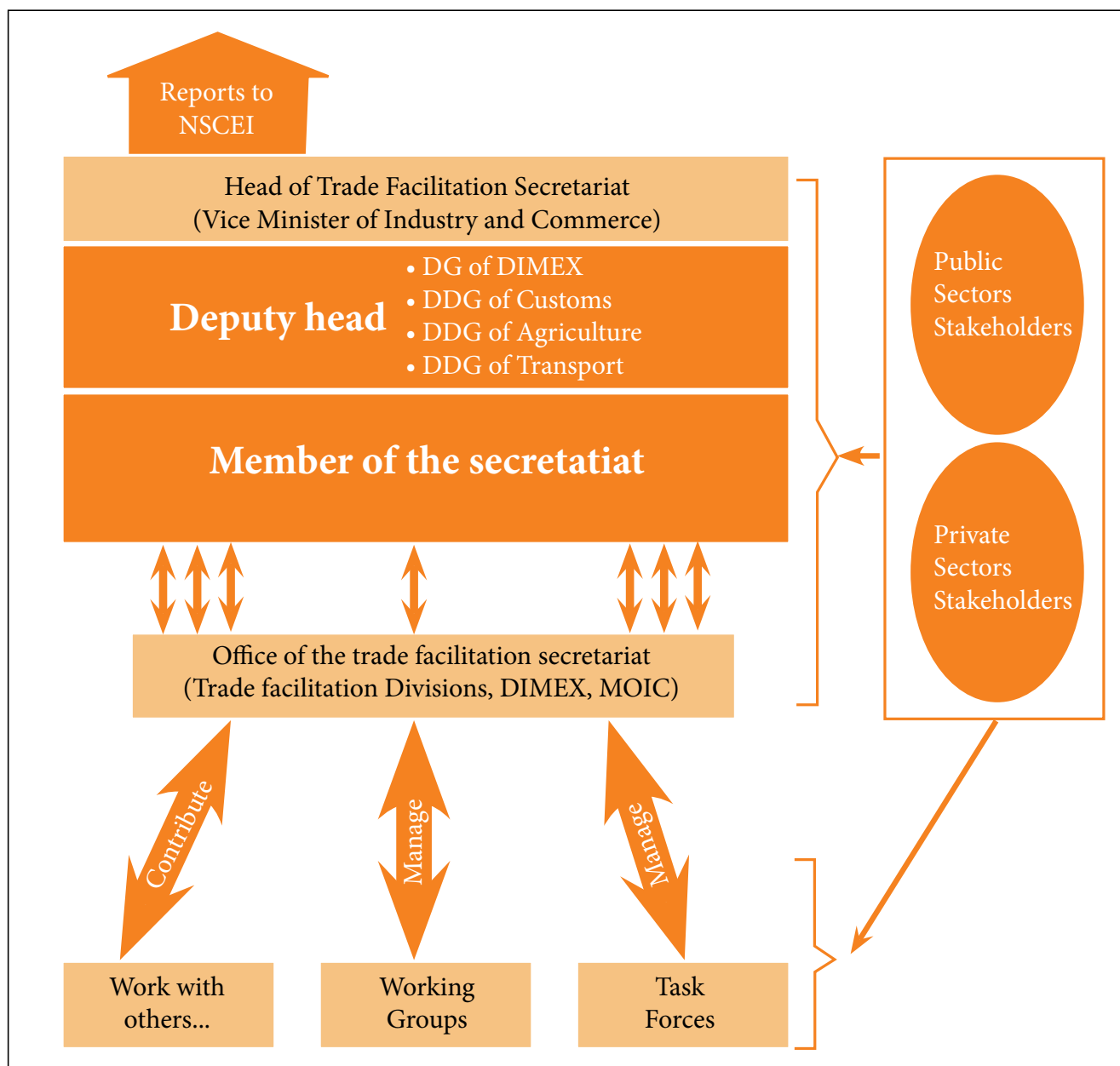


Table 24: Proposed public-private sector working groups operating under the Trade Facilitation umbrella

Proposed Trade Facilitation Secretariat Working Groups and their Topical Themes	Public-Private Partner Organisations ⁸¹
International and Regional Working Group <ul style="list-style-type: none"> • WTO – trade facilitation agreement • Kyoto Customs Convention • UN CEFAC Recommendations • Transit agreements • ASEAN Free Trade Area • ASEAN Trade Facilitation specific commitments • GMS Commitments • Cross-border trade agreements with Vietnam, Thailand, Cambodia and China 	<ul style="list-style-type: none"> • Transport Facilitation Committee (Department of Transport) • GMS Secretariat • Trade and Private Sector Development Subgroup (NIU) • Trade Negotiation Public Private Partnership • Lao Business Forum

81. To avoid over-consultation and duplication of activity the National Trade Facilitation Body shall seek to work with existing public-private consultation mechanisms where feasible.

Border Management Working Group <ul style="list-style-type: none"> • One-stop border controls • Annual Time Release Study • Bilateral border management agreements 	<ul style="list-style-type: none"> • Currently none
Customs and Trade Procedures Working Group <ul style="list-style-type: none"> • Administration of import export and transit procedures • Tariff classification, valuation and origin rules • Customs Procedures with Economic Impact • Simplified Procedures • Import Licensing • Fees • Ethics, transparency and integrity • Periodic trade procedures diagnostic studies 	<ul style="list-style-type: none"> • Trade and Private Sector Development Working Group (MPI) • Macroeconomic Working group and its Ministry of Finance Component • Transport Facilitation Committee (Department of Transport)
Commercial Procedures and Practices Working Groups <ul style="list-style-type: none"> • Banking Procedures • Insurance Procedures • Anti-competitive practices 	<ul style="list-style-type: none"> • Chambers of Commerce
Documents and Electronic Systems Working Group <ul style="list-style-type: none"> • Harmonisation and rationalisation of trade documents • Harmonisation and rationalisation of data requirements • Electronic trade declarations and trade systems – e.g. 	<ul style="list-style-type: none"> • DIMEX • Economic Research Institute for Trade • Customs Department • NERI • Participants in WB data
Information, Guidance and Communications Working Group <ul style="list-style-type: none"> • Trade Information Portal • Trade Guidance Publications • Central repository for Trade Facilitation research and reports • Training Standards for Trade Practitioners • Helpline service • Newsletter • Website 	<ul style="list-style-type: none"> • Currently none
Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) <ul style="list-style-type: none"> • Laboratory facilities • Export certification requirements • CITES • Fumigation Certificate; wood packaging • Horticulture and Marketing Standards • Food labelling 	<ul style="list-style-type: none"> • SPS Task Force • SPS Risk Assessment Group

The Trade Facilitation Secretariat will work in support of existing reform vehicles including the Department of Transport's National Transport Facilitation Committee (NTFC), launched in 1997 on the back of regional transit aspirations within the GMS framework. The NTFC was renamed the

National Transport Committee (NTC) in 2002. Its functions are to: 1) implement all tasks as prescribed in Article 39 of road transport Law; 2) coordinate and implement all ASEAN Framework Agreements and activities related to transport; 3) monitor and implement the GMS framework Agreement; 4)

study the benefits for acceding the International Agreement and Conventions; 5) act as focal points for ASEAN, GMS, ESCAP, UNCTAD and others; and 6) implement all international transport-related Coordination and co-operation. The NTC is chaired by the Vice Minister of the MPWT. There are two Deputy Chairs: the Vice Minister of Industry and Commerce and a Director General of Cabinet office of MPWT. The Director General of Transport Department acts as Secretary-General of the NTC.

Inter-linkage between the NTC and the TFS will be essential to avoid overlaps. Furthermore, the inclusion of the Customs and Agriculture departments will bring a new element to existing discussions. This DTIS recognises the important role that effective SPS and TBT measures and institutions play in trade facilitation, and hence include SPS and TBT as a key component within this chapter.

The Trade Facilitation Task Force also operates within the Lao Integrated Framework Secretariat.⁸² To date, this task force has primarily been concerned with the delivery of trade facilitation-specific technical assistance, but the broader aim is to assist in mainstreaming trade facilitation issues within Lao PDR. The Task Force comprises of senior officials in ministries and departments linked by trade facilitation. Now that the Secretariat has been established it is envisaged that the role of the TF Task Force will be transferred to that of the TFS. Furthermore, the Lao Business Forum (LBF) provides a platform for public-private dialogue between the Government and the business community. Trade and transport facilitation issues have on occasion been raised by members of the LBF.

8.4 Regional approaches

For Lao PDR as a landlocked country, transit, bilateral and regional approaches to trade and transport facilitation are highly significant. Lao PDR has made extensive commitments explicitly and implicitly towards Trade Facilitation, many of which are to be implemented within the next few years. For example, Lao PDR is a member of ASEAN and as such is working towards establishing a single market and production base with a free flow of goods by 2015.

In 2008, ASEAN Member States adopted the

Trade Facilitation Work Programme (ATF WP), which aims to significantly reduce trade transaction costs within ASEAN. The scope of the ATF WP encompasses “customs procedures, trade regulations and procedures, standards and conformance, sanitary and phytosanitary measures, ASEAN Single Window and other areas as identified by the AFTA Council.” Progress is assessed every two years by reference to a set of quantifiable benchmarks. The performance of Lao PDR is still thought to be significantly lacking and in need of improvement. ASEAN commitments also include the requirement to develop a national single window facility that will link with the regional ASEAN Single Window system.

Lao PDR is also committed to take part in the establishment of an ASEAN Trade Repository (ATR) by 2015. This will help to improve transparency by being a gateway of regulatory information at regional and national levels. The ATR, among other systems will carry information on: tariff nomenclature; preferential tariffs offered under the ASEAN Trade in Goods Agreement (ATIGA); Rules of Origin; non-tariff measures; national trade and customs laws and rules; documentary requirements; and list authorized traders of Member States. However, the ATR mechanism is still at the development and design stage. Nonetheless, at the national level Lao PDR has already initiated the work on a Lao Trade Portal, which will fulfil the responsibility of Lao PDR to establish a national Trade Repository that can feed into the ATR.

In the GMS context, transport and trade facilitation are the main agenda items for cooperation initiatives. GMS had initially targeted developing transport corridors and then its scope was broadened by generating plans for three economic corridors—the Southern Economic Corridor (connecting Cambodia–Viet Nam with Thailand), the East–West Economic Corridor (connecting Lao PDR–Viet Nam with Thailand), and the Northern Economic Corridor (connecting Yunnan with Lao PDR and Thailand). Under the GMS context Lao PDR has significantly improved its road connectivity in the East-west and Northern transport corridors. The evolution of transport corridors into economic corridors has yet to be achieved. The GMS programme incorporated the CBTA, which is regarded as a GMS-wide instrument covering various aspects of cross-

82. Currently referred to as the Lao Integrated Framework Secretariat’s “Trade Facilitation Task Force”.

border transport facilitation, including customs inspection, movement of persons, transit traffic, and road and bridge design standards (ADB, 2008). In sum the CBTA⁸³ aims to facilitate the region's customs and transit systems (CTS). Although all GMS countries have ratified the CBTA, not all annexes and protocols attached to it have been fully ratified by Thailand and Myanmar, slowing implementation and enforcement.

Lao PDR also signed the trade facilitation framework agreement under the Asia Pacific Trade Agreement (APTA)⁸⁴ in December 2009. This framework agreement covers general provisions on trade facilitation measures and aims to further decide on more specific agreement on trade facilitation based on the framework agreement. Until now there has been little progress in implementing such an agreement.

With the development of the first Lao Trade Portal, significant progress in facilitating business community and other stakeholder access to regulatory requirements for import and export has been achieved. Phase I of the Portal, designed to provide specific regulatory requirements (licenses, certificates, and procedures), was officially launched in July 2012. Future efforts will focus on ensuring compliance with both GATT Article X and ATIGA Article XIII, ensuring maximum usefulness and accessibility to traders, and integration of the Portal into a Lao National Single Window.

8.5 Transport and logistics

Being landlocked raises transport costs by 50 per cent of the country's foreign trade and reduces trade significantly. The logistics industry in Lao PDR is undeveloped and highly fragmented. It is limited to basic services, road transport, warehousing and cargo clearance – mostly operated by small, family-run companies (ADB, 2008:98). The local freight forwarding industry in Lao PDR is concentrated and there are only a handful of operators due to its small market size, which also makes it difficult to

attract foreign logistics service providers into the domestic market. In the absence of partnerships with foreign investors, sophisticated logistics services such as track-and-trace do not exist in Lao PDR (Banomyong R, 2009: 405).

The container transport network is also poorly developed. Empty containers usually need to be returned to the shipping line at the ports within three to four days. This adds significantly to the cost of shipping containerised cargo. Options whereby empty cargo can be dropped off at domestic container terminal (dry ports) for bulk return shipment or for the loading of return cargo do not currently exist.

Research also suggests that Lao trucking companies rarely participate in the movement of goods to and from the ports in Thailand and Vietnam (ADB, 2008:98). Road safety concerns on the part of Thai authorities may be one inhibitor to the involvement of Lao operators, though the difficulty of finding return freight appears to be the main issue.

While over 200 licenses have been issued for Thai companies to enter into Lao PDR, in reality there are only five or six major trucking companies moving freight. This ultimately leads to limited competition and inconsistent pricing.

The choice of transport modes in Lao PDR is very limited, with a heavy reliance on road transport. A freight rail network has not yet been developed. River transport is limited to those sections of the Mekong that form the border with Thailand. On the Lao side of the Mekong River there are 21 river port facilities but they are not well developed and not suited to handle containerized cargos. As for air transport, there are only four airports. All are small and unable to handle any airfreight of note. Both national and foreign airlines primarily serve passengers. Heavy and large packages are currently discharged at Bangkok International Airport and trucked into Vientiane.

At present the entire country has only eight official cross-border points located on the main transport

83. The CBTA is originally a trilateral agreement between and among the Governments of Lao PDR, Thailand and the Vietnam signed on 26 November 1999 at Vientiane. Cambodia acceded to the CBTA on 29 November 2001 at Yangon, Myanmar. China acceded to the CBTA on 3 November 2002 at Phnom Penh. A MOU was also signed to clarify the relationship between the CBTA and its annexes and protocols; and the commitment to amend Article 17 of the CBTA. Myanmar acceded to the CBTA on 19 September 2003 at Dali, China. An MOU was also signed to reflect the staged approach in the application of the CBTA to non-commercially operated vehicles. On 30 April 2004, an amendment to the CBTA was signed to reflect the revision to Article 17 of the CBTA on mutual recognition of driving licenses and for the inclusion of Annex 16 in the list of annexes and protocols. The CBTA is now formally known as *The Agreement between and among the Governments of the Kingdom of Cambodia, the People's Republic of China, the Lao People's Democratic Republic, the Union of Myanmar, the Kingdom of Thailand, and the Socialist Republic of Viet Nam for the Facilitation of Cross-Border Transport of Goods and People*.

84. Six participating states: Lao PDR, China, South Korea, India, Sri-Lanka and Bangladesh.

routes. Some of the border points are modern and well maintained; others lack basic facilities such as working weighbridges and permanent paving. Access to Customs warehousing is even more basic. Currently, traders who wish to defer the payment of duties can only use the Thanaleng customs warehouse.

8.6 Trade facilitation social impact (poverty and gender)⁸⁵

The introduction of modern electronic customs clearance systems could also help to overcome some of the difficulties women tend to experience more prominently than men at the border. Typically, border agencies are staffed by men and do not have a culture of working in gender-sensitive ways to assist female traders (Dejene 2001).⁸⁶ In addition, women's lower levels of knowledge of border processes can at times fuel extortion (UNECA 2010).⁸⁷

Restricted use of transport and access to infrastructure

Women bear a disproportionate share of the burden of non-productive work, which can be eased with infrastructure improvements. Fontana (2012) reports data on women and men's daily hours of work respectively, distinguishing by SNA and non-SNA work, and by three types of location: urban, rural with roads and rural without roads.⁸⁸ Depending on the setting, women spend on average between 2.3 and 2.5 hours on non-SNA work compared to men, who on average spend between 0.4 and 0.6 hours on the same. There are still many villages in Lao PDR with limited access to roads and poor general availability of basic infrastructure. It is therefore not surprising to find that activities such as water and fuel collection take women longer in these areas than in urban areas. Both women and men appear to spend less time in income-generating activities in rural villages without roads relative to other locations, suggesting limited overall opportunities for paid work for both genders in these areas.

Table 25: Total work burden, adult females (hours in a day)

	Urban	Rural with roads	Rural without roads
Total SNA work	4.4	3.9	3.5
Of which water and fuel collection	0.1	0.5	0.6
Non-SNA work	2.3	2.5	2.5
Total	6.8	6.9	6.7

Source: LECS 4

85. This section largely replicates Fontana, M. (2012), *Lao PDR: Mapping the gender dimensions of trade. A preliminary exposition*. World Bank, Lao PDR.

86. Dejene, Y. (2001) *Women Cross-Border Trade in West Africa*, Women in Development Technical Assistance Project Information Bulletin, May.

87. United National Economic Commission for Africa (UNECA), African Union and African Development Bank (2010) *Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade*, UNECA, Addis Ababa.

88. The UN System of National Accounts (SNA) recognizes as productive work the following categories: employment for establishments; primary production activities not for establishments such as agriculture, animal husbandry, fishing, forestry, fetching of water and collection of fuel wood; services for income and other production of goods not for establishments such as food processing, trade, business and other services. Water and fuel collection was added only in 1993 but it is still often not included in measures of GDP in practice. It was included into SNA activities in the calculations reported in Tables 5.2 and 5.3. Subsistence agriculture is of course also considered as part of SNA work. Food preparation, household maintenance, management and shopping for own household; care for children, the sick, the elderly and disabled; community services and help to other households are still considered 'non-productive' activities, and hence are not recorded. Only some countries record these activities but as separate 'satellite accounts'. It is these activities that most gender-aware literature calls non-SNA work or extended-SNA work. Following these categorisations what is reported in Tables 5.2 and 5.3 as non-SNA work includes what is described in the LECS questionnaire as: household cooking, washing and care of persons.

Table 26: Total work burden, adult males (hours in a day)

	Urban	Rural with roads	Rural without roads
Total SNA work	5.1	4.7	3.8
Of which water and fuel collection	0.1	0.2	0.2
Non-SNA work	0.4	0.4	0.6
Total	5.7	5.3	4.6

Source: LECS 4

Women tend to predominate among producers and traders who use public transport and hence they feel the implications of weak infrastructure more acutely. Restricted transport service availability in rural areas often means that women going to markets or to work in agro-processing must wait for tuk-tuks at dawn and return after dusk, putting them at risk of assault. Moreover, the high cost of providing transport in areas with low population density often translates into high tariffs that poor women cannot afford. As a result of their limited mobility, female farmers have limited knowledge of market prices and hence bargaining power, and therefore sell their produce to middlemen who take a large share of the profit. In addition to the trade dimension, a good road system has of course other positive impacts, which are likely to be more intensified for women: it can help young girls to get safely to school and can reduce maternal mortality by making access to obstetrical care faster. Improved paths to water points or fuel-wood locations can save hardship for women and girls.

Infrastructure services, especially in rural areas, can address a number of gender-specific needs, thus having a multiplier effect on female productivity. This in turn could further enhance trade competitiveness in the long term.

8.7 Recommendations

In the medium term efforts to improve trade facilitation should focus on the following key areas:

1. Strengthen the capability of the National Trade Facilitation Body as part of efforts to improve coordination among agencies with border management responsibilities.
2. Mainstream Trade Facilitation across relevant line ministries.
3. Work towards the simplification, harmonization and modernization of trade and customs procedures.
4. Implement WTO, ASEAN, GMS and Bi-lateral trade commitments.
5. Develop private sector capacity to trade efficiently in compliance with rules and regulations.
6. Provide for the right equipment and facilities to ensure the smooth and efficient administration of trade and customs procedures.
7. Automate and reform substantive import/export procedures in order to improve consistency and performance standards and reduce the scope for rent seeking.
8. Ensure and enhance the sustainability and use to traders of the Lao Trade Information Portal as part of efforts to make import/export procedures more transparent and predictable for the private sector.
9. Prepare and implement detailed plan to develop a National Single Window for import and export.
10. Explore opportunity to reduce transport cost by facilitating creation of full integrated cross

border logistic operations. This may require going beyond the measures contained in the CBTA.

11. Conduct feasibility study on developing rail-linked dry port in Northeast Thailand, which could help consolidate traffic, serve as a mode interchange location, addresses strict time limits imposed by shipping lines on the return of empty containers, and reduce costs by linking the dry port with trade logistics in the Northeastern part of the country.

8.8 Sanitary and phytosanitary standards

Sanitary and phytosanitary standards (SPS) are playing an increasingly important role in trade facilitation in Lao PDR. As traditional barriers to trade, such as tariffs fall there is an increased focus by key trading partners on the enforcement of SPS and TBT regulations. This section considers the role of SPS within trade policy in Lao PDR, and in particular within the context of trade facilitation. Additional links and references to SPS and TBT are also found in the sectoral action plans for the National Export Strategy.

8.8.1 The 2006 SPS Action plan

In 2006 a SPS Action Plan was adopted by MAE. It included the first comprehensive assessment of SPS capacities in Lao PDR.⁸⁹ The assessment found major weaknesses and gaps in the legal and regulatory framework, human capacities, work plans and technical capacities. The Action Plan recommended sustained support from the donor community for 29 actions for capacity building, including some studies. Most of the recommendations have been or are being followed up by the Government and Development Partners, although in several cases only very recently and with limited resources. Since the adoption of the Action Plan understanding of SPS issues and

bottlenecks has increased through various project activities and targeted studies.⁹⁰ This section provides a brief overview of the SPS institutional framework, explores what has been achieved and what is underway in SPS capacity building, and makes recommendations for action to be taken to address remaining gaps in SPS capacities.

8.8.2 Economic justification for investing in SPS

The economic and social benefits of increased SPS capacities are:⁹¹

1. Better protection of consumers against food-borne health hazards and, consequently, reduced morbidity, mortality, loss of productive life and treatment cost.
2. Better protection of livestock against transboundary animal diseases and, consequently, reduced losses of income and production.
3. Better protection of crops against invading plant pests and, consequently, reduced losses of income and production.
4. Increased volume of export and higher share of exports to better paying market segments and, consequently, more income and employment.
5. Improved transparency, reduced risks, reduced unnecessary transaction costs, improved range of services and increased market access for the private sector constitute an improvement of the investment climate and provide better incentives for value adding activities.
6. Increased SPS capacities, allowing the country to better participate in regional fora and consequently contribute to political goals of economic cooperation and integration.

Because of data problems causalities between SPS capacity building costs and economic benefits can

89. World Bank (2006), *Lao People's Democratic Republic: Sanitary and Phytosanitary Standards Management, Action Plan for Capacity Building*, The World Bank, Washington DC. The document was prepared in parallel with the DTIS I report with support of the World Bank.

90. Van Der Meer, Kees and Laura Ignacio (2008), "Good Practice in SPS-related Technical Cooperation Greater Mekong Sub-region: Cambodia, Lao People's Democratic Republic and Viet Nam" Research work for the Standards and Trade Development Facility and OECD (October 6, 2008, Geneva, Switzerland).

http://www.standardsfacility.org/ASEAN_Subgroup.htm.

World Bank 2009. *Lao People's Democratic Republic: Sanitary and Phytosanitary Measures: Enhancing Trade, Food Safety and Agricultural Health*. The World Bank, Washington D.C.

ADB 2010. *Action Plan 2010-2015 for Improved Handling of Sanitary and Phytosanitary (SPS) Arrangements in the Greater Mekong Subregion (GMS) Trade*. ADB Thailand Resident Mission, Bangkok.

World Bank (2010). *Lao People's Democratic Republic: Operational Cost of Trade-Related Sanitary and Phytosanitary Activities*, the World Bank, Washington DC.

91. Protection of nature, wildlife and biodiversity against invasive pests, diseases and alien species is included in the SPS agreement, but not discussed in this note.

not generally be quantified.⁹² Yet the ADB estimates that the benefits of increased SPS capacities in Lao PDR could amount to US\$10 million per year.

8.8.3 Institutional framework for SPS

Four main agencies have responsibilities for SPS: (i) MAF is responsible for plant and animal health and the safety of primary and semi-processed food and non-food products; (ii) the Ministry of Health has overall responsibility for food safety, in particular for processed food products; and (iii) the Ministry of Science and Technology is lead-agency for setting standards,⁹³ including for SPS. The Department of Planning (DOP) in MAF will house the SPS Enquiry Point (EP).

MAF has a mandated coordinating role for SPS, but this function has not been actively pursued. Some SPS coordination has been carried out by MoIC, because of its role in coordinating the World Trade Organization (WTO) accession and

the implementation of the Trade Development Facility (TDF) projects.

8.8.4 What has been achieved and what is underway?

With ongoing support from Development Partners (DPs), Lao PDR is gradually building an effective basic SPS system. See Box 9 for a description of what an effective system entails. Support includes the build-up of: (i) an improved legal and regulatory system based on international principles; (ii) regular programmes of active and passive surveillance; (iii) human and technical capacity; and (iv) private sector capacity. There is also increasing funding from the Government and DPs for making use of the increased human and technical capacity. It will take sustained efforts over at least the next five years in each of these areas to achieve a sustainable and functioning SPS system.

Box 9: An effective SPS system

An effective SPS system has at least the following elements and capacities:

1. A legal and regulatory framework in place and implemented that is compliant with WTO principles
2. A robust number of standards and technical regulations compliant with international principles in place that can be used for conformity assessment and enforcement
3. The availability of information on food safety and on the pest and disease situation for crops and livestock in the country that is made available to international bodies and trading partners
4. Capacity to respond to outbreaks
5. Risk-based import handling and inspection systems in place
6. Capacity to engage effectively in market access negotiations with trading partners
7. Capacity in place for conformity testing and diagnostics that meet international requirements for recognition
8. Systems of quality assurance and risk management adopted that can be applied by the private sector, such as Good Agricultural Practice (GAP), Good Manufacturing Practice (GMP), Hazard Analysis and Critical Control Points (HACCP)⁹⁴
9. Systems of conformity assessment and certification in place

Notes:

- a. Service providers for inspection, conformity assessment, diagnostics, and certification need not be in the country, but there is a need for legal recognition of this work and the Government should have the basic capacity itself to perform these functions and to provide oversight.
- b. Items 2, 7, 8 and 9 combine SPS and TBT issues.

92. This has been well established by a special study of the WTO-based Standards and Trade Development Facility (STDF): Henson, S. et al. "Guidelines on the Use of Economic Analysis to Inform SPS-Related Decision-Making", Prepared for a STDF Workshop (2009). The Economic Analysis conducted by ADB for the preparation of the GMS SPS investment projects for Cambodia, Laos and Viet Nam confirmed this finding.

93. The terminology of the SPS and TBT Agreements distinguishes technical regulations that are mandatory and standards that are voluntary. In common language the term 'standards' is often used to cover both and additional distinction can be made between voluntary standards, such as for defining quality, and mandatory standards, for example for food safety parameters. Standards can be product and process standards.

94. HACCP is a quality and safety management system.

Just as in other countries, basic SPS capacities for Lao PDR are largely generic in nature and the services provided largely public goods, but they form the necessary basis for emerging targeted SPS action in areas such as: (i) better mitigating the risks of trade-related health hazards; (ii) contributing to solve bottlenecks in market access negotiations; (iii) improving the investment climate; and, (iv) participating in regional cooperation efforts.

Protection against trade-related health hazards includes, among other things, improved surveillance and inspection methods for plant and animal health and food safety, response to outbreaks, and the establishment of post-entry plant quarantine.

Specific emerging actions in support of trade promotion are targeted surveillance for plant pests, pesticides and aflatoxins for maize and rice exports to China, surveillance of plant pests for vegetable exports to Thailand, and surveillance of mycotoxins in coffee export in general. For trade in animals and animal products there is targeted surveillance to reduce the burden of foot and mouth disease and classical swine fever in provinces with export potential. Trade promotion in the food safety area is supported by strengthening private sector capacities in Good Hygiene Practice (GHP) and Good Manufacturing Practice (GMP) in restaurants in tourist areas (export of services) and selected food processing industries. In addition, surveillance on some food safety parameters for targeted export products will be supported.

Improvement of the investment climate is targeted through more transparency, support for harmonization of implementation of the national legal and regulatory framework, better services and the adoption of risk-based inspection methods.

Increased human capacity supported by several DP Partners enables effective participation in regional SPS fora. Specific support is provided for bilateral and regional cooperation efforts in a number of core SPS areas.

In all these areas activities are underway or planned and results are expected to be achieved gradually in the next five years. However, sustained efforts will be needed to make these results robust. In the meantime attention is needed to broaden the agenda for SPS capacity building and SPS trade facilitation. Several issues deserve consideration while exploring options for new initiatives.

8.8.5 Issues in SPS capacity building

SPS coordination Countries need to have coordinating mechanisms for SPS. Although plant health, animal health and food safety each have their own focus and international standard-setting bodies, SPS has many cross-cutting issues, such as food safety and animal health, and food safety and the use of agrochemicals, including veterinary drugs and bio-active substances. Market access negotiations can cover just one sector or one institution, but they can also involve more than one sector and multiple institutions. Under the WTO SPS Agreement all countries are required to have an SPS Enquiry Point (EP) that can provide information about a country's SPS measures. SPS capacity building projects that involve multiple sectors and institutions also require coordination.

SPS coordination and the EP should preferably be inter-related for policy coordination and making good use of scarce human resources, while at the same time primary responsibilities for plant and animal health and food safety should remain with the line departments. Thailand and Vietnam offer good examples of how SPS coordination and EP can be organized.

Lessons learned in SPS capacity building Capacity building efforts in SPS encounter several difficulties (see Box 10). Implementation of SPS capacity-building efforts can be enhanced by: (i) giving early information about activities and budget for each department so that they can better plan ahead; (ii) stronger coordination in joint planning and decision making; and, (iii) management support for formulation of TORs and supervision of consultants.

Public and private roles Basic responsibility for developing and maintaining an effective SPS system lies with the Government, since many of the basic services are public or quasi-public goods. However, an effective SPS system implies that the private sector is making use of the available services, complying with requirements, sharing some public efforts, and paying for commercial services such as certification. Whereas in the plant and animal health market access depends basically on public sector capacities and successful market access negotiations, the first responsibility for compliance with food safety requirements generally lies with private enterprises.

Box 10: Experiences from the Trade Development Facility in SPS capacity building

- (1) An intrinsic difficulty in SPS capacity building is that Department staff do not have sufficient understanding of SPS issues and directions to choose, while at the same time having to formulate policy proposals, consultants' TORs, and supervise consultants who help to build the SPS system.
- (2) The TDF project has budget and activities formulated for SPS (such as work on legal issues and risk analysis) and does not have a breakdown by department and sector. This makes decision making dependent on agreement among the departments and complicates planning ahead for individual departments, and hence, it has contributed to delays when departments have different a understanding of issues and ways to go forward. Project design more aligned along departmental lines and stronger coordination might have resolved issues earlier and reduced delays in decisions making.
- (3) The nature of the TDF project requires inter-departmental meetings, which cannot be called easily because project-facilitating staff depend on the convening power of the DG/DDG level.
- (4) Although the SPS and TBT principles are largely the same and there are many cross-cutting issues (e.g., laboratory infrastructure, conformity assessment and standards setting), so far no need has been felt in the TDF project implementation for interaction between SPS and TBT activities. The need for interaction and coordination is likely to be felt when capacities increase and the SPS and TBT systems are built up.

Presently, private sector capacity for managing food safety and quality are diverse and generally limited. There are still hardly any programmes in which the public and private sector are actively cooperating. This finds its explanation in both the lack of Government capacity to provide effective support and the basic characteristics of the private sector in Lao PDR.

For the next 3 to 10 years, the emphasis on further development of an effective SPS system will increasingly need to focus on enhancing private sector capacity that can make use of basic public capacity. This will also require regular consultation between the public and private sector.

Production, markets and private capacities
As noted in the NES Sector Action Plan on Agribusiness, traditional agriculture is mainly smallholder production focused on rice and other food products with limited specialization. In some areas, smallholders have become engaged in cash crops such as coffee, maize, cassava, tea, sugar cane, cardamom, and fruit and vegetables. Production is generally scattered, with small volumes of diverse quality, mostly destined for low-end markets, which generally do not require high standards of quality and safety. Small pockets of agriculture have specialized in niche markets and organics, often with external support. Food processing is mainly small-scale and traditional with only a few companies meeting GMP standards and only three companies currently HACCP-certified.

In the last 5 to 10 years a corporate large-scale agriculture sector has emerged through Government land concessions to private investors, mainly from neighbouring China, Thailand and Vietnam, for crops including coffee, sugar cane, cassava, and rubber. In several cases these companies have invested in processing and contract farming, which has increased opportunities for smallholders to specialize in cash crops. Foreign investors generally ask for government support through tax benefits, access to land, and in many cases they have been granted extra-territorial rights for import and use of agricultural inputs (i.e. without government inspection); for technology they often depend on their mother company and human and technical facilities in their home country.

Corporate enterprise investments are not without SPS problems. Some investors have little or no previous experience in agriculture and seem to respond mainly to potential gains from access to land. Some investments failed because they encountered plant pest problems, partly because of a lack of preventative measures. In other cases private investors allegedly made excessive use of agrochemicals or did not follow the safe use code of practice. There are concerns about the safety of uncontrolled imports of plant propagation material, which in some cases is said to be infested with disease and to have caused extensive losses to contract farmers. The lack of transparency

surrounding these cases makes it difficult to distinguish facts from rumours. Extraterritoriality conditions of the land concessions that put imports of agricultural inputs and production processes beyond the regular control of competent agencies do pose SPS risks and may not be compliant with WTO principles.

Most exporting enterprises depend in a number of ways on government SPS capacities, which can affect the profitability of their investments. For formal market access to China and other demanding markets they are constrained by insufficient governmental phytosanitary and food safety surveillance capacity, and bilateral market access agreements are pending.⁹⁵ Because of the inability to control endemic diseases, the formal export of animals to neighbouring countries is difficult and requires expensive quarantine measures. Food processing and trading enterprises are generally small and have limited resources to invest in scaling-up, control of consistency, quality and safety of products, and adoption of GMP. This situation is complicated by the fact that most market segments in Lao PDR and neighbouring countries provide very weak incentives for investing in quality and safety. This is in particular the case for the extensive informal exports that are destined to low-end markets.

Preventative systems International trends in food safety management are to adopt preventative systems such as GAP, GMP and HACCP throughout supply chains, often with traceability. The adoption of such systems has to be driven by commercial incentives for farmers and entrepreneurs and their willingness to invest. Although some public support can be given for the adoption of such systems, government human and financial resources are constrained and should be selectively focused at market segments with quality and safety requirements, such as the export of maize, rice and cassava to China and fruit and vegetables for Thai supermarkets. The adoption of GAP will generally depend on demand and support from private enterprises. Exporters will need to follow requirements from importers, and these requirements can involve the use of foreign versions of GAP and GMP, or particular quality management systems.

Diagnostic and testing services Like other countries Lao PDR needs a basic capacity in diagnostics and testing for animal health, plant health and food safety with international recognition, but it is nowhere near achieving this capacity. Little has been achieved in setting up quality management in laboratories.⁹⁶ Lack of funding for sample collection and testing programmes is a basic constraint for building capacity. Pursuing laboratory accreditation is not useful without a sufficient volume of testing since learned skills cannot be built up, or erode rapidly without practice. Often, upgrading laboratory quality management is narrowly focused on the ISO/IEC 17025 accreditation paid by Development Partners. However, accreditation is a last and relatively expensive step in a process of introducing quality management, and many of the earlier steps are not expensive but require proper organization, administration, discipline and dedicated management. A basic reason for low quality standards in laboratories is the low demand for quality from government services that generate nearly all demand.

So far support for expanding and improving laboratory services has been strongly related to various SPS support projects with limited coordination; comprehensive support has been absent.⁹⁷ Although Lao PDR's limited size forms a constraint to investment in laboratories there is no national strategy and there is a risk that dysfunctional overlapping capacities might be created between laboratories under different ministries and between national and regional laboratories. What is needed for rationalizing investment in development of laboratories is a national strategy.

Private sector demand for laboratory services in Lao PDR is small; most testing is for regulatory purposes, not for commercial reasons. There are only a few exporters in Lao PDR with access to premium markets that require regular testing for commercial purposes. Moreover, exporters from Lao PDR, just as from many other developing countries, use testing facilities in trade partner countries, and Lao enterprises have the advantage that they can also make use of a broad range of testing facilities in Vietnam and Thailand.

95. This is typically the case for banana plantations which cannot export to China because of a lack of phytosanitary data.

96. For many years UNIDO has provided support to FDQCC for ISO/IEC 17025 accreditation of microbiology parameters, but progress has been very slow compared to the pace of upgrading in Thailand and Vietnam.

97. The planned support by Merieux for a food laboratory is the only exception.

Modernization of SPS services: Most countries use Information and Communications Technology (ICT) for Customs and SPS services. SPS services in Lao PDR are still paper-based. None of the SPS agencies has a functioning database system. Applications for permits, licenses, inspections, certification and other services have to be done in person and on paper, and collection of the permits and certificates also has to be done in person. The fees, informal payment and quality of services vary between border posts and officers in charge, and costs and waiting time can be high. Because of distance, poor communications and administrative decentralization, transparency and central oversight are limited. It can take a long time for central authorities to detect fraud, mistakes and poor performance in implementing offices and at border posts, and harmonization of implementation of SPS measures and application of risk management are difficult to achieve.

As for Customs administration, once basic capacities have been created a logical next step in modernization is to introduce ICT as the basis for administration and operations. Customs modernization in ASEAN is underway, but ICT application in and modernization of SPS services lags behind. The application of ICT in SPS services has to align with Customs modernization because of the pursuit of an electronic ASEAN Single Window by ASEAN and National Single Windows (NSWs) by the ASEAN countries, which are led by Customs Organizations. The establishment of an NSW is complex and takes a long time, and

no donor is currently supporting this in Lao PDR on a significant scale. It is time to make a start by introducing ICT systems in SPS services with the triple purpose of: (i) improving SPS services; (ii) participation within the broader framework of development of NSW; and (iii) electronic lodging of documents for border release.

Trends in Trade The value of imports and exports of agriculture, food and forestry (AFF) products in Lao PDR has increased at rates of between 10 and 20 per cent per year over the past 10 years. (Table 27) Important drivers of growth have been improved connectivity, rapid growth of demand related to economic growth and urbanization in the GMS, increased commercial investment and opening up more land for production. On the export side in particular, cereals, fruit and vegetables and rubber have shown impressive growth. Export growth has been realized despite SPS and TBT safety and quality constraining the access of some products to some market segments. On the import side modern lifestyles and tourism have resulted in the diversification of consumption and the rapid growth of non-traditional consumer goods. Most likely growth generating factors will probably continue in the years ahead and at a growth rate of between 10 and 15 per cent, making exports in 2018 an estimated 2.4 to 3.5 times higher than in 2009. At a compound growth rate of 13 per cent, exports would reach US\$1 billion by 2018 and this might be an ambitious but certainly not impossible policy target.

Table 27: Imports and Exports of Agriculture, Food and Forestry (AFF) Products

Thousands of US dollars				
	Imports		Exports	
	2001	2009	2001	2009
All products	646,882	2,609,065	328,916	1,352,647
Total AFF products	60,399	218,920	141,552	332,643
Food & live animals	56,781	214,070	19,580	116,879
Live animals except fish	1,239	25,933	5,406	6,497
Meat & preparations	1,731	2,339	25	NA
Dairy products & eggs	5,780	18,762	82	16
Fish/shellfish/etc.	1,937	3,816	154	217
Cereals/cereal preparation	14,686	40,966	382	55,693
Vegetables and fruit	9,368	21,783	1,640	15,228
Sugar/sugar prep/honey	13,871	24,750	0	1,777

Coffee/tea/cocoa/spices	1,316	22,350	11,871	37,068
Animal feed ex un-milled cereals	2,032	18,740	13	159
Miscellaneous food products	4,822	34,631	6	224
Non-food products	3,618	4,850	121,972	215,764
Oil seeds	3,518	23	NA	5,497
Natural rubber	0	4,714	420	14,439
Wood and wood products	NA	63	116,603	193,285
Natural gum/resin/pharm plants etc	NA	51	NA	2,543

Source: for 2001 ADB GMS Action Plan and for 2009 ADB GMS SPS project preparation

Note: Based on mirror export and import data of Lao PDR's trading partners obtained through World Integrated Trade Solution (WITS) from Commodity Trade (COMTRADE) database of UNSD.

Trade and SPS risks: The risks of introducing trade-related health hazards increase significantly with commercialization, broadened product mix, and distance over which products are transported. The demand for SPS services to facilitate exports of a growing range of products to an increasing number of markets increases correspondingly. Moreover, the SPS requirements by most importing countries and private companies are increasing. A lack of SPS capacity can also imply that investors are denied market access for their products. With the present weak levels of protection, the risks to producers and exporters and to the employment and income

of large numbers of people from importing devastating plant pests have greatly increased. An inability to control such pests can easily result in trade bans from importing countries. The risk that the country will become a dumping place for unsafe imports from neighbouring countries has increased considerably along with the volume and diversity of imports of food and agrochemicals. Therefore, with commercialization the capacity of SPS services has become a significant factor in risks for investors and food safety risks for consumers. Some health risks and weak SPS control capacities are listed in Box 11.

Box 11: Important health risks for crops, livestock and consumers and weak SPS control capacities

Imports

- Introduction of potentially harmful plant pests and diseases through plant propagation material
- Lack of capacity to contain transboundary animal diseases
- Weak response capacities to outbreaks and infestations
- Import and illegal use of unsafe agrochemicals
- Import and illegal use of veterinary drugs and growth enhancers
- Unsafe and excessive use of agrochemicals and veterinary drugs
- Inability to control import and sale of sub-grade consumer goods

Exports

- Insufficient capacity to provide information about the plant and animal pest and disease situation requested by trading partners
- Limited capacity to conduct conformity assessment about safety and quality of exported products
- Limited capacity to conduct negotiations with trading partners about risk-mitigation measures
- Insufficient capacity among producers and exporters to adopt preventative measures such as GAP, GHP and GMP
- Limited access to various export market segments because of insufficient public and private safety and quality management capacity

8.9 Priority areas for capacity building 2013 - 2020

For Government

1) *Increase operational funding and number of professional staff to levels necessary to make adequate use of capacities being created under present on-going projects*

Without significantly increased public funding for operational costs to a level of between US\$0.6 and US\$1 million per year in the next five years, no further sustainable capacity building efforts will be achievable. In several areas of SPS management the number of staff falls short of minimum requirements. In order to rationalize increased funding, budget preparation planning should be improved and based on output-based work plans.⁹⁸

2) *Strengthen SPS coordination by establishing an SPS unit in DOP*

The unit should have at least two full-time staff members responsible for SPS coordination and the Enquiry Point, supported on a part-time basis by staff with other responsibilities. It should work closely with staff responsible for trade policy and coordination and with staff in the SPS line agencies. For the purpose of convening inter-departmental SPS meetings the head of the SPS unit should have a mandate to submit invitation letters directly for signature to the DOP DDG responsible for SPS coordination. Clear TORs for SPS coordination are needed.

For ongoing projects by development partners

3) *Provide ongoing support for improvement and implementation of a legal and regulatory framework harmonized with WTO principles and systems of ASEAN/GMS countries*

In the years ahead there will be an ongoing need to further improve the legal and regulatory framework in parallel with increased technical capacity and increased volume and diversification of trade. Many of the regulatory improvements can be conducted by technical specialists. However, there is continual need for legal support that ensures that regulations: (i) comply with international principles; (ii) contribute to good governance; and (iii) that the body of SPS legislation follows consistent principles. An outline of minimum SPS legislation is provided in Box 12.

4) *Provide sustained support for solving gaps in basic SPS capacity*

In many areas there is a continued need for technical support for: (i) developing human and technical capacity; (ii) designing proper work plans; and (iii) drafting standard operating procedures (SOP).

Expand the SPS agenda

5) *Prepare a national strategy for laboratory development*

The strategy will identify national and regional capacities, alignment and possibly consolidation of the capacities of laboratories with responsibilities for SPS, propose organization, management,

Box 12: Minimum legal framework to be implemented by 2018

The SPS legal framework for Lao PDR should comprise laws and related regulations for the three key SPS sectors that are compliant with key WTO principles, and that incorporate SPS Agreement principles such as risk analysis. This framework will govern the following areas:

Laws and related regulations for the three key SPS sectors: (1) animal health; (2) plant health; and (3) food safety (with a supporting administrative/implementing institutional framework for inspections, monitoring and surveillance, mechanisms for emergency responses and generally for control of food safety hazards, pests and animal diseases); and related legislation on: (4) agrochemicals; (5) veterinary drugs; (6) feed; (7) import and export; (8) standards and technical regulations (commensurate to the country's level of development); (9) diagnostic and conformity testing; and (10) certification.

Note: legislation will mainly be organized by sector

98. The earlier mentioned ADB GMS SPS project for Lao PDR will provide support to assess levels of funding and staff needed and budget preparation methods.

funding modalities and funding needs, and make recommendations. The strategy will guide further development of laboratory infrastructure and help to avoid dysfunctional overlap. Much work has already been done and can be built upon. To be meaningful a strategy needs high-level government endorsement.

6) *Support quality management in SPS laboratories*

Introduce basic quality management systems in main laboratories with responsibilities for SPS,⁹⁹ including calibration of administrative systems and SOP, and management. For a few parameters with sufficient testing volume and international trade relevance support will be given for ISO/IEC 17025 accreditation.

7) *Expand SPS support for export promotion to new product-market combinations*

Based on the experiences of export promotion schemes for maize and rice to China, this will apply safety and quality controls throughout the supply chain (including on-farm surveillance, GMP and good post-harvest handling), and the adoption of support schemes for other product-market combinations, for example cassava to China and fruit and vegetables to China and Thailand. Priority will be given to product market combinations with good export potential and bottlenecks in SPS management capacity in the Government and the private sector.

Modernize SPS services with ICT introduction

8) *Assess directions, modalities and priorities for ICT-based systems in SPS services*

An action plan is needed for the introduction of ICT in SPS services to ensure that improvements: (i) follow international good practice; (ii) are fully compatible with the broader agenda of cooperative border management; and (iii) are aligned with the process of developing an NSW. It should identify a modular process of stepwise improvements and indicate necessary sequencing.

9) *Design and implement a modular investment programme for ICT in SPS services*

Special attention will be given to: (i) improved quality of services, including web-based

services; (ii) proper database management; (iii) improved transparency; (iv) harmonization of implementation with Customs within the country; (v) harmonization with SPS services of main trading partners; (vi) reduced transaction costs for traders; (vii) reduction of fraud; and (viii) necessary adjustment in the organization and management of each of the SPS services to manage IT-based services.

Civil society

10) *Support the development of private sector and consumer organizations, and their engagement in the development agenda for SPS*

This will be done through: (i) public-private cooperation in areas of common interest; (ii) provision of training and awareness workshops; and (iii) regular consultation with SPS services.

8.10 Technical barriers to trade

When the DTIS I report was written in 2006 there was no policy document for guidance on TBT capacity building. Since Lao PDR had very limited capacity in TBT the preparation of a TBT Action Plan as a basis for capacity building was proposed. The TDF has followed through by supporting a “Capacity Assessment and Action Plan in TBT” (hereafter called “the Assessment”) which was delivered in July 2011.¹⁰⁰ Although it provides an assessment and recommendations it is not considered sufficient to serve as a comprehensive action plan for capacity building in the next 5 to 10 years. Further work is underway to prepare a strategic plan for the Department of Standardization and Metrology (DSM) and TBT.

This section describes the institutional framework and gaps in capacity against the country’s trade challenges, raises policy issues and proposes priority actions for DTIS II.

8.10.1 Institutional framework for TBT

The DSM under the Ministry of Science and Technology (MoST) is the lead agency for TBT.¹⁰¹ The Department and Ministry are newly formed and they succeed the Department of Intellectual Property, Standardization and Metrology (DISM) and National Science and Technology

99. These include the Food and Drug Quality Control Center (FDQCC) laboratory (for which support from Merieux is expected), the National Center Laboratory for Epidemiology (NCLE), the Plant Protection Center (PPC) laboratories, laboratories under the Department of Livestock and Fisheries and laboratories at sub-national level.

100. It contains seven recommendations for external support with a budget of about US\$ 1.5 million.

101. Prime Minister Decree on the establishment and activities of the Ministry of Science and Technology #309/PM of 28 September 2011 and the Ministry Regulation on the establishment and activities of the Department of Standardization and Metrology #0836/MST of 21 December 2011.

Administration (NSTA). Roles and responsibilities for TBT are shared with many line agencies, but insufficiently defined, and effective coordination mechanisms hardly exist.

8.10.2 Achievements

External support over the past 5 to 10 years, mainly provided by UNIDO, has been small and focused on aspects of standardization, metrology and upgrading FDA's capacity. The USAID LUNA project contributes legal texts for compliance with WTO requirements and related training, and TDF has worked on capacity diagnostics and a strategic plan for the DSM. Various donors have supported TBT training under the ASEAN framework.

The Assessment notes serious shortages in staff and funding for all TBT areas under the mandate of the former DISM. Although legal texts have been added and upgraded, there is still no consistent legal framework for TBT that meets general principles of good legislation. With UNIDO and Vietnamese support a National Metrology Institute (NMI) was established in 2005. A significant part of the staff from the former NSTA has been allocated to NMI, but it lacks the financial resources to become effective.

8.10.3 Issues in TBT capacity-building

TBT capacity needs: There is a general understanding that increased TBT capacity is needed for successful exports and to protect the safety of consumers. And it is also clear that TBT measures will increasingly need to comply with the principles and recommendations of the WTO, the TBT Agreement, ASEAN and other international organizations. However, this generic understanding does not automatically lead to a good priority agenda for capacity building in the vast TBT area. There is a need for a comprehensive generic TBT framework, compliant with international principles, which can gradually be further developed when needs arise and resources are available. This will include a legal framework and a blueprint for the institutional set up.

There is also a need for gap analysis of TBT capacity based on empirical assessments. To date hardly any empirical assessments have been made of the impact of gaps in TBT capacity on trade performance and the protection of consumers and enterprises, which can be used for priority setting in TBT capacity building. There is a need for assessments at the level of enterprises, products, product-market combinations, locations and

Box 13: What the Government's basic role in TBT should include:

- In the area of standardization: To support the development and growth of a market-driven system based on a system of harmonized, voluntary consensus standards for products, processes and services.
- In the area of metrology: To realize, maintain and disseminate the national measurement units that are traceable to the International System (SI) of units.
- In the area of legal metrology: To develop and implement a weights and measures programme that can ensure uniformity of measurement and support quantity measurements within the legal framework of the country.
- In the area of conformity assessment: To ensure that conformity assessment bodies are competent, impartial and work with integrity and that they are accredited in accordance with international standards and best practices.
- In the area of mutual recognition: To enter into mutual recognition agreements in areas of metrology, accreditation, standardization, and accreditation (MAS-Q) with trading partners and international accreditation bodies.
- In the area of technical regulations: To use international standards as a template for developing technical regulations and to ensure that technical regulations promote trade by removing unnecessary barriers to trade without compromising public health and the safety of the citizens of their country.
- In the area of infrastructure development: To ensure that adequate technical and financial resources are available for the implementation of a sound and internationally compliant MAS-Q system.

SOURCE: USAID, http://pdf.usaid.gov/pdf_docs/PNADP635.pdf

sectors to find specific present and near future bottlenecks for trade performance and safety protection. A capacity-building agenda that is only based on implementing TBT principles and the recommendations of international agencies is likely to pay too much attention to various low-priority areas while priority areas may be insufficiently served. It is also important to point out that compliance with WTO principles is an obligation, but recommendations can be implemented selectively if they are in the national interest. More attention is needed to assess the national interest.

TBT institutions: Each country needs lead institutions and generic legislation for implementing TBT measures. DSM has the generic responsibility for policy making for standardization, metrology and conformity assessment. There are major gaps in human resources and operational budget in both DSM divisions and NMI. However, it seems that overall metrology has a disproportionate share in staffing of TBT. Given DSM's limited human, technical and financial resources, it will take at least five to ten years before Lao PDR can realize a system that effectively performs basic TBT functions. The priorities and sequence of capacity-building efforts should be chosen within this context. A comprehensive and consistent system of legislation, together with a strategic plan to develop DSM and its basic functions, are the main priorities for capacity building. The work should be modular and focus on core issues first. Gradually, the institutional and legal framework can be expanded.

TBT responsibilities: In most countries the policy lead for standardization and maintaining and operating a quality management infrastructure lies to a significant extent with the line agencies with the technical expertise and primary policy responsibility for their sectors. For example, the role of the standards institution in such cases is to provide generic legislation and expertise on standardization, oversight, perhaps some process management, and the repository function for standards. There is also a need for internal and external cooperation and focal points for TBT measures (for example, to coordinate technical committees). Under the WTO agreement, Lao PDR needs to effectively operate a TBT Enquiry Point to provide information on technical regulations and conformity assessment.

In quality management the role of the central TBT institutions is in many countries mainly focused on the overall (generic) legal and institutional infrastructure, cross-cutting issues and providing expertise. Preferably, institutional responsibilities for specific certification (for example, in the area of construction materials) should be separated from generic TBT functions.

The division of responsibilities for TBT in Lao PDR between DSM and the line agencies needs to be further clarified, and building TBT capacity should target gaps in capacity in both DSM and line agencies. Equally important for a well-functioning TBT system is the active involvement of private sector entities in agenda setting and policy preparation. National and regional capacities Lao PDR and private enterprises have, because of proximity and economic integration, access to qualified TBT services in neighbouring Thailand and Vietnam, such as calibration, conformity assessment, testing and certification. Although this may not be the preferred long-term solution, for the short and medium term this offers some solutions, which need to be taken into account when prioritizing capacity building in TBT. Since commercial demand for many TBT services is very low and cost-recovery limited, in the next five to ten years the cost to the Lao economy could be significantly higher if domestic capacity for the delivery of these services are pursued. Moreover, the quality of services from neighboring countries is likely to be better. The country should be selective about what capacities it builds and when. For example, Lao PDR should not pursue an Accreditation Body (AB) in the foreseeable future because of the high cost and low associated demand. If accreditation services are needed, foreign accreditors can be employed. However, Lao PDR should have focal points in DSM and legal recognition of accreditation, certification and calibration provided by competent international bodies.

TBT regulatory services: Most demand for TBT services will be regulatory demand. Regulatory demand should be justified on the basis of contribution to TBT policy aims, and should not have a primary aim to generate fee income for inspection and testing services.

The adoption of mandatory quality standards for export is unlikely to contribute to exports unless

it is explicitly required by trading partners.¹⁰² In general, mandatory certification will most likely result in increased costs for exporters and, therefore, does not serve trade policy priorities. Moreover, to date there have been virtually no domestic qualified conformity assessment services to give credibility to certification.

Standardization: The standardization and establishment of a quality management framework should focus on selective adoption of international standards and give priority to harmonization with ASEAN and main trading partners. Main guidance should be threefold: (i) compliance with international principles; (ii) contribution to the country's policy priorities; and (iii) capacity to implement the standards. Private sector entities have important roles to play in standardization for their areas.

8.10.4 Priority areas for TBT capacity building 2013 - 2020

For the Government

1) Increase operational funding and the number of professional staff to the level necessary to make adequate use of capacity being created (under on-going and new projects).

Without significantly increased public funding for operational costs and trained staff in the next five years, no sustainable capacity building efforts will be achievable. In order to rationalize increased funding, budget preparation needs to be improved and be based on output-based work plans. Estimates for needed resources will be included in the strategic plan.

For the Government and Development partners

A. Institutional Development

2) Establish a TBT Enquiry Point based on good international practices and tailored to the requirements of the Lao economy and its trading partners¹⁰³

A TBT Enquiry Point (EP) is a requirement of WTO accession. The work can follow the description provided in the Assessment. A staff of two will be necessary for this task.

3) Conduct empirical assessment of obstacles to trade and gaps in the protection of safety of consumers caused by gaps in TBT capacity

Empirical information is needed to establish selective priorities for capacity building based on the country's national interest. To date, needs assessment for TBT capacity building depends narrowly on generic notions of TBT principles and the recommendations of WTO and other international organizations.

4) Design and adopt a strategic plan for the development of DSM and TBT functions

There is a need to clarify the scope of work and mandates of DSM and line ministries for TBT. This will include:

- a. Defining the institutional structure of DSM and the scope of TBT work of the units under it and cooperative relations with other ministries that have responsibility for TBT
- b. Describing the role of private sector and civil society entities in TBT
- c. Designing a programme for the necessary parallel process of upgrading TBT legislation
- d. Preparing a list (rolling plan) of prioritized TBT activities for the next five years based on empirical assessment of obstacles to trade and gaps in the protection of safety of consumers caused by gaps in TBT capacity
- e. Assessing the human, technical and operational budget resources needed to effectively implement DSM's (and where relevant other ministries') scope of work
- f. Preparing a log frame (or result-based framework) to justify TBT activities
- g. Consultative and awareness-raising activities with all stakeholders aimed at creating ownership and decision making

5) Upgrading of the legal and regulatory framework for TBT

The present legal framework has many gaps and inconsistencies, which will require revision through updated generic and sector-specific TBT legislation.

¹⁰² In case of an acute risk of a ban on certain exports, or specific requirements under a market access agreement, mandatory export certification requirements can be justifiable.

¹⁰³ For reference, see WTO guidance on establishing a SPS Notification Authority and Enquiry Point http://www.wto.org/english/tratop_e/sps_e/sps_handbook_cbt_e/c1s2p1_e.htm.

Generic legislation would: identify all relevant institutional actors; ensure greater consistency within the broader TBT framework; and ensure compliance with the TBT Agreement and harmonization with ASEAN standards. In establishing institutional mandates within TBT, generic legislation would define the functions and responsibilities of DSM, line ministries and any other bodies such as technical committees, in areas such as standardization, conformity assessment, inspection and certification. This work should therefore be closely related to the design of the action plan for development of DSM and TBT functions.

Sector-specific legislation would also be developed to assist line ministries with legislation in the priority areas of conformity assessment, inspection and certification, embedded in the broader legal framework governing the various sectors.

Legislative assistance would further entail the adoption of the WTO TBT agreement 'Code of Good Practice for the Preparation, Adoption and Application of Standards', the ASEAN Policy Guideline on Standards and Conformance, and the ASEAN Good Regulatory Practice (GRP) Guide, and the provision of technical assistance to facilitate implementation of these codes.

Awareness-raising and training will be carried out for Government staff and private entities on various aspects of upgrading the legal system.

Line ministries and private sector entities need to be fully involved in preparing legislation and training.

B. Implementing the Strategic Plan

6) Training for Government staff in certifying units and laboratories in international principles of conformity assessment and certification

Training would include:

- a. ISO 65: "General requirements for bodies operating product certification systems"

- b. ISO/IEC 17021: "Conformity Assessment— requirements for bodies providing audit and certification of management systems"
- c. ISO 19011:2002: "Guidelines for quality and/or environmental management systems auditing"
- d. ISO ISO/IEC 17007:2009: "Conformity assessment — Guidance for drafting normative documents suitable for use for conformity"

7) Prepare a national strategy for laboratory development¹⁰⁴

The strategy will identify national and sub-national capacity, the alignment and possible consolidation of the capacity of laboratories with responsibilities for TBT, organization, management and funding modalities, and funding needs, and make recommendations. The strategy will guide further development of laboratory infrastructure and help to avoid dysfunctional overlap. Much work has already been done for the SPS area to build upon. To be meaningful a laboratory development strategy needs high-level government endorsement.

8) Support quality management in TBT laboratories¹⁰⁵

Introduce basic quality management systems in main laboratories with responsibilities for TBT, including calibration, administrative systems, SOP and management. For a few parameters with sufficient testing volume and international trade relevance support will be given for ISO/IEC 17025 accreditation.

9) Support the development of private sector and consumer organizations, and their engagement in the development agenda for TBT¹⁰⁶

This will be done through: (i) public-private cooperation in areas of common interest; (ii) provision of training and awareness workshops; and (iii) regular consultation with TBT services.

10) Selectively implement other elements of the strategic plan

There will be a need for training and investment to effectively implement the strategic plan. This includes metrology in particular.

104. The strategy could be prepared jointly with a strategy for SPS laboratories.

105. The support could partly be conducted jointly with support for SPS laboratories.

106. Support for SPS and TBT can be partly combined.



9. BUSINESS ENVIRONMENT

9.1 Introduction

There is a growing understanding of the importance of the business environment for economic growth and poverty reduction. Much less understood is how to manage the reform process, which is challenging in any country. The list of possible reforms is long and figuring out priorities and sequencing can be difficult. Reforms can be politically contentious. Business environment reforms can be institutionally challenging because their implementation requires coordination among diverse institutions as well as fundamental institutional changes.¹⁰⁷ This chapter presents key business environment constraints and recommends specific prioritized actions to remove them.

9.2 Key business environment constraints

Over the past few years Lao PDR has become a better place to do business for both domestic and foreign firms. This includes implementation of the Enterprise Law in 2006, which among other things introduced the concept that doing business is a right rather than the privilege of Lao citizens as defined in the Constitution. It also changed the previous “permit regime” to a “registration regime”. To make it easier for entrepreneurs to set up their businesses, the Law introduced the concept of the ‘negative list’, under which any lawful person can conduct business activities outside the so-called “negative list of conditional activities” without asking for permission. In order to align with the Enterprise Law, the Government also replaced two separate Investment Promotion Laws with one unified Investment Promotion Law in 2010, which among others also introduces uniform regulations for business entry and investment incentives for both domestic and foreign investors. The recently revised General Tax Law (2011) also introduced a number of significant growth-friendly policy changes, including the introduction of a new corporate profit tax rate of 24 per cent and the abolition of minimum tax, facilitating graduation of growing small- and medium-sized enterprises

(SMEs) from a presumptive tax system to accounting-based systems.

Important improvements were also made to the manufacturing and trading licensing regime. A number of regulations were introduced to improve predictability and transparency in international trade (see Chapter 8 on trade facilitation). A sectoral operating license is not required to engage in international trade, and the manufacturing sector only requires one operating license as opposed to the two sectoral licenses required by other sectoral agencies (establishment and operating licenses). In addition, continued effort has been made to facilitate free movement of goods domestically by removing unnecessary internal checkpoints.

Despite significant improvement in the business environment, there are still certain gaps between policy and implementation and without reducing this gap the potential of key economic sectors is likely to go unrealized. Further improvement in the enabling environment will require a wide range of sectoral and cross-sectoral initiatives. Sector-specific reforms will be discussed in each of the sectoral analyses and this section will focus on cross cutting issues of the enabling business environment, relying on the results of the World Bank Investment Climate Assessment (ICA 2011),¹⁰⁸ and the Enterprise Survey 2009 carried out with support from GIZ.

Partly because of Lao PDR’s geographical location, the stage of development of its market foundations, the bias of methodology and others reasons, the country performs poorly in most international benchmarking exercises, including the Doing Business Indicators, Index of Economic Freedom and Logistics Performance Index. Overall these reports suggest that gaps between Lao PDR and its peers in the region are still significant. However, they do not provide information about priority reform areas or what the binding constraints for businesses are at the current stage of economic

107. World Bank, IFC, *Reforming the Investment Climate*, 2006.

108. This Assessment summarizes the results of a nationally representative enterprise survey conducted in late 2009 and draws on extensive interviews with policymakers and practitioners and using survey instruments that allow comparison between the performance of Lao enterprises and those in 100+ other countries.

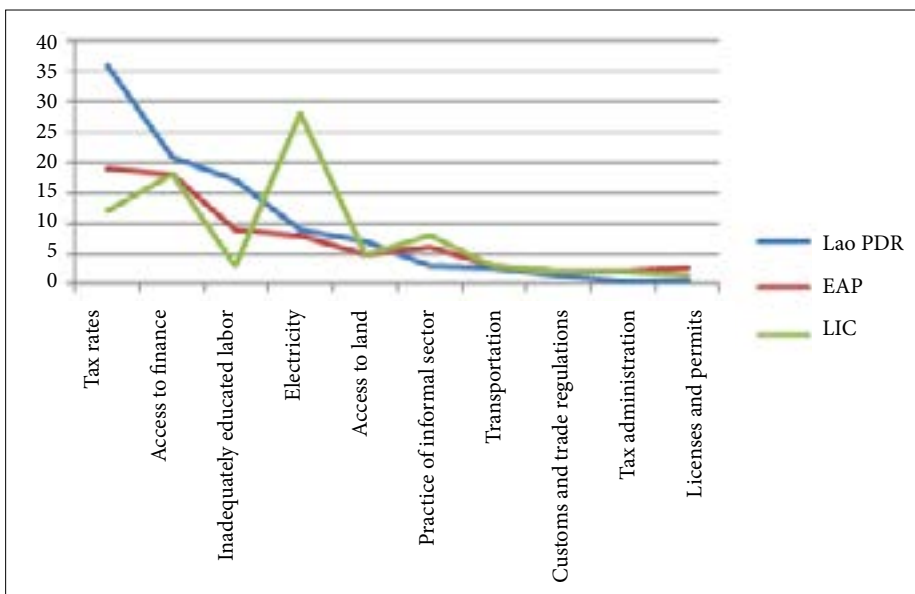
development. The findings of these reports need to be interpreted carefully alongside analysis of the country's specific situation.

The World Bank's Investment Climate Assessment 2010 (ICA) identified taxation, access to finance and an inadequately educated workforce as the three top constraints to growth by most firms in Lao PDR (Figure 17). A significantly greater number of firms view these areas as problematic compared with in other countries in East Asia and other low-income countries. Thirty-six per cent of firms – three times the number compared with

other countries in East Asia – view tax rates as a major constraint. The share of firms reporting lack of access to finance as a major obstacle (21 per cent) and poor skills (16 per cent) is also much higher than the regional average and average of low-income countries.

Similarly, the enterprise survey conducted by GIZ in 2009 also identified access to finance, lack of skilled labour (management and technical personnel), high taxes and duties as major business constraints.¹⁰⁹

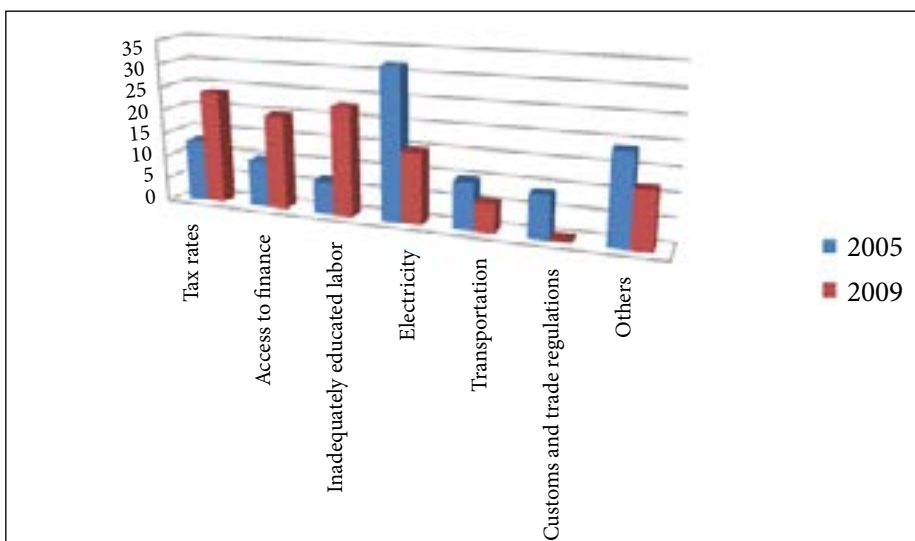
Figure 17: Top business environment constraints for firms (percentage of firms)



Source: World Bank Enterprise survey (2009).

The ICA (2011) also revealed that in manufacturing, infrastructure became less of a concern compared with the 2005 survey. In the comparable subset of manufacturing firms, 15 per cent identified electricity as the main obstacle in 2009 compared to 32 per cent in 2005. The share of firms concerned about lack of skills increased the most from 7 per cent in 2005 to 23 per cent in 2009.

Figure 18: Concerns among firm managers, 2005 and 2009



Source: Adopted from ICA (2011), World Bank Enterprise surveys

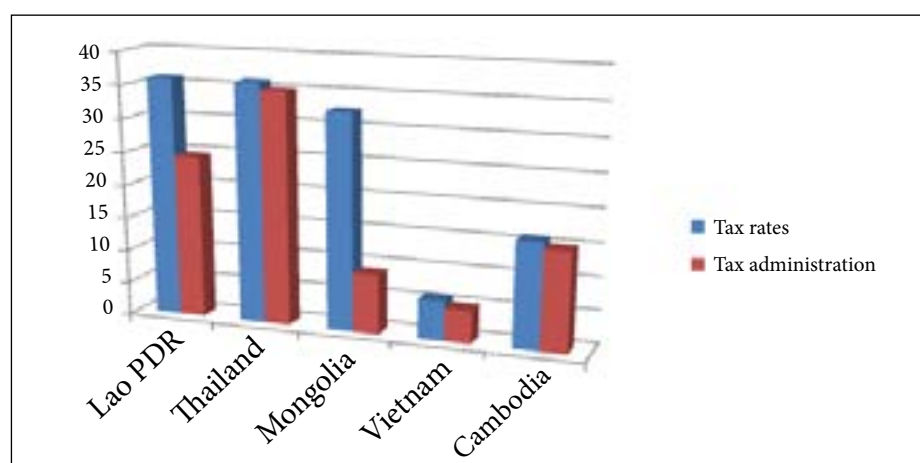
109. The GIZ Enterprise survey covered more than 700 enterprises operating in seven provinces.

At the same time fewer than 5 per cent of firms identify corruption as a problem (but a very high number of firms – about 40 per cent – report having to make informal payments), or view the quality of courts, tax administration, business licenses and permits, and customs and trade regulations as major issues. In all cases, firms in Lao PDR are less likely to view these areas as problematic compared to in other countries in East Asia. While these constraints are not reported as the main obstacles by a large number of firms, they may present major constraints to growth for certain groups of firms (constraints vary by firm size and sector).

9.2.1 Taxation

Tax rates and tax administration were cited by enterprises (especially small enterprises) as one of the most severe obstacles for firms in Lao PDR (Figure 19).

Figure 19: Complaints about tax rates and tax administration (percentage of firms)



Source: World Bank 2009
Enterprise survey

The legal framework for taxing businesses is provided in the General Tax Law, VAT Law, Enterprise Accounting Law, and Law on Investment Promotion and related decrees and instructions. This framework is undergoing a major change through the recently promulgated new Unified Investment Promotion Law, Implementation of VAT Law, and revision of the Tax Law.

Overall the new legal framework has introduced a number of significant growth-friendly policy changes, which are expected to improve business competitiveness and reduce business tax compliance costs. For example, a uniform investment incentive regime for both domestic and foreign investors is introduced in the new Investment Promotion Law. A new corporate profit tax rate of 24 per cent in the new Tax Law is comparable to the regional

tax rates, and abolishment of minimum tax will facilitate the graduation of growing SMEs from the presumptive tax system to accounting-based systems. This will eventually provide opportunities for SMEs with growth potential to improve their financial management skills, their access to bank credit and public procurement, and assist them to engage in formal import and export activities. In addition, the abolishment of the minimum tax will enable loss-making businesses, especially new start-up companies to carry forward their losses for tax deduction in the following years. This should encourage the creation of new businesses.

Business taxpayers in Lao PDR can be broadly classified into three main groups: 1) micro businesses, which are under a simple regime (ticket holders); SMEs with a turnover of below

400 million Kip, which are under a presumptive tax regime; and taxpayers based on an accounting system (mostly with an annual turnover of more than 200 million Kip),¹¹⁰ who pay taxes based on accounting and financial reports. According to Tax Department statistics, in 2008 there were about 80,000 registered taxpayers. About 40,000 are ticket holders paying taxes under the simple tax regime, about 32,000 taxpayers pay taxes under the lump sum regime, and only about 8,000 pay taxes according to the normal accounting regime. However, with the implementation of VAT law, which started in 2010, the number of businesses that keep accounting systems according to the Enterprise Accounting Law is expected to reduce because businesses with annual turnover of less than 400 million Kip that are not registered as VAT taxpayers will not have an incentive to maintain an

110. Under VAT law this threshold is raised from 200 million Kip to 400 million kip.

accounting regime for tax purposes.

The Enterprise Survey (2009) also revealed that SMEs in services and the retail trade complain more about tax rates and tax administration than larger enterprises in the manufacturing sector. SMEs have to meet with tax officials at least five times a year compared about three times a year for large enterprises. This indicates that most businesses are unhappy about the existing presumptive tax regime, the nature of which is not expected to change much as result of the revision of the Tax Law. Currently close to 50,000 taxpayers are registered to pay tax under the presumptive regime. While there are widespread complaints about arbitrary assessments, there is an evident unwillingness on the part of businesses to move away from this arrangement, even though they have the accounting capacity and indeed apparent legal obligation to do so.

The current taxation system faces challenges in: (i) converting those who remain outside the tax system entirely (the informal sector) to members of the formal sector; and (ii) in inducing those within the formal sector (taxpayers) to adopt improved accounting practices that would allow them to be taxed on other than a presumptive basis.

Going forward it will be important to address some of the challenges mentioned by: establishing a dedicated SME Tax Unit at the district level to facilitate tax registration and dissemination of information; developing simple accounting toolkits to encourage SMEs to gradually move to a standard accounting-based tax regime; and increasing a public outreach programme about the features and benefits of VAT among SMEs. It is

understood that the Tax department is a preparing project aimed at improving the SME taxation regime in collaboration with the International Finance Corporation (IFC) and World Bank.

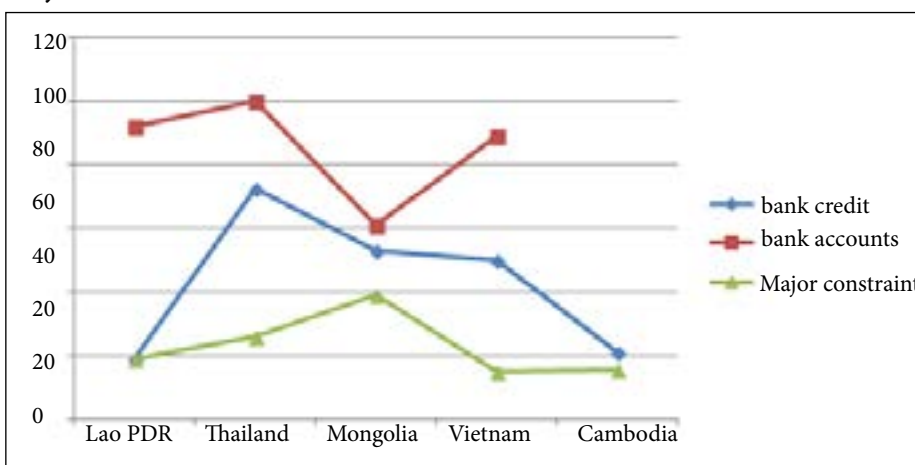
9.2.2 Access to finance

The Enterprise Survey (2009) revealed that while 92 per cent of firms surveyed have access to banking services through bank accounts, only 19 per cent of firms have bank loans. Furthermore, only 3 per cent of firms used external sources to finance their investment. These numbers are very low compared to other countries (Figure 20).

While the Enterprise Survey was conducted in four major cities, the situation in non-urban and remote areas could be much worse, because most banks still have insufficient branch networks and can serve only the population that resides in the primary municipalities along the Mekong River. With the establishment of the new private banks (both domestic and foreign), the number and type of banking channels have increased, although they are primarily still located in Vientiane and three other major urban centres. Bank branches and other channels to serve the rural areas where more than half of the population resides are scarce and usually limited to provincial capitals. New approaches and technologies such as mobile banking will be required to provide financial access to people in remote areas. Currently, the Central Bank is planning to develop legislation on mobile banking, which is a good low-cost alternative for the poor in remote areas.

The low level of firms with bank loans could be explained by a number of factors including: a lack

Figure 20: Proportion of firms with bank credits and bank accounts and citing access to finance as a major constraint.



Source: World Bank Enterprise surveys

of investment opportunities; poor or non-existent accounting practices by firms; complicated loan approval procedures; high collateral requirements; high lending risks perceived by lenders; and a lack of appropriate loan products (in terms of size, terms of maturity, interest rates). However, a high level of informal lending,¹¹¹ high collateral requirements in the form of land and building, and a lack of medium- (2 to 3 year) and long-term (3 to 5 year) bank loans for investment purposes suggest that an underdeveloped banking sector and high-risk lending environment are among the most prominent reasons.¹¹²

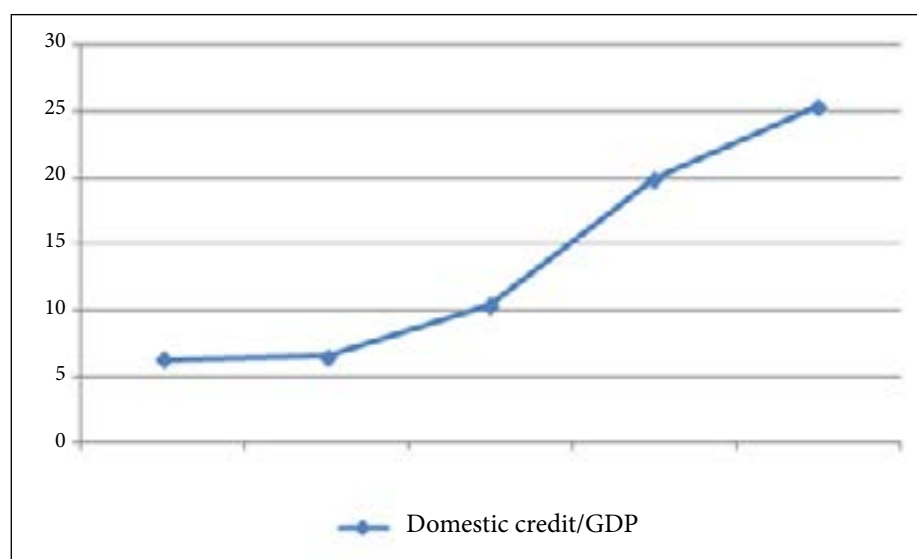
Some encouraging developments are taking place. After the consolidation of numerous state-owned banks, the private-owned banking sector is expanding under market liberalization. The number of banks in Lao PDR increased from 12 in 2006 (including branches of foreign banks) to 25 in 2011. As a result, the ratio of credit to GDP increased almost four times from 7 per cent in 2006 to 25 per cent in 2010 (Figure 21). Year-on-year credit growth in 2008 and 2009 reached 70 per cent. It was estimated that credit growth decelerated to about 50 per cent and 30 per cent in 2010 and 2011, respectively.¹¹³ Although starting from a low base, this rapid expansion of credit has been concentrated in a few selected industries and poses risks for the financial system. Even though the reported value of non-performing loans (NPLs) remain low, experience shows that NPL numbers do not always fully reflect the risks in credit portfolios, especially in a fast credit-growth

environment. The rapid expansion is placing strain on the Central Bank's ability to adequately supervise banks. Capitalization of some commercial banks remains below the prudential limits and limited reporting on the financial condition of banks raises questions on the sustainability of the current credit boom.

One of the key challenges in the banking sector is to ensure a balance between policies aiming to improve access to financial services through liberalization and enhancing the sector's soundness and stability, which means that the supervisory and regulatory regime will need to be strengthened to cope with an increasing number of players. More strategically, a number of key issues need to be considered while expanding the country's regional and international economic integration:

- 1) Does reform of the state-owned banks need to be linked to the entry of private domestic/foreign service providers?
- 2) What role should state-owned commercial banks play in the future of the banking sector?
- 3) In what form(s) should liberalization take place (branches, subsidiaries, cross-border banking, foreign acquisition/strategic partnerships of/with state banks)?
- 4) Should improved prudential regulation and supervisory capacity be a pre-condition of financial sector liberalization?
- 5) Is external assistance needed to support successful liberalization?

Figure 21: Domestic credit growth since 2008



Source: World Development Indicators (2006-2010)

111. Anecdotal evidence suggests that more than 50 per cent of SMEs in retail sector are participating in informal lending markets.

112. Data from WB Enterprise Survey showed that about 97 per cent of firms financed their investment with retained earnings.

113. Lao Economic Monitor, World Bank, November, 2011

In the medium term improving access to finance will require further improvement in the following areas:

- 1) Strengthen and accelerate ongoing programmes aiming to develop/improve financial infrastructure that enable effective operation of financial institutions, including payment systems, credit information bureaus and collateral registries (movable and non-movable assets).
- 2) Further improve laws and regulations related to secured lending, including revision of the outdated Contract Law (see 9.3.4), implementation of the secured Transaction Law, and overall improvement in contract enforcement.
- 3) In the medium term, set up a specialized risk-sharing facility or credit facility for SMEs. This could be complemented with technical assistance to build the capacity of both commercial banks and SME borrowers. Technical assistance to banks could include developing a strategy for penetrating the SME segment, training on cash flow-oriented lending, analysis of business risks and mitigation of risks related to lending to SMEs. Technical assistance to SME borrowers could focus on financial record keeping and maintenance of company records and accounts, as well as formulating business and financial plans.

9.2.3 Labour and skills

According to the latest Enterprise Survey conducted by the World Bank and a similar survey conducted by GIZ in 2009, a lack of skilled workforce (both

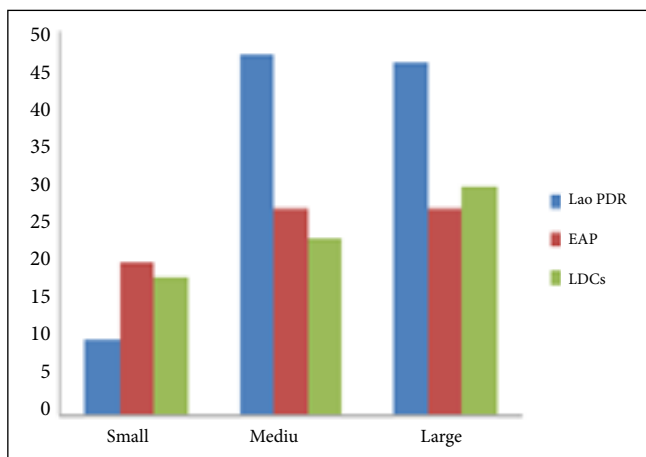
in terms of management and technical skills) emerged as the biggest inhibitor of firm growth, especially in large firms in service sectors other than trading (see Figures 22 and 23).

The relatively low level of complaints about the availability of skilled labour by large manufacturing firms is explained by the fact that about 70 per cent of the large manufacturing sample is represented by low value-added, labour-intensive sectors such as garments, consisting mainly of CMT (cut, make, and trim) producers, and the low value-added wood processing sector.

The shortage of skilled labour can be explained by: the significant migration of labour to neighbouring countries, especially Thailand; strong demand for labour from fast-growing resource sectors; the mismatch between demand and supply of skills in the market; and a high degree of subsistence agriculture, which requires large numbers of seasonal workers. According to unofficial figures from the Ministry of Labour and Social Welfare, about 100,000 skilled workers from Vietnam, China and Thailand are currently working in large infrastructure projects and the building construction sector in Lao PDR, while about 300,000 workers from Lao PDR are working in Thailand, representing almost 50 per cent of the non-agricultural workforce in the country.

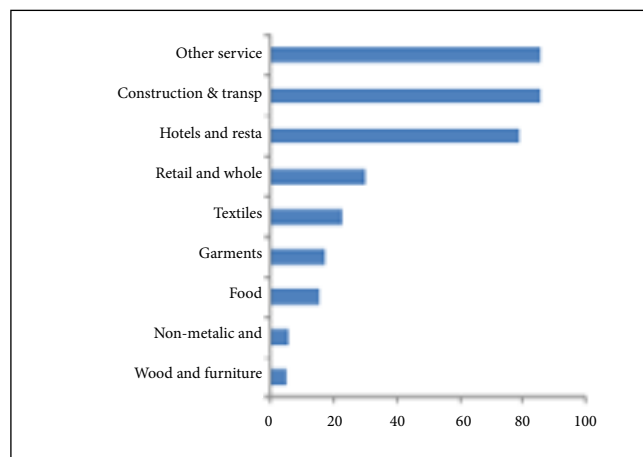
There is no census of Lao migrants. According to the ILO/NSC 2005 Survey, most Lao migrant workers come from rural areas of the neighbouring districts of Savannakhet, Khammuane, Champasack, Xayabury and Bokeo provinces. According to the UN Human Development Report 2008, the main

Figure 22: Skill-levels, medium and larger firms (percentage of firms)



Source: World Bank Enterprise Surveys

Figure 23: Percentage of firms viewing skills as the main problem



Source: ICA (2011), World Bank Enterprise Survey

reasons for migration are both ‘push’ (hard to earn money at home) and ‘pull’ factors (could earn more in Thailand). The National Export Strategy calls for a paper on migrant labour.

In spite of the shortage of skilled labour, public vocational and technical schools still have difficulty recruiting their students, which could be explained by the fact that either existing schools do not produce skill sets required by the private sector or there is lack of incentive for unskilled labour to upgrade skills.

To address labour issues a number of stronger industry associations such as garments, construction and tourism, in collaboration with the public sector, have started implementing short-term practical training courses for their workers. This kind of initiative needs to be further supported to enable long-term sustainability. In the medium term, it will be necessary to conduct a comprehensive labour market study to identify the main causes of the skills mismatch between demand and supply and disincentives for non-skilled workers to upgrade their skills, and to explore options for improving labour market information and links between vocational educational institutions and the business community.

9.3 Other business environment constraints

9.3.1 Regulations on business entry and operations

While significant improvement has been made, further work is required. For example, the simplified procedures for business registration for investors wishing to conduct activities outside the list of conditional activities as part of the implementation of the Enterprise Law should also be applied to foreign investors wishing to take part in general investment activities. However, the implementation of this measure will require the development of a detailed list of foreign direct investment (FDI) restrictions on entry, and the establishment of regulations and restrictions on the level of foreign ownership permitted by sub-sectors.¹¹⁴ Furthermore, prior approval by line ministries to approve investment in the conditional list of investment activities also needs to be developed to give clarity to potential investors. Discussion with the Enterprise Registration Office revealed that the next important step to reduce

barriers for business entry is to combine business registration, tax registration and approval of the company seal in one certificate, which could potentially further reduce the time taken to start a business by 2 to 3 weeks. However, the current plan does not address the lengthy process of seal making, which takes up more than 50 per cent of the time taken to start a business.

Licensing procedures in most service sectors remain lengthy and complicated. Over the past few years as part of the implementation of the Manufacturing Law, licensing procedures for the general manufacturing sector have been simplified by abolishing one of the two licenses. For the trading sector, the licensing procedure is embedded in the business registration process, so an operating license is not required. Expanding a similar reform initiative to other economic sectors, especially services (tourism, construction) where the burden of licensing requirements is highly time consuming, has significant potential to reduce the regulatory compliance burdens on business.

Another important area in need of further improvement is the renewal of business licenses. While business registration certificates do not require renewal, all other operating licenses and certificates must be renewed every 2 to 3 years. Existing procedures for license renewal are identical to procedures for the issuance of initial licenses, adding significantly to business compliance costs.

The long-term goal for simplification of business regulations, including business entry, should be building the capacity of relevant government agencies to regulate ex-post rather than ex-ante. This may require significant institutional change and should be complemented by extensive capacity building under broader public sector reform aimed at improving public service delivery and sufficient operating budget. Ongoing efforts by the Ministry of Industry and Commerce (MoIC) to revise the Manufacturing Law are expected to introduce a more transparent licensing regime, which could potentially cover some licensing procedures administered by other line ministries.

9.3.2 Investment policy and incentives

Lao PDR has one of the most liberal investment regimes in the region. Since promulgation of the first Foreign Investment Promotion Law in 1988,

114. The negative list for implementation in the Enterprise Law is primarily designed to remove the requirement for obtaining approval from sectoral agencies prior to enterprise registration, while the similar negative list of the previous Foreign Investment Promotion Law was designed to regulate entry of FDI. Therefore, there is a need for MPI and MoIC to develop a joint negative list, which could be consistently applied to both domestic and foreign investment.

the country has made three revisions to its main investment legislation. A key landmark was the approval of a new Unified Investment Promotion Law in May 2010. The new law replaces previously separate domestic and foreign investment laws and, with the issuance of a Prime Minister's Decree in April 2011, eliminates the need for new investors seeking investment in general activities to obtain an investment license. Thus the new law abolishes lengthy and cumbersome licensing approval procedures for general investment activities, and creates a level playing field for both domestic and foreign investors by harmonizing business entry procedures and investment incentives. Nevertheless, the lack of consistent and full implementation of the new Investment Law and relevant commercial laws, especially at local level, creates uncertainty for potential investors.

Partly because of its proximity to the fastest growing economies in the world and abundant natural resources, Lao PDR has been able to attract large FDI inflow into the country. According to the World Bank, actual foreign investment in 2010 reached almost \$800 million compared to about \$100 million in 2003. However, resource-seeking FDI accounts for more than 85 per cent of the total investment (hydropower, mining and agriculture). There are concerns that the low level of investment in the non-resource sector could impede the achievement of sustainable high growth or diversification in the long term.

Precise domestic investment is unknown. However, anecdotal evidence suggests that domestic investment is very low and key constraints to domestic private investment include the poor business-enabling environment described above, the high cost of capital due to poor financial intermediation, low social returns to economic activity, and loss of competitiveness associated with the resource boom.

The key challenge now is how to promote more investment into non-resource sectors to assist in both export and general economic diversification. In this context, it is important to review fundamental determinants of FDI and see how existing investment promotion policy can be fine-tuned to attract more targeted quality investment into the non-resource sector.

The current investment promotion strategy emphasizes offering competitive fiscal investment

incentives with less focus on other important factors, which include:

- Size and ultimate profitability of the market that the project aims to serve.
- Availability, quality and cost of critical inputs such as labour, raw materials and land.
- Sector-specific regulations governing an activity.
- General business environment (regulatory environment and necessary administrative reform to implement new reform policy, availability of supporting infrastructure).

Without the above key factors, the liberal and generous investment incentives are unlikely to produce expected outcomes.

The implementation of the unified Investment Law will continue to offer incentives via tax holidays to investors in promoted sectors but will treat foreign and domestic investors equally. It will also remove the complex reduced tax rates embedded in the earlier law, but it will not, apparently, address the continuing 20 per cent tax privilege of earlier investors that have been grandfathered. This will continue to give established foreign investors a long-term competitive advantage over new investors when any tax holidays of the latter expire.

It is advisable to conduct a comprehensive review of all investment incentives provided in various laws and to develop appropriate solutions to reduce uncertainty, improve clarity and minimize artificial competitive advantages among businesses derived from various incentive regimes.

In addition, since the future focus of investment promotion will be on quality and sustainability, it is sensible to develop a national investment promotion and facilitation strategy with information on the attractiveness of key sectors for investment, and specific activities on investment facilitation, servicing, investor outreach, marketing activities in key targeted markets and a comprehensive medium-term strategy to improve the business environment.

9.3.3 Industrial zones

The Government has been promoting industrial zone development programmes in major provinces since the late 1990s in order to attract foreign investment into manufacturing. However, there is no evidence to suggest that the programme is

having a significant economic impact on industrial development or attracting FDI. The main reasons include:

1. Poor planning.

- a. No economic location criteria were employed in site selection process.
- b. Demand analysis was not a key factor in site selection.
- c. Inappropriate organizational structure to manage and implement industrial zone development policy.
- d. Applying a standardized model that assumes an abundant supply of low-cost labour, when Lao PDR's comparative advantage lays elsewhere.

2. A shortage of funds is a major problem. Rather than concentrating limited funds in one or two areas, funds were spread over a number of sites.

Recently, in addition to granting concession agreements to Malaysian and Thai investors to develop Savan-Xeno special economic zones (SEZs) along the East-West Corridor, the Government has been planning to develop two new industrial zones in Vientiane. A project development agreement with a Taiwanese investor has recently been signed to set up a 70/30 joint venture (Taiwan holds 70 per cent and the Government the remaining 30 per cent) to develop an area of 110 hectares at Km 23 (near the 13 South Road) into an industrial and trade area (VITA). And with technical support from JICA, the Government has conducted a detailed feasibility study to develop another Vientiane Industrial Park (VIP) with a total area of 140 hectares located at Km 21 (near the 450 Year Road). It is expected that VIP will target medium-sized investors (especially Thai-based Japanese investors) making garments, footwear and parts of electric and electronic appliances.

While a detailed feasibility study, including appropriate site selection, demand survey, estimate of development costs and other elements, has been carried for the VIP, the viability of VITA will depend on a positive outcome from a detailed feasibility study.

The two industrial zone projects in Vientiane will face different challenges. A key challenge for VIP is to secure soft loans from the Japanese Government, control development costs and set up an effective management structure that caters

to investors' needs on an ongoing basis and could operate under business principles (currently the Government is planning to set up an autonomous authority to manage the park).

To improve coordination in developing special economic zones, the Government has recently set up a national committee for SEZs with a full time secretariat located under the Prime Minister's Office (PMO). However, the Department of Industry remains the key promoter/agency with regard to industrial zones.

With the implementation of the new Unified Investment Law, investment promotion functions now lie with three key agencies: the Investment Promotion Department under the Ministry of Planning and Investment (MPI); the Secretariat for Special Economic Zones; and the MoIC General Investment Promotion Department. In this regard, it is necessary to develop a National Investment Promotion Strategy, which among other things should clarify the functions of relevant public institutions. It is desirable to clearly separate promotion from regulation and pilot activities in the areas of investment facilitation, servicing and investor outreach (including, for example, support for a small number of pilot investor outreach and marketing activities in key target markets).

9.3.4 Property rights, contract enforcement and commercial dispute resolution

The enforcement of property rights and contracts is a basic foundation of the market economy. Since implementation of a market-oriented economic policy started in late 1980s, Lao PDR has come a long way in developing a market-based legal framework and institutional implementation capacity. For example, Lao citizens have "land use rights" under the Land Law comparable to full ownership rights in a market economy; they include the right to possess, use, lease as either lesser or lessee, sell, exchange, mortgage, and transfer by inheritance to close relatives. More than 90 per cent of bank loans are secured by land.

In all economies, especially in Asia, many business transactions are conducted based on informal social rules. Written contracts and leases are exceptions rather than rules, but as businesses develop, especially amid growing regional and international economic integration, more transactions are conducted outside established

networks, and limitations of informal rules become more apparent.

The current Contract Law has a number of essential deficiencies, including a very narrow scope (no provisions on a number of essential commercial instruments including: instalment purchases; franchise and insurance contract; lack of mechanism for contract formation; no distinctions between consumers and commercial contracts; the discretion to courts to void the contract if it defines that the contract is not equal). Enforcement is a bigger problem. Courts are rarely used to settle commercial disputes because public confidence in them is low, which can be partly explained by risk avoidance. It was estimated that only about 20 per cent of judgements were enforced in a year. Fortunately,¹¹⁵ many local transactions and spot transactions ('cash and carry') can readily be transacted without formal institutions. Indeed, in all market economies many transactions are conducted with limited reliance on formal contracts and enforcement mechanisms.

Lao PDR has two major methods of Alternative Dispute Resolution – mediation and arbitration. These measures operate at all levels from village to the Economic Arbitration Board and the Commercial Chambers of the provincial courts. This strong tradition of alternative dispute resolution is regarded as best practice in the region.

A number of reviews, including UNDP's Review of Implementation of Rules of Law (2003) and USAID's Commercial Legal Framework Diagnostic (2006) suggest the following as priority areas to improve contract enforcement and the commercial dispute resolution framework in Lao PDR:

- Revision of the Contract Law.
- Dissemination of all laws, decrees and regulations in a central repository in both hard copy and online, so that it is accessible to all interested parties.
- For the benefit of foreign investors, the sub-group of laws, regulations and court decisions that specifically pertain to commercial matters must be catalogued, translated and placed online.
- Judges in the Commercial Chamber should receive significant training over the next several years in each of the areas that they can expect to face cases on, including the topics of contracts, enterprises, bankruptcy, secured transactions,

intellectual property and financing.

- The private Bar should be encouraged to become more engaged in the improvement of the legal framework and the implementation of the law.
- The tradition of Alternative Dispute Resolution, and its integration into the legal framework, should be further encouraged and strengthened.

9.3.5 Competition policy

The Prime Minister's Decree on Trade Competition is considered the starting point for the enactment and implementation of a more comprehensive Competition Law. Currently, restrictions on investment activities are limited but some serious de facto and de jure impediments to competition exist, such as the discretionary licensing policies in telecommunications and tourism, and restrictions on a foreign presence in the market for domestic transport services and wood processing.

A lack of understanding in both the public and private sector about competition policy poses a challenge to improving the competition environment. Therefore, along with improving laws and regulations, substantive efforts in raising public awareness are required.

Enhancing the independence of regulatory authorities in telecommunications, banking, insurance and transport should be given priority in improving competition. In view of improving the business environment, the Government has a plan to develop a Competition Law within the current NSEDP 7.

9.3.6 Consumer protection

Among other departments, the MoIC Domestic Trade Department has primary responsibility to promote competition and fair trade to benefit consumers, businesses and the community, and to ensure that individuals and businesses comply with the country's competition and consumer protection legislations. The first law on Consumer Protection was promulgated in 2010. However, supporting institutions such as a consumer protection association and implementing guidelines have not been established and developed. To strengthen its capacity in promotion of competition and consumer protection, the Department of Domestic Trade is planning to develop a robust price monitoring and forecasting system. This will incorporate specific policy measures aimed

115. USAID, *Southeast Asia Commercial Law and Institutional Reform and Trade Diagnostic – Laos, 2006.*

at maintaining price stability of key consumer products and strengthening the technical capacity of the trade inspection unit to improve the enforcement of relevant laws and regulations in the areas of competition, fair trade and consumer protection.

9.4 Gaps between policy and implementation

Both available studies and discussions with the private sector revealed that over the past few years, Lao PDR has made important progress in improving laws and regulations governing business start-ups and business operations, but that implementation remains problematic. This suggests that the answer to solving regulatory constraints does not lie in new policies, laws or regulations, but rather in focusing on effective implementation. Effective implementation will require a number of key ingredients, including: improvement in regulatory quality, which could be achieved through broad public consultation and the adoption of good practice in the law making process such as Regulatory Impact Assessment, currently being piloted within the MoIC and other ministries; institutional realignment based on changes in policy; a coordination mechanism; and more importantly building the capacity of institutions. One of the major issues causing poor or lack of implementation of certain policies and laws is the significant lag between the promulgation of laws and the adoption of more detailed implementing Decrees or relevant guidelines and instructions. It is understood that some of these issues could be addressed by the promulgation of a new Law on Law Making, which is being drafted by the Ministry of Justice (MoJ) for submission to the National Assembly next June.

9.5 Regulatory Impact Assessment

As part of the overall mandate to improve the enabling business environment, a strategic action plan for institutionalizing regulatory impact assessment (RIA) in Lao PDR has been prepared, with support from the Asian Development Bank (ADB), the Small and Medium-Sized Enterprises Promotion and Development Office (SMEPDO) and the legal division of the MoIC. Detailed guidelines have been developed and training has been conducted for key staff from the MoIC legal department and MoJ. Initially, the RIA methodology will be piloted within MoIC with the potential of institutionalizing it within the law

and regulations making process. In the medium to long term, if appropriate capacity is built, the RIA project has the potential to improve the law and regulation making process, which could contribute to more effective implementation.

9.6 Public private dialogue

With an objective to improve business enabling environment in the country, and drawing on the experience of Vietnam and other countries in the region, the Lao Business Forum (LBF) was established in late 2005 to provide a structured platform for the business community to engage in a regular, constructive dialogue with the Government. The LBF is a product of collaboration between the business community, represented by the Lao National Chamber of Commerce and Industry (LNCCI) and other industry associations and the Government, represented by the MPI and with the support of the IFC. Similar public / private dialogue mechanisms in selected provinces (PPPD) were also set up with support from GIZ.

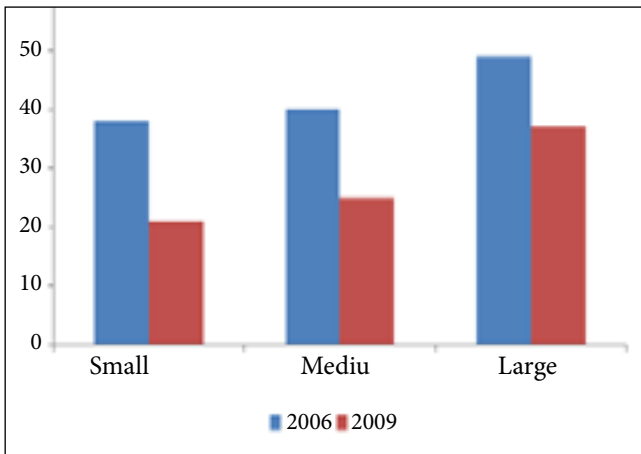
Over the years, the LBF has made significant contributions to resolving some concrete issues facing the private sector in the areas of tax administration and trade facilitation. It has also enabled the private sector to make significant contributions to law making, especially the Mining Law. However, in order to ensure a bigger impact and the sustainability of such structured and constructive dialogue, in the medium term it will be necessary to build the capacity of LNCCI and Industry Associations at the central and provincial levels in overall policy advocacy, especially in policy research and the development of concrete policy recommendations to address identified issues. In addition, along with the MPI Investment Promotion Department, the MoIC should also play an important role in facilitating this public / private dialogue. Improving the business environment is one of the key functions of SMEPDO, which falls under the remit of MoIC.

9.7 Access to electricity

Lao PDR has made important progress in expanding access to electricity. The number of households with access to electricity increased from 16 per cent in 1995 to 63 per cent in 2009. The Government has set an ambitious target of increasing access to electricity connections by households to 90 per cent by 2020.

At the enterprise level, especially in urban and pre-urban areas, access to electricity has improved dramatically in the last few years. Data from two enterprise surveys conducted in four urban centres in 2006 and 2009 by the World Bank showed that the share of manufacturing firms that identified electricity as major constraint decreased from 41 to 21 per cent. Only 1 per cent of firms in the survey said they had experienced a power outage in 2008. Larger wood processing and garments firms are more likely to identify access to electricity as an obstacle. The overall level of complaints about electricity by firms of all sizes has dropped. The

Figure 24: Percentage of firms identifying electricity as a major constraint, 2006 and 2009



Source: World Bank Enterprise Surveys

level of complaints is still higher than the EAP average but lower than average for LICs (see Figures 24 and 25).

9.8 Access to telecommunications

Overall access to telecommunications does not present a constraint for businesses. Over the past few years both domestic and international long distance rates fell rapidly to a level lower than the regional average. This decline was driven by improved technology, enhanced competition, and increased access to low cost, unlicensed voice-over Internet protocol (VOIP) in urban Internet cafes.

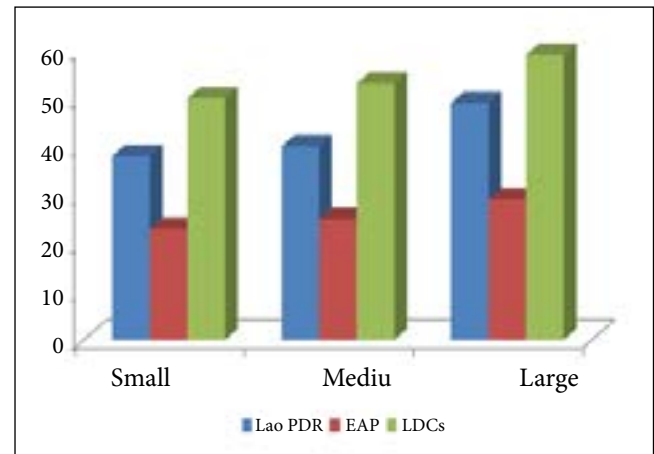
The Lao telecommunications market consists of fixed, mobile and VOIP technologies. There are currently four active service providers, in all of which the Government has at least a small stake. There is currently no independent regulator in the sector to ensure a level playing field and this is perceived by several operators as key impediment

to continued expansion and stable growth of the sector. This lack of effective sector regulation has also affected the quality of foreign investment into the telecommunications sector and has at times resulted in periods of anti-competitive behaviour among operators.

9.9 Access to transport infrastructure

The transport market is very thin and highly fragmented due to the mountainous terrain that makes up three-quarters of the country, but most businesses operating in urban and peri-urban areas do not perceive lack of access to transport

Figure 25: Percentage of firms identifying electricity as a constraint in Lao PDR, EAP and LICs



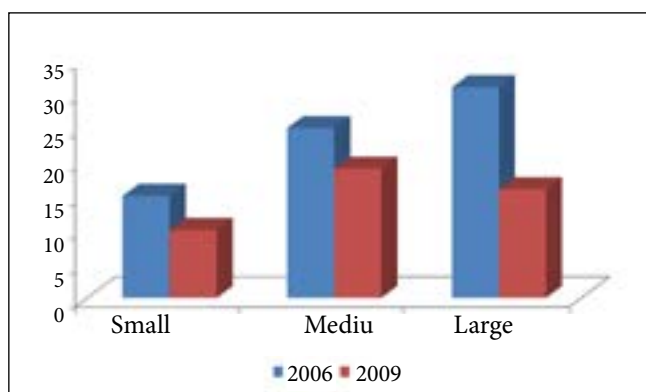
Source: World Bank Enterprise Survey

infrastructure as an important constraint, although high transit costs are reducing the competitiveness of the export-oriented manufacturing sector. Road transport is the dominant mode of transport, accounting for 70 per cent of freight transport and 90 per cent of passenger transport.

The percentage of firms identifying transport as a major constraint has dropped across all firm sizes, reflecting significant improvements in the transport network over the past few years (see Figures 26 and 27).

From the perspective of facilitating the export competitiveness of Lao industry, it is important that priority is given to developing an efficient regional transport network, including improving transportation logistics to improve operational efficiency and reduce transit time for goods (see Chapter 8 on trade facilitation). This would further

Figure 26: Percentage of firms identifying electricity as major constraint, 2006 and 2009



Source: World Bank Enterprise Surveys

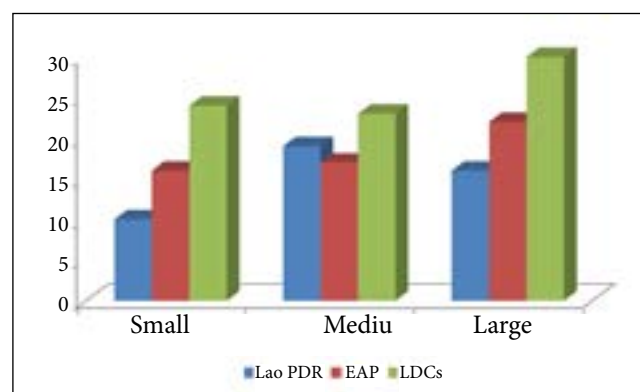
help integrate Lao suppliers with regional supply chains.

9.10 Access to business development services

The availability of and access to high quality business development services by start-ups and existing SMEs is limited. There are few or no services, at least known to or accessible by the SMEs. Mechanisms ensuring quality of services are deficient. Existing business development service (BDS) providers focus on larger, state-owned enterprises, donors or FDI enterprises, and they are not sufficiently aware of or prepared to serve the SME market. In provinces outside Vientiane opportunities to access entrepreneurship and business management training, information and counselling, market and technology access services either do not exist or do not match the demand from businesses and potential entrepreneurs. The volume and quality of skills training offered through the vocational and technical school system does not meet the needs of modern small and medium businesses.

According to the education development strategy, investments in basic, vocational and technical training are planned and are underway with assistance from development partners. These interventions will improve the availability of skilled human resources that will set up and work in SMEs in the medium and long term. In the short term, the need for BDS and the demands of potential and existing SMEs, especially in provinces outside Vientiane, will have to be met with interventions by the public sector with support from development partners.

Figure 27: Percentage of firms identifying electricity as a constraint in Lao PDR, EAP and LICs



Source: World Bank Enterprise Survey

Larger private enterprises have recently started to collaborate with the public sector in training. The setting up of these Public-Private Partnership initiatives needs to be encouraged and should be supported by the Government and Development Partners.

For example, the construction association is partnering with the Ministry of Education to address shortages of skilled labour, but they realize that much more needs to be done. Most construction businesses run on-the-job training for recruits but they know that this is inadequate. They would now like to find service providers that could train their staff on a part-time basis and on-site; and, for this they are prepared to pay 10,000 Kip (\$1.2) per day (25-30 per cent of the daily wage rate) for unskilled workers and twice this amount for semi-skilled workers.

The Association of Lao Garment Industries, with assistance of the World Bank and CIM, has recently set up a garment training centre to focus specifically on upgrading the skills of supervisory staff. For this, garment enterprises are prepared to pay up to \$10 per day/per person for high-quality training. The target for this centre is to train 300 to 400 supervisors each year and to become financially self-sufficient in year 4.

The private sector, represented mainly by the Hotel and Restaurant Association and Lao Association of Travel Agents is now working closely with the Lao National Tourism Authority on a project, funded by the Government of Luxembourg, on the establishment of a Lao National Institute of Tourism and Hospitality to train several hundred

people in housekeeping, food and beverages and tour operations.

Typical of SMEs elsewhere, Lao SME owners/managers are often not aware of the benefits associated with external business development services. The following are typical business development services that could be supported by a specific Enterprise Competitiveness Challenge Fund, which is a key recommendation of the DTIS.

1. Information and Counselling.

Information and counselling services are important both for potential and existing entrepreneurs. An environment rich in business, market and technology information will enable existing SMEs to improve their competitiveness and provide a good breeding ground for the emergence of new SMEs.

2. Training

Training services enable SME owner-managers to overcome their management skills deficiencies, SME workers to improve their skills and potential entrepreneurs to launch their businesses on a sounder basis.

3. Entrepreneurship Development

To increase the number of potential entrepreneurs in society and to open up the option of self-employment and entrepreneurship, a number of measures will be implemented:

4. Business Management and Technical Skills Development

SME owners and managers will have to upgrade their skills in managing finances, production, marketing, exporting, human resources and information technologies, and in planning for their future. Sectors that are key to the development of local production and exports need a consistent supply of skilled workers. Training of a skilled workforce will make important contributions to improving the competitiveness of a dynamic SME sector.

5. Market Access Services

Developing the potential of exports from SMEs and enabling them to set up partnerships within the region, ASEAN and the international arena are very important for Lao PDR.

6. Technology Access Services

Access to technology information and services of SMEs is limited to services provided by suppliers of machinery and equipment in Lao PDR. Academic staff of the National University of Lao provide technical and technological advice and consultancy to Lao businesses independently and based on demand from the business sector. The University can play a more important role in disseminating technology information and providing the necessary technical expertise on a wider basis throughout Lao PDR.

9.11 Business environment social impact (poverty and gender)

skills and technical knowledge

As highlighted above, a lack of adequate skills and technical knowledge appears to be one of the major constraints to export competitiveness in Lao PDR in manufacturing, and has a strong gender dimension. Girls and young women are under-represented in vocational and technical education. Training seems to reinforce and reflect gender-based occupational segregation as boys and girls are channeled into different subjects. At the diploma level, 84 per cent of female students are enrolled in agriculture, business, hospitality and tailoring. Electronics is the second most popular subject area for all students, representing 28 per cent of all trainees, but only 4 per cent of female students. Females constitute 96 per cent of the students in hospitality programmes. Women are also under-represented among vocational teachers and trainers.

Policies for promoting greater gender equality in access to skills could involve a combination of measures that address both the content of education and training and more practical problems that girls more often than boys face in accessing schools and training services. Measures could include better design of curricula so as to be more relevant to the technical knowledge required in key export-oriented sectors like textile production, and support to firms to undertake on-the-job training for female employees and gender training for managers.

Infrastructure

Limited transport networks and, more generally, weak physical infrastructure including the provision of electricity and water, are identified by many as important constraints to improved

competitiveness in Lao PDR. Firm productivity can be significantly affected by irregular electricity and water provision and poor transport networks. Complex and cumbersome customs procedures, along with poor infrastructure at the borders can often further increase transaction costs and lengthen delays to the clearance of imports, exports and transit goods.

More widespread and regular electricity provision has the benefit of significantly reducing the heavy domestic labour burden that constrains many women's capacity to engage in income-generating activities. Surveys of newly electrified rural households in Lao PDR (World Bank Gender Profile, forthcoming) show that grid electricity has reduced the time spent on cumbersome domestic chores performed by female household members, for example, by facilitating the use of refrigerators and water pumping for vegetable gardens. Access to electricity has also led to better educational outcomes, improved community services, and more security, particularly for women and girls. Projects such as the Power to the Poor (P2P) pilot programme (World Bank 2009), providing the poorest households with interest-free loans for electricity grid connections, are promising initiatives in this area.

9.12 Note on environmental impact of business

The recent expansion of FDI in the manufacturing (for example, garments), mining (for example, gold), and agricultural (for example, industrial tree crops) industries involves production primarily for export. Each industry is likely using some form of industrial chemicals, including hazardous chemical substances, pesticides, and persistent organic pollutants, and is likely to be producing and disposing of hazardous waste. The registration, control and safe disposal of these chemicals remain serious challenges for the Government. To date, no regulatory framework is in place to implement the conventions to which the Government is a party. An MoIC decree to manage chemicals was drafted in 2007, but has not yet been signed by the Government. Currently, MoIC is planning to issue implementing regulations for the decree, prior to its adoption at a later date. Given Lao PDR's relatively early stage of development there is potential for the manufacturing sector to leapfrog outdated technologies.

The MoIC should engage specialized technical

assistance to evaluate the draft legislation on control of chemicals and hazardous substances prior to any regulations being issued. A review of environmental and enterprise laws also is required to determine how to tailor legislation to control the trade, use and storage of chemicals and hazardous substances, and their disposal, to ensure compatibility with all other trade-related, enterprise and investment laws. Any legislation and regulatory framework proposed should also take into consideration the Government's commitments under the existing chemical conventions and international agreements.

To this end, a study visit should be undertaken to consult with appropriate officials and agencies of countries in the region, to review the legislation, regulatory framework, and procedures for managing chemicals and hazardous substances. Any regulatory framework also should take into consideration and be compatible with ASEAN standards and regulations.

9.13 Conclusions and recommendations

Both the qualitative assessment and firm perception surveys showed that while significant improvements have been made in creating a more competitive business enabling environment over the past five years, there are still key business environment constraints, including a shortage of labour (especially skilled labour), access to finance (especially long-term finance), and taxation policies (especially for SMEs). In addition, larger enterprises, especially those engaged in international trade, still face high regulatory burdens and require public sector support to improve their competitiveness in export markets.

(i) Labour and skills

The shortage of both non-skilled and skilled labour has emerged as one of the key impediments to investment and growth. While the labour shortage is partly caused by rapid economic growth in the region and partly by a domestic economic structure characterized by subsistence agriculture and a fast growing resource sector, much can be done to improve the skills of the existing workforce and reduce the mismatch between demand and supply of skills. In the medium term, public private partnerships in skills development and training in key labour-intensive sectors such as the garments, construction and hospitality sectors should be

encouraged and supported through voucher schemes or an Enterprise Competitiveness Challenge Fund.

It is also advisable to conduct an in-depth study on the labour market to identify root causes of the problem, to develop medium- and long-term strategies to address labour issues, and to develop a labour market information system to reduce the information gap and facilitate linkage between vocational training providers and the private sector.

(ii) Access to finance

With rapid liberalization and expansion of the banking sector leading to a significant increase in the number of fully incorporated commercial banks and branches of foreign and domestic banks, access to finance for businesses is expected to improve in the medium and long term. However, in the short term, access to finance, especially long-term finance for SMEs, can be improved by setting up a specialized risk-sharing facility with selected commercial banks interested in strengthening their market position in the SME sector. A risk-sharing facility supported by Development Partners often comes with technical assistance designed to improve the financial literacy of SMEs (preparation of business plans, financial reporting and projections), and to build participating banks' capacity in developing and offering competitive SME loan products and services.

In the longer term development policy should focus on creating a sound and stable banking sector by: improving the supervisory capacity of the regulator; ensuring the clear separation of bank ownership and regulatory function within the Government; promoting a level playing field for all players; improving and developing financial infrastructure such as the credit information bureau, and national payment system, ATM pooling, a registry for movable assets, and non-bank financial institutions such as leasing, micro finance and mobile banking.

(iii) Taxation and investment incentives

Significant improvements in the taxation regime can be made through effective implementation of the newly passed revised Tax Law and unified Investment Promotion Law. The private sector considers the reduction of corporate profit tax rates and the abolishment of minimum tax to be major

improvements. However, taxing SMEs through the presumptive tax system remains arbitrary. An improvement can be made by developing simple accounting standards for SMEs below the VAT threshold, and encouraging them to move towards turnover-based taxation as an interim step towards a more complicated accounting-based tax system.

The taxation regime for large investment, especially FDI, could be further improved. Rationalizing investment incentives under a comprehensive review of all incentives provided in various laws could help reduce uncertainty, improve clarity and minimize the artificial competitive advantages derived from various incentive regimes.

(iv) Other business environment constraints

Major areas in need of further improvement include:

- Review implementation of the negative list for the implementation of the Enterprise Law and explore the possibility of further streamlining existing procedures for obtaining prior approval from sectoral agencies and facilitating implementation of a new unified Investment Promotion Law.
- Further streamline business start-up procedures by focusing on simplification of burdensome sector licensing procedures administered by technical agencies.
- Reduce gaps between laws, regulations and implementation. Improvements could be made to the quality of regulations through a promulgating Law on Lawmaking. Consistent implementation of regulations should be ensured, along with the establishment of a centralized database of all laws and implementing regulations. The capacity of business membership organizations should be enhanced to issue identification, research and position development and facilitate dialogue with the public sector at both central and provincial levels.
- Develop a targeted investment promotion and facilitation strategy to attract quality investment and review export processing zones (EPZ) projects and relevant policies.
- Strengthen consumer protection by developing relevant institutions for the 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) and developing competition law.

- Improve contract enforcement and dispute resolution through the revision of outdated contract law and an implementing decree of the secured transaction law. The capacity of the Lao Bar Association should be built and the mediation and arbitration functions of the economic arbitration board enhanced in resolving commercial disputes.
- Improve access to and demand for business development services (access to market and technology information, technical and management training, standards upgrading and market access) by the establishment of an Enterprise Competitiveness Challenge Fund.





PART IV: COMPETITIVENESS AND DIVERSIFICATION

10. LEVERAGING THE RESOURCE EXPORTS BOOM

10.1 Introduction

Lao PDR has an abundance of natural resources in its land, mineral deposits, water and forests. With appropriate policies and oversight, the country's resource wealth can contribute to rapid and sustainable growth, development and poverty reduction, but this is not guaranteed. In particular, considerable future economic growth is expected to be driven by mining and hydroelectricity, the country's two major tradable resources. Historically, exports of wood have also been a key driver of foreign exchange, and further exploitation may be driven by new mining and hydro developments. When managed effectively energy and forests may have permanent income-generating possibilities, mineral resources are exhaustible and the impact of their exploitation is notoriously difficult to convert into concrete and widespread development gains.¹¹⁶ Given these minimal developmental links and concerns over long-term growth, the development of the tradable non-resource sector is essential to Lao PDR's sustainable growth and development.

This chapter reviews the current characteristics and trends within the sector, assesses structural change and the resulting impacts, and discusses some of the existing and potential links between the resource and non-resource economy. It also examines areas of possible diversification and value-addition, and makes recommendations on maximizing and broadening the benefits of resources.

10.2 Structure and trends

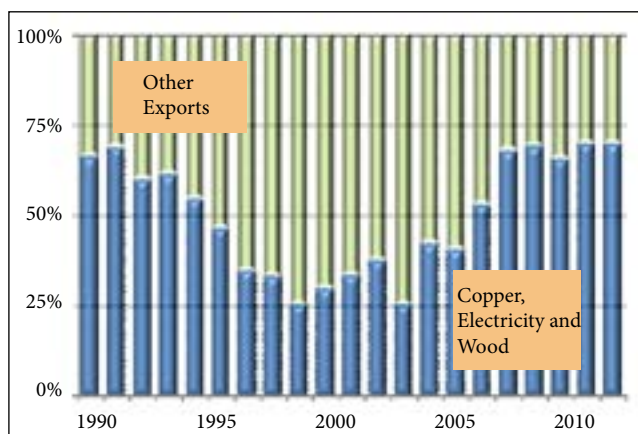
Five key themes are emerging globally with regard to natural resource wealth:¹¹⁷

- (i) The value of natural resource trade has expanded rapidly in recent years, due primarily to the sharp rise in commodity prices, which has tended to further concentrate resource-rich countries'

trade in basic commodities and encourage over-specialization in primary activities.

- (ii) Price volatility of natural resources has created external shocks on economies and given rise to large swings in fiscal revenue and expenditure, while adversely affecting investment decisions.
- (iii) Trade in natural resources tends to occur across regions; that is, Southeast Asian countries ship their resources to other regions rather than trading intra-regionally (although in Lao PDR, the majority of exports are to neighbouring countries).
- (iv) Gains from natural resource trade are generally static because they have few feed-through effects to domestic economies, and can even harm economic performance through 'Dutch disease' (discussed in Chapter 4), corruption and internal conflicts of interest.
- (v) Spillover effects or externalities of resource sectors can have environmental consequences with long-term negative consequences on growth

Figure 28: Share of major natural resource exports in total exports, 1990-2010



Source: Derived from mirror trade data in United Nations COMTRADE database.

116. The risks of environmental damage due to natural resource exploitation are discussed in Chapter 12.

117. World Trade Organization (2010), "World Trade Report 2010: Trade in Natural Resources," Geneva, http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report10_e.pdf.

and development, unless controlled and carefully managed by governments.

In the case of Lao PDR, natural resource exports from mining, electrical energy and wood account for about 70 per cent of the country's total exports (Figure 28). However the composition of those exports has changed in the last two decades. Wood exports, which in the early 1990s contributed to nearly two-thirds of the country's total exports, now account for less than 10 per cent of all exports. In contrast, copper and electricity exports have expanded their contribution from around 2 to 4 per cent in 2003-04 to over 60 per cent by 2010, largely due to the introduction of large-scale mining and hydropower operations in recent years. The World Bank projects an expansion of the country's export reliance on mining and electricity exports to 67 per cent in 2015 and 70 per cent in 2020.

In 2010 Lao PDR's exports grew by nearly 43 per cent. Exports are expected to have grown by around 27 per cent in 2011 because of larger resource exports, driven by the growth in electricity generation and higher mineral export earnings associated with international price hikes. Despite the overall gains in foreign exchange earnings, imports are expected to have outpaced exports as a result of strong demand for capital goods in the natural resource sector, the rise in fuel prices, and an acceleration in non-fuel, non-resource imports. As a result of these developments in the trade account, along with profit and dividend repatriation from the resource sector, the current

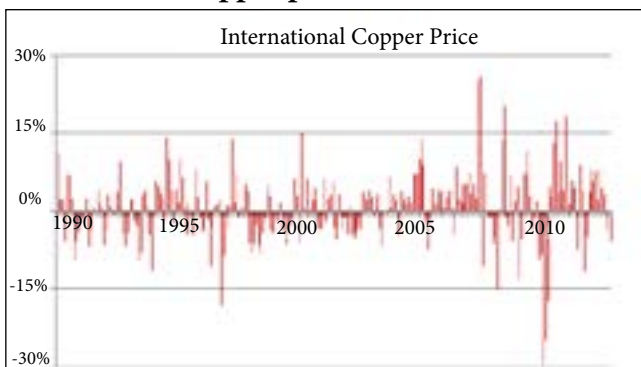
account deficit is forecast to increase from 7 per cent of GDP in 2010 to more than 11 per cent of GDP in 2011.¹¹⁸ While the present balance of payments outlook for 2011 remains positive, an excessive concentration of foreign investment and exports in a few natural resource-based products makes the country highly susceptible to foreign exchange earnings uncertainty in the coming years.

International commodity price volatility has affected foreign exchange earnings and required careful public expenditure management policies. Copper price changes in particular have varied from month to month by as much as -30 per cent to 26 per cent (Figure 29). On average, annual price variations of copper have been six times greater than those of manufactured exports in the last two decades. Because of its high degree of concentration in a relatively few primary products for the bulk of its foreign exchange earnings, Lao PDR remains highly susceptible to external shocks from large short-term commodity price swings. The market for hydroelectricity, however, is much less volatile because of the fixed-price structure of contracts. Under the current export structure, volatility of primary commodities affects nearly two-thirds of total exports, while 17 per cent of the total is electricity exports and therefore subject to much less volatility.

Lao PDR's resource exports are generally directed to regional markets, a situation that differs from conventional global patterns, in which trade occurs across regions. Nearly 60 per cent of all exports are shipped to neighbouring Thailand, Vietnam and China, with only about 10 per cent of exports going to the European Union and US. The geographic concentration of natural resource exports is much greater: Thailand, China and Vietnam absorb over 90 per cent of copper and copper ores, with significant amounts shipped to Malaysia and South Korea. In electrical energy, Thailand is currently the sole market.

Lao PDR's rapid mineral and electrical energy export growth require government policies to support diversification, regulatory transparency and conservation measures, fiscal policies to smooth revenue swings from commodity price volatility, and trade policies to provide broad non-discriminatory support to sectors targeted by NSEDP 7.

Figure 29: Monthly percentage change in international copper price, 1990-2010



NB. Copper price reference is London Metal Exchange (LME), grade A, minimum 99.9935% purity, cathodes and wire bar shapes, settlement price.

Source: World Bank, Commodity Price Data, monthly reports.

118. World Bank (2011a), Lao PDR Economic Monitor. November 2011.

10.3 Hydropower

Lao PDR has large hydropower potential, and a large proportion of existing hydropower capacity is orientated towards export. The fast-growing hydropower industry is developing new hydropower plants for domestic consumption and export of power, transmission lines and distribution networks to electrify consumers countrywide. The Government's key energy sector objectives are to earn foreign exchange by setting up export-oriented hydropower projects and exporting electricity, and to provide electricity to the nation by expanding and improving the main grid or, where cost effective, by off-grid electrification.¹¹⁹

Government revenue from hydropower exports is expected to grow to 20 times its present level of US\$17 million to US\$350 million by 2020 and to exceed US\$700 million by 2025 (World Bank, 2010). Hydropower exports are mainly directed to Thailand and Vietnam and, to a lesser extent, Cambodia. Two independent power producers (IPPs), Theun-Hinboun (210 MW) and Houay Ho (150 MW), are connected to the Thai system through dedicated transmission lines and are dispatched by the Thai power utility EGAT.

One important way to diversify electricity exports is by grid-to-grid power trading within the Greater Mekong Subregion (GMS). The GMS Planning Group, which is made up of the planning departments of GMS national utilities, has completed regional system planning for 500 kV and 220 kV links among grids of different GMS countries. This system will eventually allow greater flexibility of electricity trading arrangements among GMS member countries. Lao PDR has difficulties in participating in the GMS grid-to-grid scheme because its large-scale hydropower plants are being developed by international investors, who need to secure a power purchase agreement from creditworthy utilities such as EGAT for power purchase agreements (PPAs). They are unable to rely on the state-owned power utility, Electricité du Laos (EdL), because of weak technical and financial capacity. In particular, EdL lacks the financial capacity to build high voltage transmission lines and it lacks experience in high voltage electrical power systems (Fraser, 2010). However, participation in the GMS grid-to-grid power trading system is essential for Lao PDR to open possible alternative markets in the medium

to long term.

Domestic electricity consumption has become more affordable and reliable as a result of hydropower developments. The Government aims to reach 80 per cent electrification of the country by 2015 and 90 per cent by 2020. Four sub-grids supply the country: the Northern Grid; Central Grid 1; Central Grid 2; and the Southern Grid. They are all connected to the Thai grid but not with each other. Because the country is almost entirely dependent on hydropower for its power generation mix, supply shortages arise in the dry season and electricity has to be imported from Thailand. EdL is responsible for operating the four national power grids. It is the exclusive power supplier to the domestic market. The Government's Power Development Plan 2010-2020 maps out future development strategy for EdL's network development (Somvichith, 2011). A recent workshop on the plan (Baño, 2011) identified some of the most important challenges: (a) identifying financing sources for the various transmission projects; (b) integrating Lao PDR into the GMS grid system; and (c) achieving the goal of 90 per cent electrification by 2020.

The Law on Promotion of Foreign Investment, approved by the National Assembly in 2004, provides the overall framework for concessions in the hydropower sector. Implementation difficulties arise from: (a) confusion in the mandates of the various institutions involved; (b) lack of clear standards and procedures for investors; and (c) a lack of capacity within government agencies. The Ministry of Planning and Investment (MPI) is the lead agency for negotiation of concession agreements, while the Department of Electricity and Department of Energy Promotion and Development, Ministry of Energy and Mines (MEM), are responsible for monitoring and enforcement. Fraser (2010) points out that the full details of concession agreements, particularly large or sensitive ones, are sometimes not disclosed to MEM, which makes enforcement difficult, if not impossible. Lack of coordination between government agencies is compounded at the provincial and lower levels of government where capacity is often at its weakest.

A number of improvements have been made in the regulation of the industry. First, the Government adopted the National Policy on Environmental and Social Sustainability in Hydropower Development

119. Details of Lao PDR's Lao Government's hydropower development are maintained in the Powering Progress website maintained by the Department of Energy Promotion and Development (EPD), Ministry of Energy and Mines (MEM). Available: <http://www.poweringprogress.org>.

(NPSH) in 2005, to ensure sustainability and equitable benefit distribution of hydropower developments, and to replicate relevant lessons from the Nam Theun 2 (NT2) Project in other investments (Porter and Shivakumar, 2011). Second, the line ministry was reorganized in 2007 from the Ministry of Industry and Handicraft to the current MEM, with explicit emphasis and mandates on these sectors. Third, the Electricity Law was revised in December 2008. The approval of these laws signals more streamlined decision procedures in the hydropower industry. Fourth, besides internal strengthening in MEM, the Water Resources and Environmental Administration (WREA) was created in 2007 as part of the Prime Minister's Office with the intention of assuming the role of environmental and social regulator, responsible for implementation and oversight of the Compensation and Resettlement (CAR) Decree adopted by the Government in 2005, and the new Environmental and Social Impact Assessment (ESIA) Decree, which was approved in 2010.

The following institutional and capacity building recommendations have been made for improving the sector (Fraser, 2010; Komany, 2008; and ADB, 2010): (a) apply a holistic approach to an integrated energy policy, and the emerging environmental and social issues; (b) for the GMS-wide power system, harmonize standards for transmission regulations, grid codes and other metric systems; (c) build up the institutional base to improve management capacity for the concessioning process and compliance with minimum social and environmental safeguards; (d) improve inspection procedures and monitoring for compliance, particularly at the local level where actual projects and compensation programmes are implemented; (e) improve procedures for management and tracking of revenue and benefit streams to match the surge in tax income; and (f) strengthen the logistical resources for supervision of the sector by the MEM.

10.4 Mining

The mining sector has only recently emerged as a major driving force of the economy, with production increasing from US\$8 million in 2002 to over \$1.3 billion in 2011. Key minerals are copper, gold and silver. Copper dominates mineral exports with an estimated value of US\$1.3 billion in 2011, followed by gold at US\$0.24 billion in

that year (International Monetary Fund, 2011). Government revenue from taxes, royalties and fees equalled about US\$90 million in 2008, representing roughly 20 per cent of total government receipts. By 2020 mining production could account for 20 to 30 per cent of government revenues and at least 10 per cent of GDP (World Bank, 2010).

Two large-scale mines account for over 90 per cent of the country's total mining production: the PBM Phu Kham copper-gold operation located 120 kilometres north of Vientiane, and the MMG Sepon gold and copper mine, located near Sepon in Savannakhet province. It is estimated that these two mines will contribute up to 10 per cent of annual GDP annually over the coming decade (ICMM, 2011). However new investment in exploration and development will be required in order to prevent production, export and tax revenues from falling as mine closures near.

Exports are mainly directed to Thailand (65 per cent of total copper exports), Vietnam (17 per cent), China (7 per cent), and Malaysia and the Republic of Korea (5 per cent each). Transportation of minerals is currently limited to shipments or transshipments to Thailand and Vietnam. A planned railway between Lao PDR and China would provide both high-speed passenger travel and more cost-effective cargo shipments that would tend to dominate the transport system.¹²⁰

The new Minerals Law, replacing the 1997 Mining Law, was passed into legislation in 2009. Under the previous law, a system of Mineral Exploration and Production Agreements (MEPAs) or "concession agreements" was used. Under the 2009 Mineral Law, new mining applications are handled through legislation, with approval required at each stage of the mining process through the Ministry of Planning and Investment (MPI), and large projects requiring approval by the National Assembly. To the extent that the concession agreements provide comprehensive details of the specific terms of operation by the mining agreement, those concession agreements supersede all other laws and regulations of the country. Yet confusion still arises among ministries between the laws and regulations that are generally applicable to businesses and those that apply to the mining companies under the concession agreements (World Economic Forum, 2010, and interviews with mining companies). The problem stems

120. The 400 kilometre (216 mile) rail project will link major Lao cities (Luangnamtha, Luangprabang and Vang Vieng) with Kunming, capital of Yunnan province. A later project phase would link Vientiane to Vietnam through Khammuane province, and through the Laobao border checkpoint in Savannakhet.

from the fact that while the Mineral Law has been promulgated, detailed regulations to clarify the legal text have not been drafted. As a result, the existing legislation appears to be a major obstacle to the development of the mining sector (Larsen, 2010). A technical assistance (TA) project for the mining and hydropower sectors supported by the International Development Association (IDA) and AusAID is intended to address numerous areas of operational procedure, ranging from performance and investment requirements for prospecting and exploration work, to requirements for environmental and social safeguards, emission standards and other procedures (World Bank, 2010).¹²¹

10.5 Medium-term perspectives

The medium-term outlook for the resource sector is favourable.¹²² Uncertainty in the global economy, however, will affect mineral exports more than electrical energy exports. The flow of electricity exports will mainly be determined by the existing timetable for the development of hydropower stations, while copper export earnings will continue to be subject to volatile international prices. The International Monetary Fund's World Economic Outlook (2011b) projects that copper prices will soften over the medium term. As a result, Lao PDR's copper exports are expected to average about US\$1 billion a year through 2015. For gold, production of the two main mining companies is projected to peak at 338,000 ounces in 2014. With gold prices expected to rise in the coming years (IMF, 2011b), the forecast is for Lao PDR's export revenue from gold to expand to almost US\$0.56 billion by 2016.

The World Bank (2010a) projections for the mining sector consider three scenarios. In the first, the price of copper is assumed to be that officially projected by the World Bank (2010c), remaining at around US\$5,000 a ton. Under the currently planned expansion of existing mines, the volume of copper exports is assumed to reach 210,000 metric tons by 2020. The second scenario assumes a 10

per cent lower price and a lower volume of copper, while the third assumes a 20 per cent higher price and an annual export volume of 340,000 metric tons by 2020. For the hydropower sector, it is assumed that by 2025 electricity exports will reach close to 65,000GWH, valued at over US\$3.5 billion dollars, which would generate about US\$800 million dollars in government revenues.

For the non-resource sector, the World Bank assumes that real economic growth of around 7.5 per cent a year will be sustained through 2020. That growth will stimulate an expansion of around 3 per cent a year in agriculture between 2011 and 2020. It is further anticipated that the non-tradable sector (construction and services) will grow by over 7 per cent a year between 2011 and 2015 and then slow to 6.6 per cent a year between 2016 and 2020. Based on these assumptions, growth will largely be driven by natural resources and the non-tradable sectors, especially from the recovery in tourism.

The World Bank expects the contribution of mining and hydro resources to reach one quarter of GDP by 2020, with the non-resource sectors contributing the remaining 75 per cent. Non-resource sector activities will be an important contributor to employment, but repatriation of profits from foreign investment in the resource sector may negate development gains. Because of this possibility it will be all the more important that the Government's revenue from natural resource-based activities be directed towards improving non-resource sector activities in order to meet poverty and other targets established by NSEDP 7.

10.6 Structural changes and sectoral impacts

Resource exports can have both positive and negative implications, and growth in the resources sector must be managed carefully, particularly if export diversification is to occur. On the positive side, natural resource development provides:

- Support for rapid and sustainable growth and poverty reduction.
- A large increase in fiscal revenues.

121. There are four components to the project. The first component is a joint hydropower and mining learning programme that aims to build capacity and generate public awareness on the hydropower and mining sectors. The second component is hydropower sector development and aims at capacity building to support sustainable hydropower development in the country. Activities will cover the entire value chain, from planning, concessioning, construction and operation to revenue management. The third component is mining sector development and it aims to provide funding for three subcomponents in the mining sector: (a) improving sector governance and the enabling environment; (b) strengthening of government oversight capacity; and (c) promoting minerals development. The fourth component is project administration and management, supporting consultancy services for the project office established within MEM for coordination and management of project implementation and acquisition of logistical and equipment.

122. The material in this section summarizes the forecasts of the World Bank (2010a) and International Monetary Fund (2011a), unless otherwise noted.

- Substantial infrastructure improvements, income enhancement and localized poverty reduction in project sites for mining and hydropower generation.
- Improvements to environmental legislation and implementation of rules and regulations supporting quality projects.

One critical negative impact is ‘Dutch disease’ (discussed in Chapter 4), under which the exploitation of natural resources undermines the competitiveness of manufacturing and other value added activities by raising factor input costs and causing an appreciation of the real exchange rate.

Improved market efficiency and an increased emphasis on higher-value agricultural products can help to maintain the country’s non-resource export competitiveness. Government policies can facilitate the process by reducing obstacles to investment and export-oriented activities in the non-resource sectors to ensure that benefits from the resource boom also benefit the traded non-resource sectors. The loss of export competitiveness due to the overvaluation of the currency needs to be considered. Productivity-enhancing structural reforms would improve the competitiveness of the economy in general and the non-resource sectors in particular.

Export competitiveness can be improved in the following ways, as discussed in the business environment and trade facilitation chapters:

- Strengthen private sector-government coordination in the non-resource sectors.
- Reduce the regulatory burden on exporters.
- Improve trade facilitation.
- Bolster the investment climate.
- Strengthen intermediation by the financial sector.
- Remedy existing low worker productivity, insufficient skills and education inadequacies.

The Government has committed to mitigating the downside risks of resource-led growth and to supporting gains from the country’s natural resources. At present, however, the growth in the projects supplying these resources exceeds the Government’s capacity to monitor and implement them. To overcome these limitations, the World Bank (2010) recommends the following actions:

- Design and implement a comprehensive strategy

for hydropower and mining development. A comprehensive strategy has the advantage of offering an operational framework under which to manage the cumulative effects of individual projects. It also ensures that projects within a group are prioritized in such a way as to maximize the overall social and economic benefits of natural resource utilization. Neither of these benefits is possible under a project-by-project approach to managing resources. The overarching objective of the strategy should be to maximize the positive macroeconomic, fiscal and poverty-reduction outcomes while minimizing negative outcomes and managing risks.

- Implement and enforce regulations that ensure the environmental sustainability of natural resources. Recommended actions include: (a) separation of public sector management of environmental protection from that dealing with the exploitation of natural resources; (b) strengthening the Government’s financial and human resource capacity to protect the environment; (c) bolstering the capacity of national and local government agencies to improve safeguard screening, monitor compliance, and toughen enforcement; (d) providing a method for payment for eco-services that rewards projects benefiting ecosystems; and (e) supporting Strategic Environmental Assessments of the mining and hydropower sectors to identify their long-term, cumulative environmental effects.
- Strengthen national and local public sector institutions to better manage the growing number of hydropower and mining projects in the pipeline. Recommended actions are: (a) improve coordination between ministries and clarify responsibilities within each line ministry; (b) improve transparency and administrative capacity to manage the use of natural resources; (c) ensure that line ministries have sufficient resources to manage natural resource projects, and provide each with revenue sharing arrangements.
- Mitigate the risk from volatile fiscal revenue flows caused by price swings in international mineral markets. Recommended actions to avoid possible fiscal crises from volatile revenue flows are: (a) delinking mineral resource revenues from recurrent fiscal expenditures; (b) establishing

rules for limiting public debt as a percentage of gross domestic product (GDP); (c) applying non-discriminatory fiscal regimes to hydro and mining sector projects; and (d) using taxation methods to generate revenue from hydro and mining sector projects.

- Improve the investment environment in the non-resource sector to encourage the development of manufacturing activities. Recommended actions are: (a) review and eliminate anti-competitive regulations to encourage cross-border transportation and logistics services; (b) implement and strengthen sanitary and phytosanitary (SPS) measures and the capability of agencies; (c) upgrade the education and technical skills of the labour force; (d) simplify procedures in licensing and taxation; (e) streamline the taxation system and accelerate implementation of new legislation; and (f) deepen the financial sector and reform state banks to improve access and reduce the cost of accessing investment finance.

10.7 Resource sector links

The negative effects of resource dependence can also be ameliorated by strengthening linkage and supporting offshoot industries, and by supporting value addition in the resource sector.

Large-scale natural resource exploitation has the potential to improve local living standards and support the Government's overall poverty reduction strategy. Communities can benefit from employment and income-generating opportunities where resource-based projects are underway. Demand for goods and services generated by the large mining and electrical energy projects can also support the development of offshoot industries from which local and national sourcing of products and services occur. In mining the largest ongoing operating expenses are for: fuel used in machinery and equipment; earth moving machinery; utilities; food services; and machinery and maintenance services. Of these, electricity is the only expense that is currently sourced entirely from within Lao PDR. Fuel supplies are wholly imported, as are earth moving and other machinery. Most of the food supplies are also imported despite efforts to source from domestic suppliers. In the short to medium term, the best opportunities for the development of domestic activities to service the mining companies are machinery maintenance

services, and training technical personnel in a wide range of capacities, including business services, accounting and safety standards. In the long run, there are possibilities in high-value agricultural activities like organic fruit and vegetables and agri-processing industries whose products are in demand by local mining companies.

Large hydroelectric power projects are likely to create greater opportunities for the creation of offshoot industries than mining companies. Like mining companies, they generate demand for maintenance services for machinery and equipment, business and accounting activities, safety-related work practices, and the food service industry. In addition, the dams of the hydroelectric power plants provide fishing, new farming activities along the shoreline, tourism and space for recreational activities. Large resettlement activities are also associated with the building of dams, which involve the establishment of new socially cohesive and integrated communities. Moving people from their homes can be traumatic and economically destabilising, and it needs to be conducted in a socially and environmentally sensitive manner.

10.8 Scope for value addition

Mining is the main area for value addition in the natural resource sector. The 2011-15 target for the mining sector established by the NSEDP 7 (Ministry of Planning and Investment, 2011) is to “process important minerals to transform them into finished products or semi-finished products, like copper plates (340,000 tons/year), gold bars (24 tons/year), coal (728,000 tons/year), and gypsum (600,000 tons per year).”

In other sectors, the NSEDP 7 “aim is to select sectors and regions having the conditions for growth” (Ministry of Planning and Investment, 2011). The emphasis is first on the development of main sectors (namely agriculture, agro-processing, the hydropower industry, tourism, mining and the building material industry); second, on areas related to human resources and technological development to raise the value of products produced within the country, especially in the processing industries and export-oriented activities; and third, on infrastructure and services.

The possibility of adding value to the mining industry through downstream activities has been

a subject of discussion between the Government and the mining companies.¹²³ A report by the International Council on Mining and Metals (ICMM, 2011) lays out four conditions that need to be considered for copper smelting to be economically feasible:

- The availability of particular inputs for smelting operations.
- The ability to carry out large-scale smelting and refining processing activities to make the operations economically viable.
- Proximity to markets for semi-fabricated products of copper to prevent long delivery times.
- The ability to operate on small margins since, as a proportion of the overall value added, the part going to the operator of a smelting plant or refinery as compared with a miner has fallen from 32.5 per cent to 9 per cent between 1998 and 2009.

At present a large part of the world's capacity for semi-fabricates of non-ferrous metals is located in China and other East Asian countries, to meet their dramatic increase in demand. As a result of this shift, excessive smelting and refining capacity relative to mining capacity has arisen in other parts of the world where smelters have stayed open after the mines have closed. The large smelters presently located in large copper consuming countries like China and other Asian countries enjoy a competitive advantage because of their proximity to markets. The ICMM (2011) report also points out the small developmental impact of smelters because of their capital-intensive operations and small employment effects. Moreover, large smelters can damage the environment and immediate surroundings. These conditions suggest that there is little, if any, reason for supporting the introduction of downstream activities in Lao PDR's copper mining sector.

On the positive side, Larsen (2010) has pointed out that Lao PDR has the necessary inputs for sustaining high value additions to mining operations. In particular, electricity and water availability from the Mekong River and its tributaries offers potential for sustaining processing industries that could add value to the primary resource value and generate additional economic activity along the value chain. The recent commissioning of a copper

wire manufacturer is cited as an example of one of the first steps towards extending the value chain. Moreover the planned construction of a railway link to China could provide Lao PDR with a comparative advantage for bulk shipments to that market.

In offshoot activities, demand for services is expected to grow rapidly and parallel the expansion of hydroelectric power and mining activity. To take advantage of these opportunities, the country will need to develop a strong and broad-based skilled labour force. Investment in education and technical training should be guided by projected skills needs within service industries. The original DTIS (2006) recommended the adoption of a cluster approach to improve competitiveness. Building competitive clusters starts with an understanding of the demand for products and services in key markets, and then investing in factor inputs through training and education of a skilled labour force to meet the needs of the market. Those same principles can be applied to building links with hydroelectric and mining activities.

There are also opportunities for local agricultural development to supply resource-based activities. Attempts are already being made by mining companies to source food supplies locally, albeit with mixed success. In other countries, local industries like furniture making have been established around mining sites to supply furniture for offices and housing for the staff and workers (Danish Institute for International Studies, 2011). Nonetheless, stimulus of large-scale commercial mining links with the broader economy is imperative for a small country like Lao PDR. Without a broader expansion of non-resource sectors, the country will be unable to translate the increased economic gains from mining and hydropower into sustainable development. Interventions by the Government and Development Partners should therefore be designed to improve links between resource-based industries and investment in high-value, non-resource activities such as organic agriculture and agro-processing.

10.9 Social impact of resource exports (poverty and gender)¹²⁴

10.9.1 Gender and resource exports: general considerations

123. See, for example, 24 February 2011 workshop on "Utilizing Mining and Mineral Resources to Foster the Sustainable Development of Lao PDR", in which the Government of Lao PDR and the International Council on Mining and Metals discussed the role of mining and mineral resources in the country's sustainable development.

124. This section largely replicates Fontana, M. (2012), *Lao PDR: Mapping the gender dimensions of trade. A preliminary exposition*. World Bank, Lao PDR.

In the absence of complementary interventions, the loss of land, water and forest is evidently going to be experienced most severely by communities living close to a project. The new mining and hydropower projects in Lao PDR are set up in remote areas with ethnically diverse populations who are poorer than average, have lower literacy rates, depend on natural resources for survival, suffer from high incidences of stunting and child malnutrition and have limited access to health and other services. There is thus a risk of increased poverty and food insecurity for these groups if appropriate mitigation measures are not taken.

Without mitigation measures women in the affected communities are also likely to bear disproportionately the burden of these negative shocks, as they own less property than men and rely heavily on common resources as their main source of livelihood. They usually have the main responsibility for the collection of water, wild berries and plants, fish and other wildlife, which constitute the bulk of their family's diet. They do not have any other means to ensure the provision of necessary protein and micronutrients for their children. The risks of 'Dutch disease', discussed in Chapter 4, will lead to structural economic changes with direct social impacts.

Despite these risks, if managed effectively there is considerable opportunity for women and vulnerable groups to benefit, through the national budget, from the additional revenues that the resource expansion brings through investment of resources generated in social services such as education and health care, and infrastructure improvements, such as improved roads. As with the national budget as a whole, the participation of women in decisions regarding the use of additional government revenues will be key to ensuring that poverty reduction and gender equity objectives are met. Revenues from hydropower and mining ought to be spent on poverty reduction and public investment in ways that closely reflect the priorities set up by the Government in its development programme under NSEDP 7. The additional resources should also be channelled towards addressing the constraints identified in the non-resources sectors, as it is in these sectors

that employment opportunities for both men and women will be greatest. Building effective public financial management (PFM) institutions will also help to ensure that increased resources are channelled and spent in line with policy priorities.

A number of innovative benefit-sharing approaches have also been adopted in Lao PDR to ensure that those local communities directly affected by mining and hydropower projects are able to share the benefits of natural resource-based projects. Because women are mostly users of communal goods, but rarely owners of individual assets, standard mitigation measures that focus only on compensation for lost stock (and neglect disruptions to livelihood flows) tend to exclude them. This underscores the crucial importance of complementing more conventional compensation-based approaches with other measures to support new and sustainable sources of income. A number of types of benefit sharing mechanisms have been used in Lao PDR and internationally and are considered in turn below (from Gibson and Carlsson Rex 2010).¹²⁵

10.9.2 Employment and Ancillary Services

The direct employment generation of mining and hydro activities is small and so is the extent to which jobs created in these sectors are likely to contribute to poverty reduction (Fenton and Lindelow 2010).¹²⁶ Currently, only about 0.5 per cent of the total Lao labour force is employed in mining and energy (data from LECS 4) and women constitute an even smaller fraction of the workers in these sectors.

Nevertheless, projects often offer preferential employment to residents of affected villages and project-related employment results in cash income and skills development for local residents. Two international mining companies operating in Lao PDR, Lang Xang Minerals Ltd at Sepon and Phu Bia Mining Ltd, offer preferential employment to residents of affected villages and adopt progressive employment policies and report that, in 2008, women represented 18 per cent and 27 per cent of their workforces, respectively. However, a marked gender-based vertical segregation remains, in that women are over-represented in administrative

125. Gibson D and Carlsson Rex, H (2010), 'Social Impact Mitigation from Hydropower and Mining in Lao PDR: Examining Potential for Benefit-Sharing Approaches', *Lao PDR Development Report 2010 Natural Resource Management for Sustainable Development: Background Paper* World Bank, Washington D.C. (available at http://siteresources.worldbank.org/LAOPRDEXTN/Resources/293683-1301084874098/LDR2010_Social_Impact_Mitigation.pdf).

126. Fenton, N. and Lindelow, M. (2010), *Technical note: How can employment in natural resource sectors contribute to poverty reduction? Some evidence from the LECS surveys*, *Lao PDR Development Report 2010, Natural Resource Management for Sustainable Development*, World Bank, Lao PDR.

positions and under-represented in operational departments (World Bank Gender profile forthcoming).¹²⁷

Section 10.7 above also considered the potential for leveraging links with the wider economy. Employment can also be provided through ancillary services: those services provided to a project that are not directly related to its primary business. These services could include transportation and provision of goods (consumables or construction materials), security services, waste collection and disposal, or construction of camp sites or other facilities. To enhance the spread of local benefits, project managers should engage local service providers and procure goods from local suppliers. A good example in Lao PDR is provided by Phu Bia Mining's 'Locally Grown Produce Initiative' promoted since 2008 in villages affected by the Phu Kham Copper-Gold and Gold Heap Leach operations. This initiative, which involves a market garden scheme where villagers grow vegetables to sell to the mine, seems to have been particularly successful in engaging and providing benefit to women, who constitute 95 per cent of the members participating in the procurement scheme.

10.9.3 Preferential Rates, Services and Access

Affected communities can be offered preferential rates, services or access to mitigate social impacts and share project benefits. Examples include offering preferential electricity rates to local residents, and allowing residents lower rates to use services offered by the project (training, medical services, communication networks). Such services can help to address many of the constraints women face in benefitting from the trade promotion outlined in the previous section, such as skills, access to information and electricity. In some cases, affected communities can be provided with preferential access to common resources. An example of this mechanism in Lao PDR is the Nam Theun 2 Hydropower Project, which provides resettled villagers with largely exclusive access to reservoir fisheries for 10 years, and exclusive rights to forest resources for 70 years. The collective forestry association is intended to provide resettlers with dividends from timber production, as well as exclusive access to forest areas for gathering non-timber forest products or other purposes.

10.9.4 Community development funds

Community Development Funds (CDFs) are funds set aside by a company for investment directly benefiting affected communities. In addition to direct funding benefits, community members often participate (to varying degrees) in determining how funds will be spent. Best practice implementation of a CDF can be challenging, particularly as different parties involved in the participatory planning approach often have different views and competing priorities for how the money should be spent. For example, a project may want the funds used in the affected villages, while government authorities may have other priorities. How such funds affect gender equality will clearly depend upon their administration, pointing to the need for gender concerns to be factored into the planning approach.

CDFs are becoming increasingly common in Lao PDR. Most companies are now including a CDF when planning their projects, pre-emptively responding to WREA's Decree on Environment and Social Impact Assessment which, once approved, will legislate the requirement for such funds. Both Sepon and Phu Bia mining programmes implement a community development programme through a trust fund-type scheme.

10.10 Environmental impact of resource exports

It is clear that the hydropower, mining and wood (forestry) industries are all booming in Lao PDR. However, all three sectors can be viewed as large footprint sectors with substantial impacts on the environment because of their use of and reliance on natural resources. While the state benefits from increased revenues and creation of some skilled jobs, communities often suffer from the replacement of farms and forage forests. Communities are weakened from the loss of indigenous agricultural knowledge, which may undermine food production capacity. Cumulative impacts thus threaten rural livelihood systems and long-term food security. The promotion of hydropower, mining and agricultural land concessions has significant environmental consequences. Mining poses the risk of pollution to local food production.

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127. Alongside large-scale mining, a significant number of people in Lao PDR (UNIDO estimate) are involved in small-scale artisanal mining, much of which is a seasonal supplement to subsistence livelihoods in rural areas. Evidence suggests that women are the vast majority of artisanal miners. They often have limited knowledge of the associated health, safety and environmental risks (e.g. level of mercury exposure) and would greatly benefit from targeted health and safety campaigns combined with the introduction of accessible technology and protective equipment.

(2009) points out that current accelerated trade-related economic activity is having an impact on environmental quality. Intensive resource-based development for export is impacting on forests in particular, with forest cover currently at less than 30 per cent. Soil erosion resulting from the loss of forest cover, especially in the uplands, and shorter fallow periods are leading to declining agricultural productivity. The Government has committed to raising forest cover from 29 per cent to 50 per cent by 2015, and is receiving support from ADB, UNDP and FAO in sustainable forestry management, in part through the UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD) and REDD+ projects.

While hydropower provides positive environmental benefits in 'green energy' the sector's development also has a negative impact on forest resources (for example, flooding of forest areas for dams and forest clearance for mining operations, roads and infrastructure), water resources (for example, impacts of dams on natural flows and pollution from mining and processing activities), and biodiversity (for example, habitat loss, pollution and impact of dams on fisheries resources). Clear-cutting of forests or degrading of non-timber forest products traditionally used for food and indigenous ecosystems, including agricultural biodiversity, are often lost to mining and hydropower projects due to weak institutional capacity and official inaction. Evidence from hydropower projects such as Nam Theun 2, and Theun-Hinboun show that shrinking stocks of non-timber forest products and fish, along with a growing dependence on markets for food, puts the poor, especially those with insufficient land, at graver risk when food prices rise because most are not net food sellers. Households headed by women face even greater dangers.¹²⁸

Although the Government is committed to achieving 65 per cent forest cover by 2015, the target does not stipulate whether the forest cover will be natural forest comprised of indigenous species or plantation forests of industrial trees (such as Eucalyptus spp., acacia, rubber and fruit trees) cultivated in monoculture plantations for processing and export. It is likely that the 65 per cent target can be achieved if industrial tree plantations are categorized as 'forest' in place of natural forests.

One factor that could influence the situation and positively affect the diversity of the rehabilitated forest cover is participation in one or more programmes related to carbon offset and carbon trading. Multilateral afforestation and reforestation initiatives include REDD and REDD+ (strategies that go beyond deforestation and forest degradation to include the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in reducing emissions), and the Forest Carbon Partnership Facility (FCPF) and Forest Investment Program (FIP), hosted by the World Bank.

Despite the NSEDP 7 target of protecting 65 per cent of mineral resources, the scale effects of increased mining concessions will increase environmental risks. Given the increasing global demand for copper, gold, lignite and other minerals and the high value of minerals, investment in mining and processing of minerals and their trade is expected to intensify over the next decade, which will place increased pressure on utilizing mineral resources.

A number of recommendations have been made from various sources around similar themes in this sector. Of particular importance is the continued strengthening of the regulatory and governance aspects of the sector in line with increased values and volumes of investment.

This relates further to an effective business and investment environment that attracts 'quality' investment, which maximises social benefits and the implementation of Corporate Social Responsibility. It is critical that the Government is committed to ensuring that policies and regulations are based on international best practices and that they are respected by foreign investors.

Of particular interest in the forestry sector, and mentioned also in the wood processing section, is the scaling-up of forest management certification. There is also a clear need to enhance cooperation mechanisms between the public and private sector to effectively solve ongoing issues. As supported by the National Export Strategy, there should be an increased focus on value-addition within the country, with certification extending through chain of custody certification.

10.11 Conclusions and recommendations

Under Lao PDR's current export structure, the

128. FAO "The State of Food Insecurity in the World" 2008 Rome: Food and Agriculture Organization, p. 26.

volatility of primary commodity prices affects nearly two-thirds of total exports, while electricity, which is subject to much less volatility, accounts for only 17 per cent of exports. In the coming years the economy will largely be driven by the natural resource sector. Mining and hydro-based activities are expected to contribute a quarter of GDP by 2020 and the non-resource sector the remaining 75 per cent. These developments will require careful expenditure management policies on the part of the Government.

Some of the major benefits of Lao PDR's resource-led growth are: (a) the support for rapid and sustainable growth and poverty reduction in the country; (b) the large increase in fiscal revenue; (c) substantial infrastructural improvement, income enhancement and localized poverty reduction at project sites for mining and hydropower generation; and (d) improvements to environmental legislation and implementation of rules and regulations supporting quality projects. Possible downside risks are: (a) the shift of large investments to resource-based projects and away from industry and services; (b) the possible lack of compatibility of mining and hydroelectric power investment with the country's socioeconomic objectives; (c) environmental risks from degradation of the existing natural resource base; (d) social risks from the relocation of people away from the mining or hydroelectric power sites and inflows of people into the sites being developed; and (e) the public sector's inability to effectively manage the large demand for natural resource use.

The best opportunities for offshoot activities associated with the mining and hydroelectric industries are machinery maintenance services, and the training of technical personnel in a wide range of capacities, including business services, accounting and safety standards. Over the long term there are possibilities for high-value agricultural activities like organic fruit and vegetable production, and agri-processing industries whose products are in demand by mining and hydroelectric companies.

The possibility of adding value in the mining industry through downstream activities has been a subject of discussion between the Government and the mining companies. Among the most important prerequisites are: (a) the availability of particular inputs for smelting operations; (b) sufficiently large smelting and refining processing activities

to make the operations economically viable; (c) proximity to markets for semi-fabricated products of copper; and (d) the ability of smelters to operate on small margins. For the first requirement, Lao PDR has the necessary inputs for sustaining high value additions to mining operations, namely electricity and water from the Mekong River and its tributaries. For the third requirement, the planned construction of a railway link to China could provide the country with a comparative advantage for bulk shipments to that market. These conditions still leave the issue open for debate and without final resolution. For this reason, it is likely that further analysis will be needed to assess the viability of developing downstream activities in the sector.

In the resource sector, the following recommendations mitigate possible downside risks from the country's resource-led growth:

- Design and implement a comprehensive strategy for hydropower and mining development.
- Implement and enforce regulations that ensure the environmental sustainability of natural resources.
- Strengthen national and local public sector institutions to better manage the growing number of hydropower and mining projects in the pipeline.
- Mitigate the risk of volatile fiscal revenue flows caused by price swings in international mineral markets through some form of a stabilization fund, which is built up at times of high export revenues and drawn down at times of weak revenues in a rules-based fashion.

In the non-resource sector six major recommendations are appropriate to improving the country's competitiveness:

- Strengthen private sector-government coordination.
- Reduce the regulatory burden on exporters.
- Improve trade facilitation.
- Bolster the investment climate.
- Strengthen intermediation by the financial sector.
- Remedy existing low worker productivity, insufficient skills and education inadequacies.

Specific recommendations for building links and

value addition to resource exports are:

- Conduct an in-depth and independent assessment of the possibility of adding value to the mining industry through downstream activities.
- For the development of service industries that can support resource-based industries, design and implement a national strategy for long-term technical and vocational training of the workforce in those industries.
- For the development of services supporting the resource-based industries, provide incentives for companies to offer on-the-job training.
- For the development of new activities in the areas where large-scale mining and hydroelectric projects are located, strengthen business development service capacity and, where needed, establish business development service centres that are self-sustainable in the medium to long term.
- For the development of non-resource sectors throughout the country to supply goods and services needed by the resource sector, implement human resource development policies and programmes to improve technical skills and education levels in a broad range of industries.





11. PROMOTION OF NON-RESOURCE EXPORTS

Given that diversification of economic activity into new areas in addition to hydropower and mining is one of the main economic tasks facing the country in the near future, this chapter presents analysis and recommendations on maximizing the benefits of some existing alternative export-orientated manufacturing industries with the potential to reduce poverty and enhance economic diversification: garments, wood processing, textiles and handicrafts. Tourism and agribusiness are addressed in Chapters 12 and 13. Where appropriate the chapter uses the market development approach, outlined more fully Chapter 9 and in the complementary studies to the DTIS. The approach proposes strategic interventions aimed at stimulating sustainable market-based growth over the long term.

11.1 Export diversification and value addition

Development of new exports is particularly important in view of the fact that proven copper reserves are expected to last 10 to 15 years, implying that mineral earnings could begin to decline in 2020 (Leung, Bingham and Davies, 2010), when Lao PDR aims to graduate from least developed country (LDC) status. Moreover, mining revenues are significantly vulnerable to commodity price shocks.

Despite the country's concentration on a few natural resource products for the bulk of its export earnings, the number of products exported has risen greatly in the last few years. In an update to their study on Lao PDR exports, Record and Nghardsaysone (2011) found that the number of four-digit HS products¹²⁹ exported rose from less than 200 in 2006 to nearly 600 in 2009. Moreover, they found that the Hirschman-Herfindhal (HH) index of export concentration had decreased from 0.20 in 1997 to 0.15 in 2009. Despite the country's continued high level of commodity concentration

suggested by the recent HH index, it was found to be within the expected range for a low-income economy.

In the coming years, the challenge will be greater, as production and investment strategies will need to adapt to the rebalancing of economies within the Asian region. Already, Lao PDR exports 80 per cent of its goods to nearby China, Thailand and Vietnam, compared with roughly half that proportion a decade ago. The country's much stronger geographic concentration of exports may be in line with ASEAN efforts to redirect Asian trade intra-regionally, but the present reliance on trade with neighbouring countries can also make the country highly exposed to external shocks from those economies.

11.2 Trends and opportunities in export diversification

One way to assess a country's export diversification opportunities is to examine the export performances of specific products or product groupings, and the likely implications of different product-specific export growth rates to change its overall trade patterns. Measurement of these export performances can be undertaken by calculating the revealed comparative advantage (RCA), which measures a product's export performance in terms of relative changes in its global market shares.¹³⁰ The results can then be placed into the following four categories:¹³¹

- *Traditional products*, which have demonstrated high and stable RCAs over time.
- *Disappearing products*, which have experienced high but declining RCAs over time.
- *Emerging products*, which have experienced rising RCAs over time.
- *Marginal products*, which have never experienced significant RCAs.

129. HS refers to 'harmonized System for classification of international traded goods'.

130. In particular, the RCA is calculated as a country's share of world exports of a given product, divided by that country's share of total world exports.

131. Based on V. Chandra and I. Osorio Rodarte (2009), "A Conceptual Framework for Export Diversification and Sustainable Growth". Washington, DC, Economic Policy and Debt Department, The World Bank.

The table below shows the product classification for Lao PDR. As expected, wood, textiles and clothing, vegetables, and coffee and tea are traditional exports, whose importance to the economy has remained strong throughout the last two decades. Among the most important emerging exports are electrical energy and copper. Others are live animals, cereals, other base metals, cement, oil seeds and various grains, silk and footwear. Disappearing exports are various types of gums, resins and vegetable extracts, raw hides and leather, and iron and steel.¹³²

being exported by Lao PDR have a relatively low income potential. While diversification offers the benefits of reducing the risk associated with highly concentrated exports, there is considerable scope for broadening the exports into those with high income potential both within the region and in global markets. The study concluded that, while the country faces large challenges in diversifying its exports into higher value-added products, there is greater scope for expanding value-added activities into land-intensive activities, such as those originating from agriculture, rather than

Table 28: Lao PDR's traditional, emerging and disappearing export products

		RCA			
	Product Category	S H Code	1990-2010	High	Low
Traditional Products	Wood and wood products	44	26.8	45.2(1992)	12.0(2010)
	Vegetable and products	14	20.8	66.4(2001)	3.2(2000)
	Coffee and tea	09	15.2	35.1(1998)	1.1(1991)
	Clothing and textiles	61-62	10.5	17.9(2002)	1.9(1990)
		RCA			
	Product Category	S H Code	1990-2010	High	Low
Emerging Products	Electrical energy	2716	42.6	69.1(2010)	20.3(2008)
	Copper and copper ores	26&27	19.4	33.7(2008)	9.4(2005)
	Cereals	10	3.6	6.6(2009)	1.5(2008)
	Live animals	01	2.9	5.3(2006)	0.7(2010)
	Cement	25	1.8	3.5(2009)	0.8(2010)
	Other base metals	81	1.7	5.5(2010)	0.0(2006)
	Oil seeds and various grains	12	1.7	2.3(2005)	0.9(2008)
	Silk	50	1.7	8.1(2005)	0.2(2009)
	Footwear	64	1.1	1.6(2005)	0.9(2009)
		RCA			
	Product Category	S H Code	1990-2010	High	Low
Disappearing Products	Gums, resins and vegetable extracts	13	8.9	31.3(1990)	2.2(2008)
	Raw hides and leather	41	2.4	5.1(1991)	0.1(2009)
	Iron and steel	72	1.0	6.0(1990)	0.0(2010)

NB: HS refers to Harmonized System for classification of international traded goods.

Source: Calculated from total world trade data and Lao PDR mirror trade data for Lao PDR in Comtrade database.

A more detailed study by Record and Nghardsayone (2010) found similar results for the same product groupings as in Table 28 but provided a more disaggregated breakdown of product performances. A notable finding is that many of the newly emerging products

into labour-intensive activities.

Another way to identify the country's export diversification is to identify the varying degrees of global competitiveness that Lao PDR's exports have achieved, the types of global markets faced

132. Marginal products are not shown. For an analysis of the cement and steel industries, see Montague Lord (2010), "Implications of WTO Accession for Selected Domestic Industries of Laos". Vientiane, Ministry of Industry and Commerce, United Nations Development Programme (UNDP). Capacity Building and Technical Support to Laos in the World Trade Organization Accession Negotiation.

by the various export products and, based on these results, the potential export diversification that could occur in products with robust markets. These types of product groups can be classified into the following four categories:¹³³

- **Champions:** Products in which export market shares are rising and global markets are expanding at above-average rates.
- **Achievers in Adversity:** Products with rising market shares but with below-average global market growth rates.
- **Moderate Achievers:** Products with average or below average export growth rates and below-average global market growth rates.
- **Declining Sectors:** Products in which Lao PDR's market share is falling and global markets are growing slowly.

The table below shows that 11 product groupings have had dynamic growth rates for both exports and markets. They include the large emerging exports of copper and electricity, as well as pharmaceutical products, fertilizers, rubber, essential oils and wood pulp. Of particular note have been copper, pharmaceuticals, and fertilizers, which have had particularly high average growth rates in both exports and international markets.

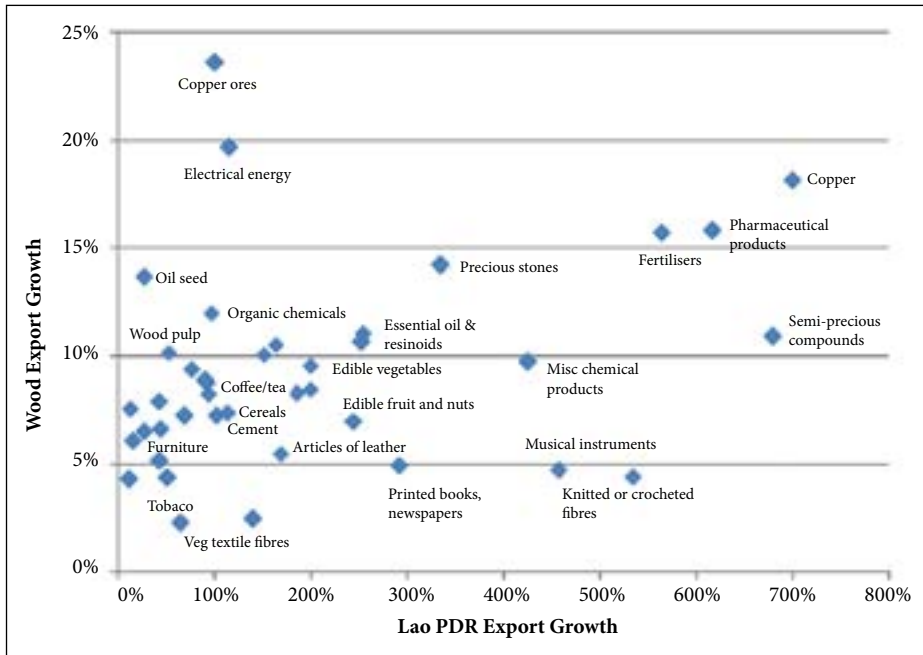
There are also a large number of fast growing export products with more moderate growth in their international markets. Notable among these is textiles and clothing, which together with wood and wood products, has contributed greatly to the country's total foreign exchange earnings. Together these two product categories contributed nearly 80 per cent of total export earnings between 1990 and 2004. Although their contribution to total export earnings has fallen sharply as a result

Table 29: Dynamic and moderate growth exports and their global markets

Champions: Dynamic Exports and Markets	Achievers in Adversity: Robust Growth to Moderate Markets
74 Copper and copper ores	60 Knitted or crocheted fabrics
27 Electricity energy	92 Musical instruments
71 Gold and other precious metals	38 Miscellaneous chemical products
28 Inorganic chemicals and compounds of precious metals	49 Printed books and newspapers
30 Pharmaceutical products	95 Toys, games & sports items
31 Fertilisers	07 Edible vegetables and certain roots and tubers
72 Iron and steel	08 Edible fruit and nuts; peel of citrus fruit or melons
40 Rubber and articles thereof	39 Plastics and articles thereof
73 Articles of iron or steel	55 Man-made ataple fibres
33 Essential oils and resinoids	42 Articles of leather
47 Wood pulp	20 Preparation of vegetable and fruits
Moderate Achievers: Modest Export and Market Growth	22 Beverages and spirits
61-62 Textiles and clothing	25 Cement
12 Oil seed and misc grains	10 Cereals
13 Lac; gums; resins & other vegetable saps & extracts	29 Organic chemicals
9 Coffee, tea, mat- and spices	53 Paper yarn and woven fabrics
44 Wood and articles of wood	41 Raw hides leather
	64 Footware
Declining Sectors: Poor Growth Exports and Markets	24 Tobacco and tobacco products
01 Live animals	94 Furniture

Source: Calculated from total world trade data and Lao PDR mirror trade data for Lao PDR in Comtrade database.

133. The classification is adopted from A. Jessen and C. Vignoles (2010), "Deepening and Diversifying International Trade", in L. Rojas-Suarez and C. Elias, *From Growth to Prosperity*. Washington, DC., Inter-American Development Bank.

Figure 30: Growth rates of export products (annual average, 2000-2010)

Source: Calculated from total world trade data and Lao PDR mirror trade data for Lao PDR in Comtrade database.

of the rising importance of mining and electrical energy exports, the value of textiles and clothing exports has continued to climb in recent years, while that of wood and wood products did not decline significantly until 2010.

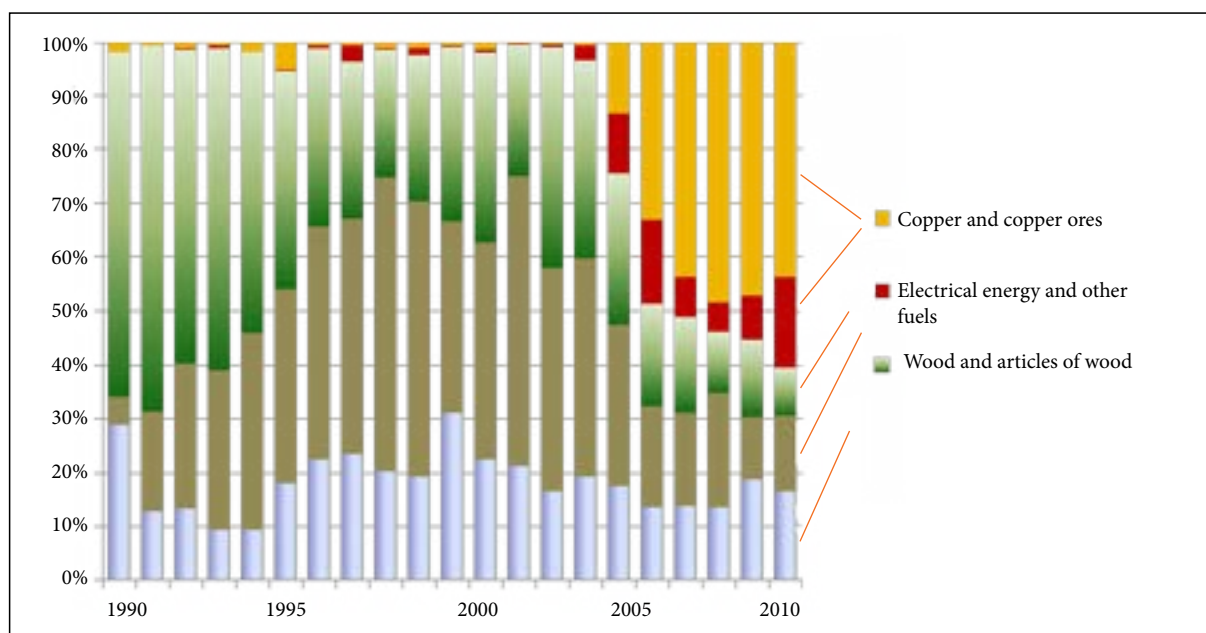
The Lao PDR textile and garment industry benefits from the country's LDC status under the Generalized System of Preferences (GSP) and related Everything But Arms (EBA) Initiative. Nevertheless, most clothing factories are unable to take full advantage of this preferential market access because of strict rules of origin (RoO) on local content requirements. Historically, in order to fulfil the GSP requirements of the European Union (EU), factories must have local content worth more than 50 per cent of the total production costs. Moreover, the industry is highly dependent on imported fibre, yarn, and fabric for assembling finished products. As a result, it has little, if any, capacity to add value to products. The challenges for the industry are to: (a) more fully integrate its activities into the ASEAN production base in order to allow it to specialize; (b) improve the productivity of the labour force, which is currently below that of competitors like Cambodia, China, India and Bangladesh; (c) upgrade the machinery and equipment of its textile factories; (d) reduce the currently high lead time for delivery of finished products to markets because of the lack of supporting industries and inefficient transport

facilities.¹³⁴

The contribution of all other exports (excluding copper, electricity, wood and wood products, and textiles and clothing) remains relatively small at 17 per cent of total merchandise export in 2010. Despite a strong 35 per cent average annual growth in the last two decades, annual growth of those exports has varied greatly. If the country's exports are to diversify into non-resource intensive products in the future, it will be important to ensure that they are relatively stable in the medium to long term. Several industries and sectors are especially important to strengthening and diversifying the country's export portfolio.

- **Food Processing:** The food processing industry is in the early stages of development. NSEDP 7 establishes food and beverage processing as one of the priority industries for the country. Development of the industry would not only generate large export revenue and employment growth, but it would also help with the development of offshoot industries supporting the mining and electrical energy industries. Processed agricultural products are currently limited to coffee, tea, processed fruit and vegetables, beer and tobacco. Coffee in particular has been a success story for the economy. The export earnings from this sector have grown from less than US\$13 million in 2006 to US\$40 million in 2010, the majority of which is destined

134. ASEAN Federation of Textile Industries (2011), "Laos Textile and Garment Industry Profile". Kuala Lumpur, Malaysia.

Figure 31: Contribution of major exports to total export earnings (2000-2010)

Source: Calculated from total world trade data and Lao PDR mirror trade data for Lao PDR in Comtrade database.

for the EU market. With the growth in demand for organic coffee, the industry has the potential to support the country's export diversification into high-value agro-processing activities.

- **High-Value Agricultural Products:** Organic agriculture is a rapidly growing activity in parts of the country, and has large regional market potential. Much of the motivation by consumers in the region comes from concerns about 'food safety', pesticide usage, environmental degradation and the spread of chronic diseases. In Thailand, for example, consumption of organic foods increased three-fold from 2005 to 2010, yet the country remains heavily dependent on overseas sources for about 40 per cent of its supplies. There are therefore enormous cross-border trade opportunities for Lao producers. Worldwide organic food consumption has grown at double-digit rates in all but one of the last ten years. Organic foods are now a mainstream industry in Europe and North America, whose combined market has reached over US\$57 billion in annual sales. Countries like Australia also have huge markets and currently import 60 per cent of their total consumption. By 2015 the global organic foods market is expected to reach US\$105 billion, up from US\$60 billion this year. For Lao farmers, the opportunity to earn higher incomes is strong because organic prices in countries like Thailand, Europe and the

United States are over 140 per cent higher than for conventional agricultural produce.¹³⁵

- **Tourism:** In 2010, there were 2.5 million visitors to Lao PDR and the tourism sector generated US\$400 million in revenue, second only to the mining sector. The industry's growth has been dramatic, since revenue only reached US\$147 million in 2005. The Government has established a revenue target of US\$1 billion by 2020 for the industry, which represents an almost 10 per cent annual compounded growth rate for 2011-2020.¹³⁶ The advantage of developing this sector is the strong link with manufacturing and agricultural activities, its forward and backward links within the sector, and its broad geographic impact and ability to assist in poverty alleviation in local communities through eco-tourism and the promotion of cultural and heritage tourism development.
- **Handicrafts:** The handicraft industry has been an important catalyst for empowering women workers and helping to alleviate poverty, along with helping the country to maintain its cultural heritage. For this reason, NSEDP 7 also establishes handicrafts as one of the priority industries for the country. The Government has set a target rate of 12 to 13 per cent annual volume growth from 2011 to 2015 to promote family businesses and small enterprise activities in rural areas. There is considerable potential to develop upstream

135. Lord, M. and P. Tangtrongjita (2011), "Mapping the Organic Vegetable Value Chain along the East West Economic Corridor". Bangkok, Asian Development Bank Thailand Resident Mission.

136. Vientiane Times (2011), "Laos aims for billion dollar tourism industry by 2020", 17 May 2011.

links with supporting industries that provide raw materials and intermediary supplies, while value-added additions to the industry could occur through the production of higher-end goods and marketing activities. Development of the industry will require improved networking and clustering activities, training of skilled workers, investment in technology and efficient industries, and improved marketing strategies and product design.

11.3 Sustaining export diversification

Successful export diversification requires not only entry into new export products and markets, but also the survival and growth of exporters. An analysis of firm-level export transactions in Lao PDR by Stirbat, Record and Nghardsaysone (2011) shows a number of useful lessons about survival patterns. First, survival rates among Lao firms are higher among those that focus their activities on a relatively few products and geographic markets. Experience in exporting certain products to specific markets strengthens the chance of export survival. Secondly, there are survival benefits from the agglomeration of exporters serving the same markets with the same products, suggesting that there are gains to be had from competition within an industry. A third finding is that firm survival rates are inversely related to activities in which Lao PDR has a comparative advantage, suggesting that firms engaged in new types of activities were more likely to remain in operation than those involved in traditional products and market activities. The explanation for this phenomenon may be the growing dominance of large firms in traditional activities, which tend to squeeze out new entrants into markets. There could also be scale economies that make it difficult for new entrants to penetrate the market.

Further research will need to identify why entry into traditional activities is difficult. What is clear from the results is that introducing new products appears to be a successful strategy for Lao firms. Finally, the authors found that firm-level survival rates were positively related to exports destined to nearby countries; a phenomenon associated with other landlocked countries. The authors concluded that export promotion activities should focus on helping successful exports diversify into new markets, along with helping them to maintain their presence in those markets.

While there are already ample opportunities for diversification into products with robust international markets, Lao PDR faces a number of challenges to overcoming its dependence on a limited number of natural resource-based exports:

- Continued efforts towards trade reforms are needed. Lao PDR is not yet a member of the World Trade Organization (WTO) and hence its exports are not automatically subject to most favoured nation (MFN) treatment (see Chapter 5). It is therefore not surprising that the bulk of its exports are concentrated in the ASEAN region, where it benefits from low intra-regional tariffs and the elimination of non-tariff barriers to trade under the Common Effective Preferential Tariff of the ASEAN Free Trade Area (CEPT-AFTA). Even so, high value perishable agricultural products, including organic vegetables, which have fast growing regional and global markets, suffer disproportionately from high trade costs. In these products, more interventions are needed to improve trade facilitation, including that affecting trade with neighbouring countries under the Cross-Border Trade Agreement (CBTA). For extra-regional exports, Lao PDR relies heavily on preferential treatment granted under the country's LDC status, including Generalised System of Preferences (GSP), Everything but Arms (EBA) and a bilateral agreement with the United States.
- Improve the incentive environment for non-resource exporters as a means of compensating for the high cost of investment in what is often an underdeveloped business environment. To compensate for the higher regulatory burden of exporters relative to those faced by non-exporters, Record and Nghardsaysone (2010) have argued that a conducive regulatory environment needs to be put into place to minimize business environment transactions costs to support existing exporters, encourage investment by new exporters, and promote a wider export discovery process.
- Targeted interventions by public entities could support a general export discovery process in sectors where returns to learning are high or agglomeration effects particularly strong. Support could then be given to research, skills development and technical education to support efforts by universities and enterprises in targeted

industries as a means of bringing the country's activities in the sector up to international standards. As a first step in that process, in-depth sector analysis should be carried out to identify the types of intervention that could deliver targeted public goods in the form of core infrastructure, research, productivity and skills training, and assistance towards compliance with international standards for major emerging champion sectors with dynamic export markets. Such interventions should not, however, provide favoured or preferential treatment to a sector, especially at the cost of another with an equally favourable outlook and with wide-ranging benefits regarding improvements in the living standards of the population. The Government's strategy under NSEDP 7 recognizes that higher growth is a means to the equitable and sustainable economic development of the country's population. The strategy to increase and diversify exports should therefore support that goal and ensure that the measurable results of any targeted intervention rewards an export discovery process that has the broadest impact on the population.

- A business-friendly environment will need to encourage and reward innovation and risk-taking on the part of both domestic and foreign investors. It will also need to provide transparent laws and regulations and a stable macroeconomic environment aimed at improving the general business climate.
- The analysis of Lao PDR's export performances in specific products or product groupings, and the likely implications of different product-specific export growth rates on the country's overall trade patterns suggests that traditional exports like wood, textiles and clothing, vegetables, and coffee and tea will remain important export products in the coming years. In addition to electrical energy and copper exports, some of the most important emerging exports are live animals, cereals, other base metals, cement, oil seeds and various grains, silk and footwear. Products with dynamic growth rates for both exports and markets are pharmaceuticals, fertilizers, rubber, essential oils and wood pulp. In addition, the following industries and sectors have been identified as being especially important to strengthening and diversifying the country's export portfolio: (a) food processing; (b) high-value agricultural products, especially organic vegetables; (c) tourism; and (d) handicrafts. Textiles and clothing, along with wood products are also likely to continue as important exports for the country. While Lao PDR faces large challenges in diversifying into higher value-added exports, there is greater scope for expanding value addition into land-intensive activities, such as those originating from agriculture, rather than into labour-intensive activities.
- To support traditional and emerging non-resource exports, the Government will need to continue efforts towards trade reforms, including trade facilitation (see Chapter 8) and WTO accession (Chapter 5). Improvements are needed in the incentive environment for non-resource exporters as a means of compensating for the high cost of investment in what is often an underdeveloped business environment (Chapter 9). Targeted interventions by public entities could support a general export discovery process in sectors where returns to learning are high or agglomeration effects particularly strong. Finally, a business-friendly environment will need to encourage and reward innovation and risk-taking on the part of both domestic and foreign investors. For that to occur, the business climate will need to have a stable macroeconomic environment and transparent laws and regulations that ensure a level playing field for all businesses.
- The strategy to expand and diversify exports should involve targeted public goods in the form of core infrastructure, research, productivity and skills training, and assistance towards compliance with international standards for major emerging champion sectors with dynamic export markets.
- Where non-resource sector-specific assistance is considered necessary to increasing competitiveness in selected emerging industries, the support of non-discriminatory public goods should be provided through activities like business development services, skills training and research. Policymakers should continue to lower the regulatory burden for exporters to ensure their competitiveness with foreign suppliers. They should also implement behind-the-border trade regimes such as those required to meet international sanitary and phytosanitary standards by agribusinesses to enable them to become part of fast-growing international supply chains.



12. AGRIBUSINESS

The agribusiness policy framework is based on four key Government policy documents: (i) the Political Report to the Ninth Party Congress; (ii) the Seventh National Social and Economic Development Plan (NSEDP 7); (iii) the National Export Strategy (NES); and (iv) the Agricultural Development Strategy (ADS), 2011-2020 of the Ministry of Agriculture and Forestry (MAF). This section provides an overview and action plan for the development of commercial agriculture as a basis for agribusiness and agro-processing in Lao PDR. Further reference should be made to Chapter 8 with regard to sanitary and phytosanitary (SPS) assessment, which is predominantly related to agricultural products and trade.

(i) Political Report to the Ninth Party Congress

The Political Report to the Ninth Party Congress points out that “commercial production and the cooperative economy of the people lack the support of clear policies, including tax policy, credit policy and marketing policy.” As a result, over the next five years, to achieve “four breakthrough steps,” the Government and Lao society will implement and accomplish the following duties and tasks:

- Address administrative procedures and management that impede commercial productivity rates and services.
- Expand production capacity and turn the agriculture-based economy into a market economy.
- Strongly promote the economic sector in cooperation with local people, family enterprises, small- and medium-sized enterprises (SMEs), and the domestic and foreign private sectors by improving the business climate, to enable greater synergy and competitiveness within the national economic base.
- Reduce poverty at the grassroots by implementing measures to promote commercial production and rural

development, including animal breeding for commercial purposes.

- Modernize the trade sector.
- Promote education in rural areas for poverty reduction and training in agricultural and livestock technologies for commercial purposes.

Being related to promoting and expanding agribusiness, irrigation systems will require improvement to ensure sustainable use of water. Agricultural promotion and development centers and farmers’ organizations are to be further developed. In addition, large-scale projects (‘mega-projects’) will be initiated in relation to irrigation and agro-processing to modernize the agriculture sector. The strategy will lead the country towards industrialization and modernization while allocating and making effective use of natural resources.

To this end, legislation will abolish policies, mechanisms, laws and procedures that are not consistent with a market-oriented economy. One-stop services will be expanded to enable people and entrepreneurs to access easier and faster state services, and to decisively abolish bureaucratic administration and loopholes that enable officials to be corrupt and seek opportunities for personal gain.

(ii) National Social and Economic Development Plan 7

The Seventh National Social and Economic Development Plan 2011-2015 (7th Plan) places an emphasis on systematically developing all aspects of agriculture and forestry in line with industrialization and modernization priorities in areas that have favourable conditions; ensuring food security; promoting commodity production for domestic use and export; and improving productivity and enhancing end-product quality.

By 2015, NSEDP 7 aims to: produce 100,000 tons

of high-quality rice seeds; 40,000 tons of high-quality maize seeds; expand maize production to 150,000 hectares; and produce 120,000 cattle (in border areas) for export, mainly to neighbouring countries. The target for coffee production is 553,000 tons.

The measures proposed to achieve these targets include applying modern technologies and methodologies to improve productivity. Technologies will be promoted through extension centres in village clusters (kumban), with particular focus on districts where villages and/or people have been relocated.

The promotion of SMEs will focus on using agricultural raw materials that can be exported, thus contributing to economic growth. Promoted SMEs should already have access to markets and be somewhat competitive. Emphasis will be placed on preparing for entry into the ASEAN Economic Community (AEC) by 2015 and enacting measures consistent with WTO membership. As a result, the processing of food and agricultural products will grow an average of 12 to 13 per cent per year, with expansion taking place in at least 30 per cent of all villages.

This SME expansion of agro-industry will come about by applying modern technology that aims to improve the added value of products, allowing Lao products to compete in regional and global markets. In addition, policies and measures will be implemented that attract private investment in market infrastructure in support of agribusiness, namely wholesale and retail markets, rural markets, and border area markets. Furthermore, industry and commerce will be regulated in support of rapid but sustainable economic growth, through capacity strengthening of human resources and institutions, workers in production units, and commercial enterprises, including import-export entities.

NSEDP 7 urges the optimal use of capital investment and implementation of fiscal policy measures, including tax incentives and streamlining trade procedures, to expand marketing networks. Investments in logistics to ensure improved market access are critical, including storage and value-added processing facilities. Added investments are required in: irrigation systems (including mega-projects) to ensure improved productivity and resilience to climate change; and in human

resources in the area of veterinary and agricultural extension. Legislation, fiscal policies measures, and modern management methods related to quality control, sanitary and phytosanitary (SPS) measures, and disease prevention will be implemented to facilitate market access.

As a result, SMEs are expected to grow at about 15 per cent per year, thereby providing employment to more than 85 per cent of the non-farm work force. This will be achieved by building enterprise associations linked to enhancing international competitiveness.

(iii) National Export Strategy

The National Export Strategy (NES) does not focus on promoting agribusiness for producing export products. Instead, it emphasizes the production of organic products (specifically rice, vegetables, fruit and coffee) of uniform quality for domestic consumption and export. Specific organic products identified for promotion as exports include: rice (homsangthong and kainoy varieties); coffee from Ban Katouat village (Paksxong District, Champasack Province) and Lao ngarm District (Ban Vang Gnao, Saravane Province); and okra.

The NES proposes the following export strategy for organic agriculture products:

- Establish organic standards among producers for the local market, focusing initially on urban areas, hotels and restaurants, and later on sub-regional export markets.
- Establish farmer networks for sharing information and agreeing on quality standards, including developing a local organic logo.
- Promote the setting up of organic markets in urban areas.
- Link farmers' organizations to domestic and sub-regional and regional agriculture commodity traders through frequent meetings and technical exchange visits.
- Use organic production gardens as tourism sites and training centers.

This strategy is currently being implemented for both organic and clean agricultural products through the Luang Prabang Food and Trade Linkages Project operating in Luangprabang Province.

(iv) Agricultural Development Strategy 2011-2020

The Agriculture Development Strategy (ADS) 2011-2020 is a long-term framework for development of the agriculture sector. It serves as a reference for MAF decision makers and officers and for development partners providing support to the agriculture and natural resources (ANR) sector. A detailed Agricultural Master Plan (AMP) and Agricultural Investment Plan (AIP) have been developed to implement the ADS over the five-year period 2011-2015. These plans have become integral parts of NSEDP 7.

The ADS anticipates that lowland farmers will produce a surplus of rice and other commodities for sale to domestic and regional markets. Smallholder producers are expected to play a greater role in processing, labelling, branding and promoting these surplus products, notably through farmers' organizations. Links to locally based agro-processors and agribusiness enterprises (including agricultural land concessions) through formal and informal contract farming arrangements also will be enhanced. Local agribusiness enterprises will consist of mostly SMEs with community-based, value-added processing capacity and downstream links to multinational companies that have access to regional and global markets. Lowland production will be largely capital-intensive, with the application of technology to: maintain soil quality and guide usage of agricultural chemicals; use agricultural equipment for mechanized production; and apply climate change mitigation and adaptation measures to ensure the resilience of the agriculture sector. Commercial crop production in the Mekong lowlands will concentrate on producing specialized high-value crops under contract for local value-added agro-processors and niche markets, including indigenous varieties of rice for local consumption, certified organic agriculture products for export, and industrial food crops for processing.

12.1 Sector overview

Two main farming systems dominate the agriculture sector: the lowland rain-fed and/or irrigated farming systems of the Mekong flood plains and its tributaries, and an upland swidden agriculture system. A third, smaller system consists of horticultural crops and coffee cultivated on the Bolovens Plateau. Tobacco and coffee are the

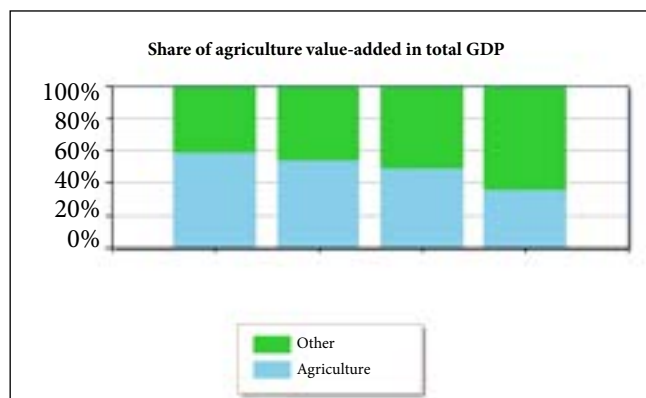
most important non-rice cash crops. Other crops include maize, rubber, cassava, vegetables, sweet potatoes, sugarcane and peanuts. Rice cultivation remains the prevalent agro-economic activity, occurring on 72 per cent of the total cultivated area, with mostly traditional varieties used in the uplands and improved varieties in the lowlands.

Until recently, most rural households had little or no experience with modern agriculture technology, including using improved seed varieties, chemical or bio-fertilizers, or pesticides. Instead, agricultural production has traditionally been natural, with farmers using indigenous seed varieties, applying little or no soil additives and using no pesticides. Farmers do not have easy access to information about alternative production techniques and basic agricultural production inputs (such as quality seeds, irrigation water, credit, bio-pesticides and organic fertilizers). The low level of education of most farmers also is an obstacle to training. Weak extension services hinder the provision of advice on diversified cropping, commercialized agriculture, agribusiness, farm management, post-harvest handling, marketing, food technology, livestock varieties and animal health. As a result, both productivity and product quality tend to be inferior when compared to neighbouring countries; in most cases significantly below the standards required by regional agro-processors, which presents a serious constraint to agribusiness development.

Traditional farming systems emphasize wet season rice production to achieve rice self-sufficiency, with minimal crop diversification. A secondary priority is to accumulate livestock, the most important farm asset after land and a harvested crop. Any remaining human and capital resources are used for gathering non-timber forest products (NTFPs), fishing and hunting to supplement household food supply and generate cash. Off-farm income is derived mostly from selling household labour services. Vegetables for family consumption are generally cultivated during the cool season using residual soil moisture and water remaining in seasonal ponds or streams. All family resources focus primarily on producing rice during the wet season and, if irrigation is available, also during the dry season (with any surplus sold). As a result, most rural households depend on a rice monocrop. The use of available resources to produce rice is an important constraint to the development of

mixed farming systems that could produce raw materials for agro-processing. Figure 32 shows the agriculture sector's share of value added in terms of total GDP.

Figure 32: Share of agriculture value-added in total GDP



Source: FAO website: <http://faostat.fao.org/site/666/default.aspx> accessed on 11 October 2011

Data presented in Table 30 below from the Food and Agriculture Organization of the United Nations (FAO), indicate that agricultural exports as a share of total exports have decreased from

9.6 per cent in 2000. Despite its importance in the domestic economy, agriculture only represented 4.9 per cent of total exports in 2008.

Table 30: Share of agricultural exports in total exports

Agricultural / Total Exports (%)				
1999-2001	2003-05	2006	2007	2008
9.6	4.6	2.8	4.2	4.9

Source: FAO website, <http://faostat.fao.org> accessed on 10 October 2011.

Data presented in Table 31 and Figure 35 shows that coffee was the main agricultural commodity exported in 2009 in terms of value; followed closely by fodder maize. Coffee alone, valued at US\$28.4 million, accounted for approximately 48 per cent of the value of all principal agricultural export crops. Fodder maize was the next highest in value at US\$25 million, representing 42 per cent of all principal agricultural export crops.

Table 31: Principal export crops, 2009

Rank	Commodity	Quantity (tonnes)	Flag	Value (1000 \$)	Flag	Unit value (\$/tonne)
1	Coffee, green	16507	R	28439	R	1723
2	Maize	232412	R	24984	R	107
3	Sesame seed	3417	R	2479	R	725
4	Fruit Prp Nes	1681	R	1132	R	673
5	Fruit Dried Nes	1526	R	889	R	583
6	Groundnuts, with shell	3902	R	722	R	185
7	Beer of Barley	271	F	179	F	661
8	Hidesdry S.Cattle	136	R	90	R	662
9	Soybeans	94	R	23	R	245
10	Cotton lint	116	R	21	R	181
11	Apples	21	F	15	F	714
12	Fruit Fresh Nes	10	F	5	F	500
13	Bran of Rice	7	F	0	F	0

F : FAO estimate

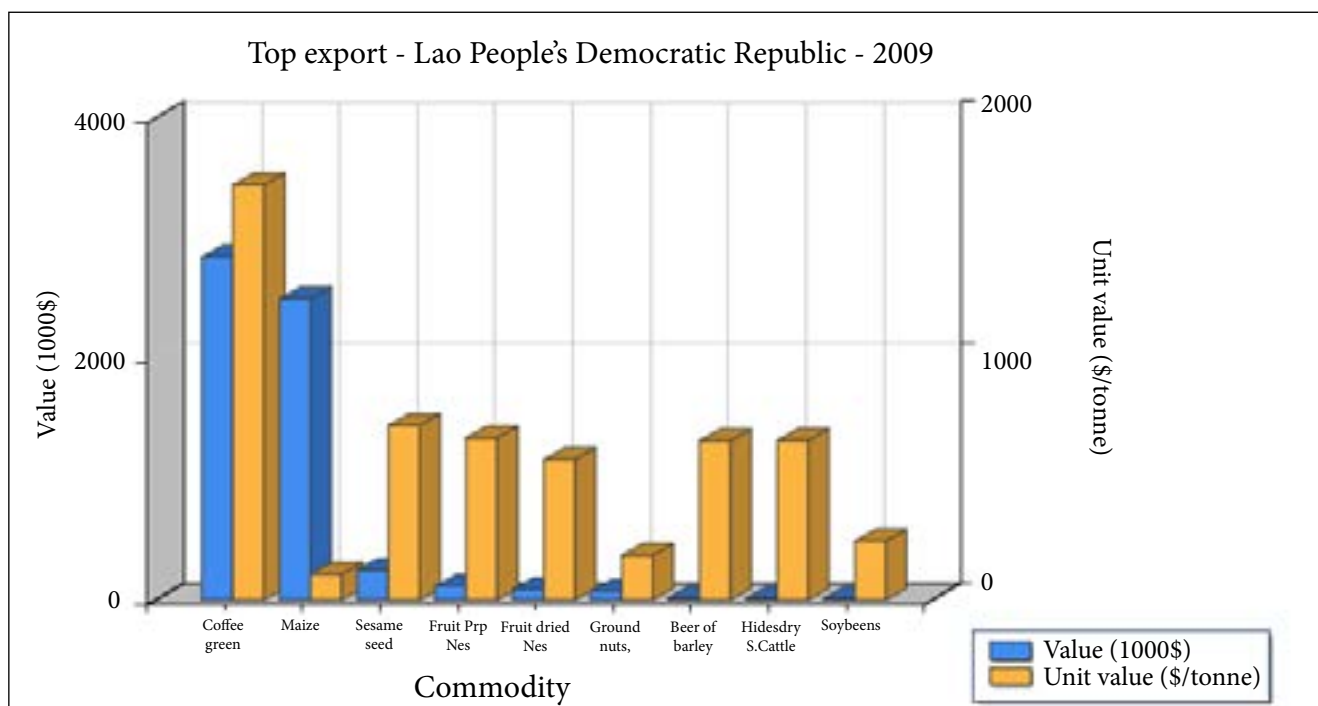
R : Estimated data using trading partners database

Prp: Prepared

Nes: Not elsewhere specified

Source: FAO website, <http://faostat.fao.org> accessed on 10 October 2011.

Figure 33: Principal agricultural commodity exports



Source: FAO website, <http://faostat.fao.org> accessed on 10 October 2011.

Coffee and fodder maize have increased their share of both domestic and global commodity exports.¹³⁷ Coffee increased from 2.67 per cent of total exports in 2005, to 2.87 per cent in 2009. Coffee also has gained some global market share, increasing from 0.08 per cent of total world exports in 2005, to 0.10 per cent in 2009. More significant increases have been experienced by cereals (mostly fodder maize), with increases from 1.62 per cent of total Lao exports in 2005 to 3.48 per cent in 2009; and 0.02 per cent of total world exports in 2005, to 0.05 per cent in 2009.

A significant amount of informal cross-border trade in agricultural products is carried out throughout the Greater Mekong Subregion (GMS). Livestock in particular is traded cross-border in large numbers, mostly on foot into Thailand and Vietnam. In addition, NTFPs – including medicinal herbs, fiber products, resin and edible products – are harvested in forests, sold at local markets, and traded into southern China and Northern Thailand. No definite figure is known for the value of NTFPs exported, but estimates are up to 2.5 per cent of exports, of which the majority are medicinal plants sold in China.

Agricultural products tend to be marketed only in the GMS, resulting in significant variation in market prices between northern, central and

southern provinces. Such regionally unbalanced markets are caused by several key factors:

- Formal and informal regulations that hinder the free movement of goods.
- Prohibitive informal fees and administrative costs.
- Poor trade logistics and lack of streamlined procedures and modern trade facilities.
- An underdeveloped farm to market road network.
- Transportation shortages and high transport costs.
- Low purchasing power in both urban and rural areas.
- Cross-border transport fees and controls imposed by all countries in the GMS.
- Low level of technical expertise, limited human resource capacity, poor agricultural support and service delivery.
- Limited access to domestic and international markets for inputs and outputs.
- Lack of access to market information, constraints to export, inter-provincial and external trade.
- Small number of local agribusinesses.

137. International Trade Center, website: www.intracen.org accessed on 10 October 2011.

12.2 Key competitiveness issues

Table 32 shows that in the decade between 1994 and 2004, the crop production value per hectare increased at a diminishing rate, and decreased slightly in the five years between 2004 and 2009. This indicates that the overall productivity of land planted in crops may be decreasing, requiring Lao producers to demand higher prices for export products, and thus making them less competitive than similar products from neighbouring countries.

Table 32: Evolution of crop production value per hectare

	Value (2004-2006 (US\$))				Annual growth rate (%)		
	1994	1999	2004	2009	1994-1999	1999-2004	2004-2009
Crop production per ha of land in use	746	871	1009	1002	3.15	2.99	-0.14

Source: FAO website, <http://faostat.fao.org> accessed on 11 October 2011.

At the same time, the index of per capita production shown in Table 33 indicates that the trend is for per capita production generally to increase. Although agricultural production per capita increased consistently between 1994 and 2009, both food production per capita and agricultural production per agricultural worker decreased slightly between 1999 and 2004, when compared to 1994-1999. Overall production per capita increased somewhat in all categories between 2004 and 2009. This increase may be due to factors including:

- More intensive use of improved seed varieties and fertilizers by smallholder farmers was encouraged to produce the two principal crops (rice and maize), consistent with Lao Government agricultural development policies.

Table 33: Index of per capita production

	Gross PIN* (base 2004-2006)				Annual growth rate (%)		
	1994	1999	2004	2009	1994-1999	1999-2004	2004-2009
Food production per capita	69	82	97	120	3.51	3.42	4.35
Agricultural production per capita	72	83	98	120	2.88	3.38	4.13
Agricultural production per agricultural worker	75	86	98	115	2.77	2.65	3.25

* Gross Production Index Number

Source: FAO website, <http://faostat.fao.org> accessed on 11 October 2011.

- An increase in intensive commercial farming on agricultural land concessions granted to (mostly foreign) private investors to produce cash crops for export (coffee, cassava, sugar cane and rubber).¹³⁸
- Farmers responding to price signals and new markets for cash crops stimulated by Chinese, Thai and Vietnamese cross-border traders seeking coffee, cassava, fodder maize and vegetables, among several other crops, motivating smallholder farmers to use improved seed varieties and apply chemical fertilizer to increase productivity.

- A rapid increase in cross-border contract farming organized through the Ayerwaddi – Chao Phraya – Mekong Economic Cooperation Strategy (ACMECS) beginning in 2003. This programme was the principal mechanism used to promote bilateral agricultural trade and investment between Thailand and Cambodia, Lao PDR, Myanmar and Vietnam. Cross-border contract farming by Thai agribusinesses was the main vehicle for producing food and agricultural raw materials by farmers in border areas of Lao PDR, specifically for importation and use by Thai agro-industries.
- The Lao Government's policy to stabilize shifting cultivation by 2010 through a controversial land and forest allocation programme began in the

138. Although it is not clear if large commercial farms on agricultural land concessions (i.e., non-smallholder farms) were included in the data in Table 9.4.

mid-1990s. The policy and programme were implemented most strictly in upland areas in high-priority poor districts (mostly in the North) and included the resettlement and merging of villages. Several official development assistance (ODA) projects were implemented, supporting technical assistance to smallholder farmers who adopted commercialized agriculture on allocated lands, while conserving forests. Through such projects improved seed varieties for rice and cash crops and fertilizer packages were introduced, and conservation agricultural development was initiated leading to increased production.

The figures for the list of exports in Table 34 demonstrate the increased market orientation of the agriculture sector. Between 1994 and 2009, exports of coarse grains and green coffee increased significantly, demonstrating the success of promoting commercial agriculture and the increase in agricultural production per capita. Although no meat is currently being exported, as noted above large numbers of livestock are exported daily in informal cross-border trade throughout the GMS. In all cases, the annual growth in agricultural trade is likely to be a result of a combination of the policy push towards modernizing the agriculture sector through commercialization and market linkage, and demand pull from the expansion of the middle class in neighbouring countries, with high prices providing the incentive for increases in production and exports.

The granting of land concessions to agribusiness investors has emerged as an important policy mechanism for promoting agribusiness development. However, the governance framework of the authorization process and organizing

smallholder-based contract farming operations is complex and is an impediment to developing sustainable commercialized agriculture. As a result of the Government's decentralization policies since 1986, provincial governments rather than central authorities are responsible for: (i) authorizing company registrations and investment licenses; (ii) firm-level inspections; and (iii) allocating land-use rights and an enterprise's access to other resources. The only exceptions are some very large or politically sensitive business ventures that require authorization at the national level.¹³⁹ As currently organized, the land concession system is administered through several different laws, decrees and government agencies, resulting in a complex web of rules, regulations, procedures and fees that dissuade any but the most tenacious and wealthy investors, and provide opportunities for corruption. High transaction costs, extra-legal surcharges and facilitation fees are not unusual.

The less than fully transparent regulatory framework for granting land concessions and erratic rule-making hinder agribusiness enterprise development, as contracts, property rights, tax provisions and other business fundamentals lack assurance.¹⁴⁰

- Business registration and licensing procedures are cumbersome, time-consuming and discretionary, reflecting a control and micro-management mindset. Business registration nominally takes up to 45 to 60 days in Lao PDR, but only about 7 days in Vietnam.
- Complications in structuring a business: Almost all tax-registered enterprises in Lao PDR are sole-traders, reflecting the complicated registration

Table 34 Evolution of trade quantities for selected commodities

	Quantity (1000 tons)				Annual growth rate (%)		
	1994	1999	2004	2009	1994-1999	1999-2004	2004-2009
Coarse grain* exports	8.6	1.6	34.7	232.4	-28.56	85.03	46.28
Meat exports	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.
Cereal imports	21.3	10.2	37.3	58.0	-13.69	29.6	9.23
Green coffee exports	9.2	15.9	16.0	16.5	11.56	0.13	0.62
Rice exports	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

* Coarse grains are cereal grains other than wheat and rice. Cereals include wheat and rice (OECD definition).

Coarse grains include: cereals including maize, millet, wheat, barley, oats, buckwheat and sorghum, and a variety of dried beans, such as red beans, green beans, soybeans and peas.

Source: FAO website, <http://faostat.fao.org> accessed on 11 October 2011.

Land concessions

139. World Bank, *Building Export Competitiveness in Laos, A Summary Report, East Asia PREM, March 2006*, p. 28.

140. ADB and Committee for Planning and Cooperation, *Northern Regional Development Strategy, Volume 6, Business and Private Sector Development Strategy, Vientiane, Lao PDR, March 2004*.

procedures and lack of awareness of other legal options (for example, limited liability and public companies).

- Amendments to the Electricity Law are needed to facilitate private enterprise in providing rural electricity.
- Governance concerning plantation forestry is weak.
- Import tariff exemptions and quantitative restrictions are applied in a non-transparent manner, complicating trade and business development, and non-tariff barriers to trade imposed by neighbouring countries are a serious impediment.
- Discretionary application of the tax law, frequently through negotiations: Advance payment of taxes is often required by provincial governments during periods of cash shortage.

Small scale of enterprises

The scale of most domestic private enterprise is geared to the small size of the domestic market and low purchasing power of the population. Particular impediments to the growth of small firms include the lack of access to capital and to market information. The costs of meeting licensing and other requirements are relatively higher for small enterprises.¹⁴¹

Weak financial services

The banking sector continues to be weak, especially in rural areas where few people have access to financial services. In addition, the Bankruptcy Law and the Secured Transaction Law are difficult to enforce, hence banks are reluctant to lend to private enterprises. Export credit is generally not available, hampering the growth of agricultural trade.

Low labour productivity

Although labour costs are relatively low, this advantage is undermined by low labour productivity by international and regional standards. The 2008 updated Human Development Report¹⁴² states that in 2006 the combined primary, secondary and tertiary gross enrolment ratio was 59.6 per cent (compared to 114.2 per cent for Australia and 58.7 per cent for Cambodia). The ethnic diversity of the people poses language and other problems impeding education and skills training. The adult

illiteracy rate (ages 15 and older; 2007) is 73.18 per cent (compared to 76.32 and 91.90 per cent in Cambodia and Malaysia, respectively), and the labour force has on average less than five years of education. Graduates of vocational schools and university are few.

12.3 Market access

The principal trade obstacles to agribusiness development are characterized by: inexperience among entrepreneurs and producers in accessing markets; institutional constraints on export diversification and growth; decentralized authority for trade; and logistical issues.

Market-related issues

Both entrepreneurs and producers have an inadequate understanding of domestic, regional and global markets. Producers almost universally cultivate and harvest the same crops at the same time, using traditional practices. An important impact of this is that large volumes of the same unprocessed food and agricultural raw materials saturate small local markets and many regional markets simultaneously, driving down prices. This local decline in commodity prices is repeated annually. The unstructured nature of local and regional markets provides few incentives for farmers to invest additional time, labour, or capital in post-harvest handling or value-added processing at the farm or household level.

For the most part crops are sold to itinerant traders or in indiscriminating local markets. An important outcome is that trade officials in neighbouring countries periodically impose trade restrictions on Lao products, including import quotas on vegetables and field crops and other non-tariff trade and technical barriers, in order to control the seasonal flow of selected Lao commodities. These actions contravene agreements and understandings among trade authorities (for example, the ASEAN Free Trade Area [AFTA] rules).

In addition, trade continues to be hampered by various levies and fees by both Lao and neighboring country border authorities, raising transaction costs and seriously impeding trade with China, Vietnam and Thailand. Only since 2002 has the Thai Government-supported ACMECS programme promoted the formation of Lao-Thai joint ventures for contract farming of selected food and agricultural products, initiating a more

141. *Ibid.*

142. UNDP, *Human Development Report, Update 2008, United Nations, New York, 2009.*

systematic approach to border trade and resolving tariff and logistical constraints to agribusiness and market development.

In terms of interacting with domestic, regional and global markets, most domestic entrepreneurs and commodity traders are as traditional as their producer counterparts. They lack awareness of modern, transparent, market-based ways of doing business. They prefer to purchase raw materials at the farm gate and may carry out some post-harvest value-added processing (for example, drying, cleaning, sorting, grading) that will supplement their small trade margin. Agribusiness entrepreneurs generally lack a long-term vision. They are motivated more by short-term gains from traditional trading. Entrepreneurs also lack sound investment projects for agribusiness expansion or value-added processing.

Only a small number of agro-processing facilities exist in Lao PDR. These exceptions are found in selected sectors, namely coffee (for example, Dao Heung, Sinouk, and the Association des Groupements de Producteurs de Café du Plateau des Bolovens [AGPC], in Champasack), and fruit and vegetable processing (for example, Lao Agro Industry, Vientiane Province; and the Lao Farmers' Products Company, Vientiane Capital).

Institutional constraints on export diversification and growth

Agribusiness, like agricultural production, is impacted upon by insecure property rights and an inefficient financial system, which inhibits the accumulation and use of capital. The development of value-added processing facilities is also hindered by: a regulatory system built on control and fee extraction rather than facilitation; restrictions on trade through licensing regulations; and generally weak institutional and fiscal management capacity.¹⁴³

The efficiency of agribusiness and export-oriented enterprises is also impacted upon by institutional constraints linked to time-consuming official procedures and technical formalities. Exporters of food and agricultural products from Champasack, for example, are obligated to abide by a complex set of rules and regulations, consisting of several sets of forms required to enable the export of their

commodities. Although the forms are not difficult to complete or unusually detailed, several different departments, offices and individuals must be contacted in person; a process that usually requires three to four days to complete (sometimes longer, depending upon the availability of 'competent' [i.e., legal] authorities and the level of surcharge that an exporter is willing to pay).¹⁴⁴ Traders report that obtaining the phytosanitary certificate ('phyto'), issued by the Provincial Agriculture (Crops) Section, proved most challenging.

Decentralized authority for trade

The administrative decentralization that began in 1986 also decentralized authority for trade. Because institutional capacity was already weak, the result has been confusion, with overlapping responsibilities of central and provincial governments, making it challenging for traders and investors to do business in Lao PDR. Important factors include:¹⁴⁵

- Unclear and poorly communicated government policy towards the business sector and a lack of coordination among line ministries in policy making.
- High cost of power, transport, telecommunications and other critical services.
- Excessive and unnecessary regulation of ongoing business operations.
- Institutional orientation of the tax and trade administration systems favours control rather than facilitation.
- Access to land is difficult and it has limited use as collateral for debt.
- A weak legal system to support investment, enterprise establishment, contract enforcement and commercial transactions.
- Insufficient intellectual property rights protection for both domestic and foreign investors.
- Rigid labour regulations.

In addition, provincial and border authorities have little knowledge or understanding of the terms and conditions of various trade agreements administered through the World Trade Organization (WTO), AFTA, and the China-ASEAN Free Trade Area (CAFTA). This

143. World Bank, *Diagnostic Trade Integration Study (DTIS), Building Export Competitiveness in Laos, Summary Report, East Asia PREM, November 2006.*

144. Ministry of Industry and Commerce / Trade Development Facility, *Scoping study on cross-border agribusiness in Lao PDR: focus on Champasak Province, Vientiane: World Bank, 2009.*

145. DTIS Summary Report, 2006.

institutional lack of knowledge leads to significant trade regime uncertainty.

Logistics

The mountainous terrain in most areas of the country and poor network of market access roads, together with cross-border trade impediments with neighbouring countries, has meant high transport costs and fragmented markets. The generally poor condition of the road network results in high rates of damage to both trucks and cargo. Trucking monopolies in Thailand and rent seeking by Customs and other officials (including business 'tycoons' or border 'godfathers') throughout the region add to the costs of transit and trade. Agribusiness development is also constrained by the limited number of international-level cross-border points, and facilities and officials qualified to verify the sanitary and phytosanitary (SPS) standards that are mandatory under WTO regulations.

Trade infrastructure, including banking and financing services at cross-border trade locations, is limited or non-existent. Storage facilities for agricultural products in rural areas and particularly at cross-border locations are lacking. Despite the conclusion of the GMS Cross-border Transit Agreement (CBTA, signed in 1999) and other cross-border trade and transit agreements: (i) the CBTA is still not implemented by signatory parties; (ii) Lao products are obligated to be loaded on to Lao trucks in Lao PDR, incurring labour costs, and unloaded on to Thai trucks close to the Lao-Thai border or on the Thai side of the frontier, incurring additional labour costs; and (iii) Thai trucks are not authorized to travel long distances into Lao PDR, although Vietnamese trucks have no problem. Furthermore, the weighing of vehicles and products being traded continues to be an issue, with Lao and Thai scales not being equally calibrated.

Despite the significant investment in the road and transport infrastructure in Lao PDR over the past 30 years, several roads, including some strategic to expanding agricultural trade and investment in southern Lao PDR, require upgrading. As a result of the development of various east-west and north-south regional transport corridors with support from the ADB, development patterns and trade dynamics have changed, while plans to upgrade infrastructure that were prepared for an era of pre-

trade liberalization and pre-economic corridor, remain stagnant.

12.4 National institutions, key roles and capacity requirements

Several government agencies are active in promoting and facilitating agribusiness investments and agricultural trade in Lao PDR, namely:

- Ministry of Planning and Investment (MPI).
- Ministry of Industry and Commerce (MoIC).
- Ministry of Agriculture and Forestry (MAF).
- Agriculture Promotion Bank (APB).

In addition, the Lao Chamber of Commerce and Industry (LNCCI) plays a key role as a liaison with the Government on behalf of enterprises and private sector investors. It also serves as an advocacy organization that presents the concerns of the business sector to the Government.

The Ministry of Finance (MoF) is responsible for auditing annual tax filings by all enterprises.

Ministry of Planning and Investment and Ministry of Industry and Commerce

The MPI is an important actor in the promotion of agribusiness investment in Lao PDR. Current regulations designate the Department for the Promotion and Management of Domestic and Foreign Investment under MPI as the agency that considers applications for agribusiness investments and business and tax registrations. The same registration documents are issued by the MoIC Internal Trade Department for domestic investors. While an implementing decree for a one-stop shop has been issued (April 2011), it is not yet fully operational in most provinces. Agribusiness traders are also required to have applications approved by the Department of Internal Trade. Recent changes in institutional mandates with the transfer of responsibility of General Investment to the MoIC from MPI should assist in streamlining procedures. However, currently no agency or organization is officially designated or has a specific mandate to monitor or evaluate agribusiness investments based on business plans submitted during the enterprise registration process. This is a major institutional weakness that results in agribusiness investors failing to follow their business plans and unsuccessful investments.

Ministry of Agriculture and Forestry

Both domestic and foreign agribusiness investors are required to obtain authorization from MAF prior to registering a land concession-based agribusiness with MPI. It is at this stage that potential investors submit a business plan for consideration by the MAF Division of Investment in the Department of Planning. Although MAF usually approves the investment proposals, it does not have the human resources or institutional capacity to either monitor or evaluate the effectiveness of their implementation.

Neither Environmental Impact Assessments nor other environmental examinations are required for agricultural land-based concession projects, as they are not considered as having serious environmental impact.

Legal enforcement of regulations is hampered by the unclear division of authority between judiciary and executive authorities. Overall, the rule of law is weak, and contracts are often un-enforceable. Although in principle there is an open investment policy (the Foreign Investment Law and other laws allow 100 per cent foreign ownership, long leases on land, transfer of property, and protection against expropriation), in practice the protection available to foreign investors is weak. Potential agribusiness investments fare poorly in such a business environment, because they are land-based and long-term, often requiring more than the statutory five years to make a profit.

In addition, ANR sector decision-makers tend to be separated from the technical and professional members of the civil service. Relatively senior government officials (particularly at the provincial and district levels) are often poorly informed about government policies, legislation, administrative procedures and the technical aspects of agribusiness projects. This frequently occurring gap between central government policies and policy implementation at the local level means that there is a fundamental disconnect between any public administration reform process on paper and its implementation in reality.

MAF has adopted the concept of 'new agriculture' as part of its Agricultural Development Strategy 2011-2020. The focus is to link entrepreneurial

smallholder farmers with local and regional traders and small- and medium-sized agro-enterprises with access to global supply chains. Through this process farmers are expected to produce high quality products for processing and export that are consistent with the international food quality standards established by ASEAN-GAP and GLOBAL-GAP.¹⁴⁶ MAF expects that social responsibility standards (for example, Free Trade Certified, organic agriculture labelling, ISO 14000-Environmental Management Systems, ISO 24000-Social Responsibility, and European Ecolabel) will be introduced through agribusiness and agro-industrial investors over the medium- and long-term.

Agricultural Promotion Bank

Although the APB and the Government Policy Bank (Nayoby Bank; used for policy-based lending) offer financial services to the agriculture sector, their services are insufficient and not adequately targeted to the needs of producers, processors and traders.¹⁴⁷ Each of these banks is currently increasingly hesitant to lend to the agriculture sector, and now target urban traders as priority customers rather than farmers or investors in rural agribusinesses.

Institutional capacity of concerned agencies and organizations¹⁴⁸

Government institutions tend to be understaffed, salaries are low and capacities limited. Telecommunications (including the Internet), although improved in recent years, can be erratic, especially at provincial and district levels. As a result, important market trends and information are not easily communicated. A low standard of governance at all levels of public administration is endemic. Enforcement of laws and regulations is weak. Regarding SPS and TBT issues, standards for production, products and quality are often missing. There is insufficient data on pests and diseases and a lack of diagnostic laboratories, equipment and trained personnel to support modern agribusiness development. Practically no quality control testing takes place, including risk assessment of imported and exported agricultural products at border checkpoints. Certification of quality is usually limited to basic characteristics (for example, level

146. GLOBAL-GAP (global good agricultural practices) was organized by 37 chains of food retailers that guarantee 'farm to fork assurance' to consumers. The system operates in 90 countries, representing 130 certification bodies and harmonizes standards for retailers.

147. Wiemann, Jurgen, et al. (2009) *Laos on its way to WTO membership: challenges and opportunities for developing high-value agricultural exports*. Bonn: German Development Institute (DIE). pp.154.

148. *Ibid.*, pp. 155-157.

of moisture content) and is only a procedural requirement with no link to actual product quality. Although a certification body for organic products has been created, it is not yet functional.

Inter-agency and cross-sector cooperation among Government agencies and across district, provincial and national levels is inadequate. Cooperation and sharing of information among key agriculture stakeholders (producers, collectors, processors and traders) along the value chain requires significant improvement, as does cooperation between the Government and the private sector.

Agricultural research and extension services are seriously insufficient and almost entirely driven by ODA projects. They are not aligned with the change of context that has occurred in global agriculture over the past ten years. Although there is a generally high level of awareness of important issues such as climate change mitigation and adaptation, plantation versus smallholder farming, monoculture cash crop production, and contract farming, any institutional capacity to respond is lacking. Farmers are deficient in techniques for the cultivation of organic crops and integrated pest management (IPM), or for post-harvest handling and community-based value added processing.

12.5 Mainstreaming trade in agriculture and forestry

The high-level MoIC-MAF inter-ministerial working group should address trade- and investment-related issues of concern to each agency. One of the outputs of the working group should be a series of crop-specific production and trade strategies.

Several MAF line departments should be provided with a trade orientation by MoIC and appropriate UN agencies with experience in trade development (for example, ITC, UNCTAD, UN-ESCAP and WTO). Specifically, the MAF Department of Planning Division of Investment, which maintains a database of agribusiness investments in the sector, should be included in the orientation since it undertakes technical reviews of investment proposals. The National Agriculture and Forestry Extension Service should be included since it has responsibility for working with agribusiness associations and farmers' organizations. In addition, the Department of Agriculture has responsibility

for SPS measures, plant and animal quarantine, pesticide regulations, Good Agricultural Practices (GAP), and product standards (i.e., organic). All of these technical agencies should be provided with training in trade development linked to quality control of production. Such orientation is required before any meaningful dialogue can be carried on with MoIC.

Currently, no agency at MAF is responsible for research and development of agricultural trade policies or agricultural economics. NAFRI's Agricultural and Forestry Policy Research centre (APRC) has no research agenda of its own and only responds to requests from MAF or the selected priorities of donors. Selected APRC staff should be trained in agricultural trade and investment issues, and participate in joint research projects on trade and production, and environmental issues should be undertaken, with the APRC collaborating with the MoIC Economic Research Institute for Trade (ERIT), and MoNRE Environmental Research Institute.

12.6 Social impact of agriculture (poverty and gender)¹⁴⁹

Agricultural production and agro-processing for exports are clearly the economic activities within Lao PDR with the highest potential for socio-economic impact. More than 70 per cent of the population still live in rural areas and agriculture is key for Lao women's livelihoods, even more so than for Lao men's (78 per cent of the total female labour force is in the agricultural sector compared with 76 per cent of men). Most rural women are largely engaged in subsistence or semi-subsistence farming and are unpaid family workers.

Rice is the main crop: it is mostly used for household consumption and local trade, but is also exported. Lao women are involved in its production and do most of the weeding and hand milling. Their labour inputs tend to be higher in poor villages practicing upland rice cultivation than in prosperous lowland villages where irrigated rice prevails. As for other grains, vegetables and fruit, it seems both women and men plant, apply fertilizer, irrigate and harvest. Land preparation tends to be done by men while weeding is largely women's responsibility (FAO National Gender Profile of Agricultural Households 2010).¹⁵⁰ Reflecting patterns found in

149. This section largely replicates Fontana, M. (2012), *Lao PDR: Mapping the gender dimensions of trade. A preliminary exposition*. World Bank, Lao PDR.

150. FAO (2010a), *National gender profile of Agricultural households: report based on the Lao Expenditure and Consumption Surveys, National Agricultural census and the National Population census*, FAO, Lao PDR.

many other parts of the world, men seem to mostly control motorized equipment and dominate cash crops while women contribute significant but less visible labour inputs to production.

Women have primary responsibility for household food security and spend considerable time gathering non-timber forest products (NTFPs) such as mushrooms, wild berries, fruit, nuts and medicinal plants, especially in the North and during agricultural lean seasons. Women also tend to small livestock such as pigs, poultry and goats for both household consumption and income generation; men are mostly responsible for larger livestock such as cattle and buffalos.

Gender patterns in agricultural tasks and roles differ by ethnic group and geographical location and, significantly, have been changing as a result of increased commercialization and associated greater investment in cash crops in recent years. A tentative ranking, informed by selected anecdotal evidence from various Lao sources and by knowledge of global patterns in gender and export performance, suggests the following as the most promising products from the point of view of women's employment generation and economic empowerment: vegetables, rice, coffee and tea. The following paragraphs explain why and point to key aspects that would need to be further investigated in order to facilitate the design of appropriate policy measures.

12.6.1 Vegetables

Women are involved in vegetable production in most parts of the world and Lao PDR is no exception. Vegetables are considered 'female crops' in most regions of the world (but the specific gender intensity of their production may vary, and is not static). Women in Lao PDR are active in the cultivation of cabbage, lettuce, potatoes, tomatoes, ginger and fruit, which they traditionally grow on small plots mainly for home consumption, with some sold in local markets. In recent years, however, production for export has been increasing with growing cross-border investment,

contract farming arrangements and trade (Trade Development Facility Champasak Agribusiness Study 2009).¹⁵¹ Evidence suggests, for example, that the export of cabbage has been growing and that women are involved in the cabbage supply chain not just as producers but also as cross-border traders. As for processed vegetables and fruit, it is reported that female workers constitute about 80 per cent of the total labour force in the two existing firms exporting fruit jams and pickled vegetables (UNDP 2006).¹⁵²

An assessment carried out by the International Trade Centre (ITC, 2005)¹⁵³ ranked the sector of fresh and processed, vegetables and fruit very highly for its female employment creation potential, and for environmental sustainability, relative to other crops. It should be noted, however, that vegetable production takes place mostly in the relatively richer areas of the South and hence may be of less benefit to remote female farmers belonging to ethnic minorities in the North.¹⁵⁴ Vegetable products have high income values and greater scope for diversification compared to other agricultural commodities. Even minor processing of vegetables, or the development of fresh and chilled supply chains, appears to result in significant additional value added (Record and Nghardsaysone 2010).¹⁵⁵ Globally, high-value agriculture is the fastest growing of all traded agricultural exports. High-value agriculture can include a wide range of products such as vegetables, fruit, shrimps and nuts, as well as non-food goods such as cut flowers.¹⁵⁶

In principle, rural women could be involved in the production of high-value agricultural goods at any node of the value chain, either as farmers or as wage workers, or as intermediaries processing or selling products. In practice, women seem to have been able to benefit from this growth more as hired labour in the field or in packaging plants.

12.6.2 Non-Timber Forest Products

In addition to vegetable and fruit export expansion, some studies (for example, UNDP 2006)¹⁵⁷ note

151. Trade Development Facility and World Bank (2009), *Scoping study on cross-Border Agribusiness in LAO PDR: Focus on Champasak province*, Trade Development Facility, Lao PDR.

152. UNDP (2006), *Lao PDR National Human Development Report: International Trade and Human Development*, UNDP, Lao PDR.

153. ITC (2005), *Export Potential assessment in Lao PDR*, International Trade Centre UNCTAD/WTO, Geneva.

154. *Perhaps with the exception of Luangprabang, although this small island of opportunities is mostly related to the tourism industry.*

155. Record, R. and Nghardsaysone, K. (2010) "Export Dynamics and Diversification in Lao PDR: An Analysis of the Product Space", *Lao PDR Development Report 2010: Natural Resource Management for Sustainable Development*, background paper, World Bank, Lao PDR.

156. *Food products make a stronger contribution to poverty reduction than luxury non-food products and expansion of these latter carries risks for food security and the environment.*

157. UNDP (2006), *Lao PDR National Human Development Report: International Trade and Human Development*, UNDP, Lao PDR.

the gender equality potential of export of non-timber forest products (NTFPs), including creating positive incentives at local-community and central-policy levels to protect biodiversity and forest cover. In particular, wild fruit and herbal ingredients used in traditional medicine, for which demand from China appears to be strong, are promising. NTFPs are harvested mainly by women and girls in the poorest areas of Lao PDR and provide income that women control. However, there may be environmental sustainability risks as well as limited scope for women's skills enhancement related to these activities. Positive outcomes would crucially depend on whether policies to support the enhancement of women's traditional roles as 'forest protectors', and to involve them in higher value segments of the NTFP chain, can be put in place.

12.6.3 Rice

Rice has a long tradition of production and consumption in Lao PDR and women are significantly involved in it, although the extent of their engagement varies by region. Evidence suggests, for instance, that female labour inputs tend to be higher in poor villages practicing upland rice cultivation than in lowland villages dominated by paddy rice. In Southeast Asia generally, women are reported to constitute up to 90 per cent of the labour force in rice. In Cambodia and Vietnam, female farmers also seem to be increasingly taking on male tasks (FAO 2005).¹⁵⁸ Paris et al. (2009)¹⁵⁹ report that in Vietnam, as a consequence of male migration, wives have assumed additional responsibilities such as land preparation, pesticide application and marketing – effectively transforming themselves from unpaid family labourers into family farm managers.

Lao PDR has great diversity of rice varieties, most of which are glutinous and hence consumed largely locally. However, according to UNIDO (2002), the aromatic varieties are likely to have good export potential. An ITC assessment (ITC, 2005)¹⁶⁰ notes that the export potential of rice production in Lao PDR is low, but gives it the second highest score in terms of socio-economic impact, in particular

considering its potential for employment creation and poverty reduction.

12.6.4 Coffee and Tea

Coffee production in Lao PDR is more established than tea production but is still a relatively young activity. The 2005 ITC assessment ranks tea higher than coffee in terms of both employment creation and environmental sustainability. Tea is grown mostly in the Northern parts and undertaken mostly on an organic basis. It consists of a mix of wild forest tea areas and cultivated areas. Many communities of different ethnicities are involved in the sector. Anecdotal evidence suggests that many of the tea pickers, especially of the wild forest variety, are women. The high quality of tea means that, in principle, its production could generate higher sale prices.

12.6.5 Key social and gender constraints in agriculture

One of the best approaches to identifying binding constraints and bottlenecks to trade expansion is to carry out gender-aware value chain analyses of particular products and sectors. An illustration of this is provided in Fontana (2012), which draws on a recent gender assessment of the Enhancing Milled Rice Production project (SNV 2010)¹⁶¹ to identify women's contributions in the rice value chain. This analysis provides useful insight into more general constraints in the agriculture sector.

The way in which rice farmers and millers contribute to the value chain reflects specific gender roles. Mapping shows that both women and men participate in the chain as farmers and as millers. However, the manner in which farmers contribute to production processes and the way millers manage processing activities reflects specific gender roles. For example, while some farming activities are jointly undertaken, male farmers tend to be in charge of land preparation and female farmers do most of the drying. Female farmers also take care of other agriculture produce that can be grown near rice fields and take it to local markets for sale. More male farmers than female farmers take part in extension services. Female

158. FAO (2005). *Rural women and food security in Asia and the Pacific: Prospects and paradoxes*. FAO, Rome (available at <http://www.fao.org/docrep/008/af348e/af348e00.htm>).

159. Paris, T.R., Rola-Rubzen, M.F., Luis, J., Thi Ngoc Chi, T., Wongsanum, C. and D. Villanueva (2009), 'The impact of labor out-migration on rice farming households and gender roles: Synthesis of findings in Thailand, Philippines and Vietnam', paper for the FAO-IFAD-ILO workshop on gaps, trends and current research in gender dimensions of agricultural and rural employment: differentiated pathways out of poverty, Rome, 31 March-2 April 2009.

160. ITC (2005), *Export Potential assessment in Lao PDR*, International Trade Centre UNCTAD/WTO, Geneva.

161. SNV (2010), *Gender Assessment of the Enhancing Milled Rice Production Project in Lao PDR*, SNV, Lao PDR.

farmers attribute their limited participation to their domestic responsibilities (while men explain women's lack of participation in terms of their low education levels). About 50 per cent of the millers are women: they do most of the accounting and tend to rely on other female family members for support with housework, while male millers rely heavily on their wives for bookkeeping as well as housework. Women are involved in activities complementary to rice production such as making bags and other products for packaging rice, but are mostly excluded from any activity that involves transport, networking and, which remain the domain of men. In addition to more visible transactions that take place through markets, there are also important invisible contributions by girls and other female family members.

The analysis highlights the specific constraints faced in Enhanced Rice Production along the value chain (i.e. production, processing) that affect men and women. Although this analysis was undertaken particularly in the context of rice production, many of these constraints cut across different agricultural product markets. In production, the main blockages seem to be access to inputs and credit and limited access to extension and training; while in processing, the key blockages are limited access to information on markets and prices, and restricted use of transport. Each of these constraints will be considered in turn.

12.6.6 Limited access to extension and training

Relevant and quality extension services are limited for women farmers in many Asian countries, including Lao PDR. In Vietnam, for example, women make up only 25 per cent and 10 per cent of participants in training programmes on animal husbandry and crop cultivation, respectively (Kabeer 2003).¹⁶² In Cambodia, women appear to make up only 10 per cent of extension beneficiaries (Asian Development Bank 2008).¹⁶³ A similar bias exists in Lao PDR (as highlighted in recent reviews by the Lao MAF). Research and extension services tend to focus on the tasks in which males specialize. In addition, access to extension services often requires travelling to district centers, taking several hours away from the family, and extension personnel are overwhelmingly male, raising cultural difficulties in engaging in face-to-face communication with women farmers.

Extension skills are vital for learning about modern farming methods throughout the value chain. In production, new skills are required in order to yield the benefits of modern production methods, such as high-yielding crop varieties and fertilizer application. The development of higher value-added vegetable exports, for example, might depend upon meeting international food safety and phytosanitary standards. Without the extension services to provide the necessary marketing and processing skills, access to export markets is unlikely to be realized.

Participatory extension services that use illustrated instructions rather than lots of written material – in order to be more accessible to illiterate farmers – could widen access to modern farming methods. More female trainers and extension agents could serve to improve the balance of the tasks which extension services tackle and also help to alleviate cultural difficulties. Improvements in transport and electricity infrastructure can also ease access to extension by lowering journey times to district centers and lightening the high domestic burden of work that women disproportionately undertake.

Extension services are likely to be a more important determinant of labour productivity in agricultural activities than formal education, but basic levels of education and literacy still impact upon access to extension. Gender gaps persist at all levels of education and are especially severe in poorer rural districts and amongst non-Lao Tai ethnic groups. Women living in poor villages in remote areas have much lower literacy rates and Lao language proficiency than men (World Bank Gender Profile, forthcoming). In the long-term, policies to ensure universal access to basic education will be vital for equipping all citizens with the basic skills and literacy required to more easily engage with extension workers, traders and any others outside their village. Policies to build standards of basic literacy amongst women could include incentives: for male, and especially female teachers, to work and remain in rural schools; building new schools and improving physical access to them, paying particular attention to suitable locations and means of transportation that are women-friendly; and gender training to teachers, including on issues related to sexual harassment.

162. Kabeer, N., Van Anh, T.T. (2002), *Leaving the rice fields but not the countryside: Gender, livelihoods and pro-poor growth in rural Vietnam*. In Razavi S. (ed.) *Shifting Burdens: Gender and agrarian change under neo-liberalism*, Kumarian Press, Bloomfield.

163. Asian Development Bank (2008), 'A Gender Policy and Strategy in the Agriculture Sector', *Cambodia Agriculture Sector Development Program*, Asian Development Bank, Manila.

12.6.7 Access to input and credits

A more modernized form of rice-based farming, characterized by mechanization, high-yielding varieties, more intensive use of fertilizers and supplementary irrigation schemes, is being adopted in some parts of the country. This type of modernized farming typically requires access to credit, as up-front investment is needed to purchase fertilizer, high-yielding varieties and motorized equipment, for which the financial benefits will be not realized until crops are harvested. At present, it is predominantly men that control motorized equipment and dominate cash crops while women contribute significant but less visible labour inputs to production (World Bank, IFAD, FAO 2009).

The Government could work with the private sector, Development Partners and civil society to look at innovative ways of more generally providing financial services to women and the rural poor. The United Nations Capital Development Fund is supporting the Government in the 'Making Access to Finance more Inclusive for Poor People' programme. This type of initiative may facilitate access to credit enabling women to make the necessary investment required for more modernized farming methods that can enhance productivity. Establishing land titles is another potential mechanism for developing rural credit markets as land provides potential collateral to set against loans.

12.6.8 Access to information and markets

Smallholders in general, and women in particular, are likely to be in a weak position in negotiating terms and prices with powerful buyers because of limited experience and low levels of literacy. There are no systematic export promotion support services available in Lao PDR for producers, and little or no market information is provided in newspapers, on the radio or television (World Bank Gender profile, forthcoming). Problems of compliance with international food safety and phytosanitary standards are also significant. As a result, prices in the market are mostly controlled by 'middlemen'. For example, a major constraint to the expansion of the export of NTFPs is the fact that local collectors have weak knowledge of markets and prices, and hence either fail to get their products to market or sell their products at much lower prices to middlemen than directly to buyers. Many coffee smallholders participate

in contract arrangements with local traders and processors, often selling their crop in advance and hence receiving significantly lower prices. Women's especially weak bargaining position in the sale and purchase of goods and services is strongly correlated with their disadvantage in education and in access to transport. Traditional customs limiting women's mobility can further restrict their access to markets. Women are also more likely to market smaller quantities than men. They may face barriers to membership in rural organizations and cooperatives, which may further inhibit a channel to facilitate market access (Doss 2001).¹⁶⁴

In recent years, communication technologies have proved very effective in bringing product market information to both women and men, which benefits women more than men because of their lower mobility and literacy. By facilitating better access to information, information and communications technology services have the potential to play an important role in transforming markets and making them sites of cooperation, in which otherwise disadvantaged producers and users of goods and services can interact without the intervention of large powerful intermediaries. Mobile phones, for example are increasingly used in many remote rural areas by women farmers to learn market prices for inputs and crops (for example the Grameen Village Phone in Bangladesh and similar such initiatives in Cameroon, the Philippines, Rwanda and Uganda). In Senegal the Grand Coast Fishing Operators Union, an organization of women who market fish, set up a website to promote their produce, monitor export markets and negotiate prices with overseas buyers before they arrive in the country (Hafkin and Taggart 2001, quoted in World Bank, IFAD and FAO 2009).

Measures to facilitate women's access to markets could also include institutional strengthening of women's groups and support for women's inclusion and influence in farmers' associations and trade unions. In the coffee market, there have been a number of recent initiatives in Lao PDR to promote producers' associations by improving technologies, helping in obtaining organic certification and negotiating better prices with buyers (Trade Development Facility Champasak Agribusiness Study 2009). Another promising opportunity is found in the tea sector offered by the Lao Forest Tea Initiative. This is a project that

164. Doss, C.R. (2001), *Designing agricultural technology for African women farmers*, *WorldDevelopment*, 29(12): 2075-2092.

seeks to achieve both environmental and social sustainability by protecting the biodiversity of upland areas and building on the indigenous knowledge of cultivation practices. Its activities include: supporting on-farm trials of improved organic tea cultivation models ensuring women share control over resources and access to income produced; facilitating the establishment of organically certified tea production groups that include women and ethnic minority participation in decision making roles; and supporting women's groups to engage in cooperative tea cultivation (including by training in basic organizational, financial and business skills).

12.7 Impact of agribusiness on the environment

Industrial agriculture and land concessions: The Government has specific policy objectives with environmental implications in granting agricultural land concessions, namely:

- Mobilize land resources that are un-utilized or under-utilized, bringing that land into use and contributing to economic growth.
- Stabilize shifting cultivation and reduce poverty by renting land out to investors and terminating access to less efficient farmers.
- Promote modernization of the agriculture sector through crop diversification, agricultural mechanization, modern agribusiness management techniques, and advanced agricultural technologies imported by foreign investors, with potential secondary benefits for the local environment and ecosystems.

The Government's efforts to accelerate agricultural modernization by promoting investment in agribusiness mega-projects also have had negative environmental consequences, namely:

- Most agribusiness mega-projects that include land concessions are cultivating a monocrop, namely *Eucalyptus* spp., rubber, cassava, coffee, oil palm, bananas or sugar cane. A few agribusiness enterprises have invested in diversified fruit and vegetable plantations (for example, mixed vegetables at Tha Taeng District, Sekong Province), but some locations concentrate on specific crops only (for example, cabbages on the Bolovens Plateau; sweet corn in Thoulakhom District, Vientiane Province; and bananas in

Lao Ngam District, Saravane Province and in Borikhamxay Province).

- The cultivation of monocrops can lead to: soil depletion and erosion; destruction of biological diversity; climate change and atmospheric degradation; pollution of water tables; plant disease epidemics of enhanced severity; loss of seed biodiversity and plant genetic resources; desertification; nutrient imbalances in soils; introduction of invasive species; loss of geographic and species inter-dependence; increased crop susceptibility to weather; poor land stewardship; extinction of native species; and increased use of pesticides.¹⁶⁵
- Plantations consume large quantities of both surface and underground water. Depending on the location, over-consumption of water will have negative impacts on water resources serving local ecosystems and nearby rural communities.
- Clear-cutting and mechanized clearing of land also often causes serious erosion of sloped areas unsuitable for cultivating tree crops in particular. The erosion causes the loss of valuable topsoil and turbidity in nearby bodies of surface water, making rivers, streams, lakes and ponds – often the principal source of water for rural communities – polluted and unusable.

The Rapid Trade and Environment Assessment (RTEA) (2007) report notes that further improvement is required in the agricultural trade and investment environment in terms of stabilization of shifting cultivation. The National Land Management Authority was initially focused on urban areas, leaving rural land tenure in a state of uncertainty in the short and medium terms. As a result, in some cases, land used by smallholder farmers for rice production and collection of NTFPs has been leased out as agricultural land concessions to (mostly) foreign investors. This has affected many poor ethnic minority smallholder farmers in several locations.

Lao PDR also has significant opportunities to use market incentives for sustainable agriculture. Since many smallholder producers do not use agricultural chemicals, MAF is committed to working with concerned agencies to obtain certification for clean agricultural products (that use IPM or other environmentally safe techniques), or organic, fair

165. Nelson, Scot. (2006), *Poly- and monocultures: the good, the bad, and the ugly trees for improving sustainability, resource conservation, and profitability on farms and ranches*. Kona, Hawai'i: University of Hawai'i at Mānoa. Accessed on 13 October 2011 at http://agroforestry.net/events/afwksp2006/pres/Nelson_Monocrops_script.pdf.

trade, and carbon-neutral products for export. To further assist smallholder producers, selected products will be registered with geographic indicators (GI) (for example, Arabica and upland robusta coffee grown on the Bolovens Plateau and selected indigenous rice varieties in the north). High-quality food and agricultural products are being promoted with a unique Lao brand that would also qualify for Fair Trade certification (for example, AGPC coffee). Such interventions and mechanisms provide a market orientation to the agricultural economy that can work for the rural poor.

With respect to NTFPs, the Rapid Trade and Environment Assessment (RTEA) study recommends further development, and particularly enforcement of laws, regulations and quotas. It also recommends: working towards more scientific and community-oriented management of forest resources; improving statistics on harvesting and exporting; increased awareness of the potential impacts on rural communities (such as through the Traditional Medicine Research Centre); ensuring that intellectual property considerations are adequately reflected in laws and regulations and improving the quality and quantity of NTFPs; and providing incentives for the private sector to sustainably manage these resources, such as through assurances of benefit sharing of any commercialized products. The report also recommended that an initial scoping study be completed on the opportunities and current status of certification in the medicinal plants and spices sector in Lao PDR and abroad.

With regard to conservation of protected areas, the RTEA recommended increased collaboration with neighbouring countries on the conservation of bordering protected areas and the control of illegal trade in endangered wildlife and plant species. This not only helps to protect rare and endangered species, but also contributes to the implementation of the Convention on International Trade and Endangered Species of Wild Fauna and Flora (CITES). Activities could include pilot projects in collection sites on sustainable harvesting and fair market access in accordance with CITES regulations, and improved customs procedures (through training on legislation enforcement) at the border.

In addition – and further to the NSEDP 7 policy

to “use pesticides and herbicides to protect crops,” – MoIC and MAF should establish a technical task force of specialists to prepare recommendations to the Government regarding the effective control of persistent organic pollutants. The same task force should strongly emphasize that the use of pesticides and herbicides advocated in NSEDP 7 for use in the agricultural sector will be limited to applications: (i) based on the principles of IPM; and (ii) using bio-pesticides and bio-herbicides that comply with FAO specifications.

12.8 Conclusions and recommendations

Policy framework for agribusiness

The direction of agricultural development is set forth clearly in the MAF Development Strategy (ADS) 2011-2020 and Master Plan for Agricultural Development 2011-2015. The ADS contains strategies for addressing most current global agricultural development issues including: increasing smallholder productivity; a major role for agro-enterprises in agricultural economic development; climate change mitigation and adaptation; connecting to markets; and ensuring economic, social, and environmental sustainability. The Master Plan presents a detailed action plan for implementing the ADS and modernizing the agriculture sector while achieving the goals required for the level of economic growth targeted by the Government.

Agribusiness is a key player in the agro-economic modernization and market expansion processes that will promote access for Lao products to regional and global value chains. The Government is expecting foreign agribusiness investors to partner with local SMEs, in particular to upgrade the quality of local agricultural products. FDI is expected to introduce industry-best production technologies, family- and community-based post-harvest handling, and value-added processing in rural areas, thereby phasing in good agriculture practices (GAP), good manufacturing practices (GMP), and SPS measures to ensure the quality of food and agricultural exports.

The increases in production per capita for crops, rapid diversification of agricultural exports, and strong growth in the agriculture sector between 1994 and 2009 represent the success of a combination of: (i) government policy ‘push’ through agricultural policies; and (ii) market ‘pull’

linked to increased demand from growing middle-class consumer markets in neighbouring countries (i.e., China, Thailand and Vietnam). Demand pull has been facilitated by trade liberalization (mostly through ASEAN) and cross-border agribusiness promotion schemes (for example, ACMECS). Despite rapid agro-economic development, Lao farmers remain producers of primary products and raw materials for processing in neighbouring countries, with little value added retained by domestic stakeholders in the value chain.

Agricultural land concessions

In spite of this, an estimated 1.5 million hectares¹⁶⁶ of land have been allocated to local and foreign investors and agro-enterprises that operate as large-scale commercial farms (plantations). Several are agribusiness investments that demonstrate the capacity of producers, collectors, traders/exporters and agro-processors to overcome the challenges of producing export-quality food and agricultural products and accessing regional and global value chains. In addition, assisted by ODA projects and agribusiness FDI, a number of domestic SMEs have successfully gained access to key high-value markets in East Asia and Europe for Lao agricultural products.

Therefore, successful prototype agribusiness ventures on which to model future interventions exist in each region. Similarly, several forms of contract farming have been successful that provide models that can be further adapted for local conditions elsewhere in the country in support of agribusiness development. Several of these prototypes are presented in a case study format as an annex to the MAF Agricultural Development Strategy 2011-2020. Based on these models, agribusiness interventions that include contract farming and community-based planting schemes do best in Lao PDR when organized with a high degree of corporate social responsibility.

In this context, Lao agricultural development has been fixed into a rigid development frame. Large concessions have been planted with tree crops such as rubber (commercial harvesting period is 25-30 years), fast-growing trees (Eucalyptus,

acacia; commercially harvested after 7-8 years); or tied to agro-processing facilities such as *Jatropha* (lifespan of 60 years), cassava, oil palm (lifespan of 22-25 years) and coffee (lifespan up to 70 years). As a result, the agriculture sector has lost the significant flexibility necessary to ensure that the agro-economy can adapt to changing market needs and volatile agricultural commodity prices as necessary. By having large areas of land and agro-enterprises, and large numbers of farmers tied to plantation crops, the ability of local agribusiness to respond to individual markets (for example, Halal, organic, fair trade and niche products) is weakened.

Traditional and emerging crops with potential for expanded agribusiness and export

Producers and agro-enterprises have recently made significant investments in several traditional and emerging crops (see Table 35) in response to high demand in neighbour countries, and East Asian and global markets. The emerging crops in particular represent a shift from natural resources-based agriculture and demonstrate the potential for future value-added processing in-country and expanding global markets. The agro-industries developed to process these crops have successfully overcome obstacles to doing business locally and, using innovation, can expand to generate additional employment and marketing opportunities for rural households.

The agribusiness enterprises and agro-processors operating in Lao PDR are faced with a persistent shortage of raw materials. As a result, a local form of agribusiness consolidation is underway for the principal crops. The largest agribusiness consolidators and the crops they assemble include:

Trade-related constraints to expanded agribusiness investment

Agribusiness exporters of fresh fruit and vegetable products report that the most serious problems they face include: (i) the transport of commodities and related logistics (integration of information, transportation, inventory, warehousing/storage, material handling and packaging, and security); (ii) certification (organic, Fair Trade, GAP, GI);

166. The land area of Lao PDR is 23,680,000 ha, of which the FAO states only 8 per cent (FAOSTAT, 2004) or 1.9 million ha is suitable for intensive agriculture (permanent pasture, arable lands, and permanent crops). The arable land under cultivation is estimated to be 800,000 ha for approximately 3 million smallholder farmers. This comprises 43 per cent of the intensive agricultural land, or only 3.4 per cent of the total land area. Rice is grown on 78 per cent of this land. MAF reports that an estimated 1.5 million ha has been allocated for land concessions, which is 6.3 per cent of the area of the country and 79 per cent of all arable land. An estimated 5 million smallholder farmers, therefore, occupy only 400,000 ha of the arable land.

Table 35: Traditional and emerging crops with potential for agribusiness expansion and export

Traditional	Emerging
Coffee	Sugar cane
NTFP	Vegetables: processed and organic
Sesame	Cassava
Maize	Bananas
Tea	Rubber
	Livestock / meat processing

Table 36: Largest agribusiness consolidators by crop

Commodity	Principal production locations	Major consolidator
Coffee	Champasack, Saravane, Sekong	Dao Heuang Group
Fresh fruit (bananas) and vegetables	Champasack	Pakxong Development Import-Export Enterprise
Sugar cane	Savannakhet	Mitr Lao Sugar Company
Fodder maize	Xayabury, Vientiane, Vientiane Capital	Local agents of Charoen Pokphand (Thailand)
Cassava	Borikhamxay, Vientiane, Vientiane Capital	Lao Indochina Company

and (iii) a reliable diagnostic laboratory that could conduct risk analysis and give credibility to Government documentation required for international trade.

Regarding certification, MAF reports having the institutional infrastructure in place to undertake organic certification, but claims it has insufficient human resources and financial capacity to operate a national organic certification programme. Currently, exporters of organic food and agricultural products are paying external organizations (mostly European and Japanese) to certify export commodities.

The border between Champasack Province and Ubon Ratchathanee (Thailand) is the principal export outlet for food and agricultural products in Southern Lao PDR. Local exporters report (October 2011) that an estimated 100-200 million baht (depending on the season; approximately US\$3.3-6.5 million or €2.4-4.7 million) worth of fresh fruit and vegetables are traded at this border daily. The export market facility at Ban Vang Tao, Phontong District, Champasack Province consists

of a makeshift group of structures constructed by a group of women traders, located about two kilometers from the Thai border. It is supplemented by a more permanent, but awkwardly positioned public market about one kilometer from the border.¹⁶⁷ In addition to the year-round daily export of fresh fruit and vegetables, in different harvest seasons through the year, coffee, maize, peanuts and other food and agricultural products are exported through this market. There is a critical need for a modern and well-organized and managed wholesale market at the Lao-Thai border at Ban Vang Tao. At one time the Champasak

Provincial Industry and Commerce Office had plans for developing a special economic zone at this border with support from Singapore investors, but no one is aware of the current status of that project.

The zoning of land for urban and industrial development and agriculture is critically needed in all provinces. Provincial planning offices of most provinces have designated industrial zones for future development. In most cases, these zones remain without any of the physical infrastructure (water, electricity, roads, communications, waste treatment, drainage) required to support agro-processing facilities. In the northern provinces, urban areas (usually located in small, narrow valleys) are expanding rapidly. This is due largely to tourism development that stimulates rural-urban migration of young people to pursue their studies and to work in the tourism and services sectors. As a result, the development of peri-urban agriculture is hindered. The establishment of agro-processing facilities is hampered in all provinces by a lack of clarity and transparency regarding official land

167. The supplementary market structure was constructed with support from an ADB loan project, the Smallholder Development Project (Asian Development Bank Loan 1949-LAO [SF]). The market was to be a primary market for use by smallholder farmers to sell their agricultural produce directly to Thai traders. It is currently being used by Thai and Lao traders as a market for mostly bananas from Saravane Province. The market is located suitably close to the Vang Tao border crossing (about one kilometre), but was constructed in a low-lying area that makes access difficult for heavily loaded trucks and that is prone to flooding.

development plans and zones designated for agro-industrial development.

Recommendations

(i) Crop-specific trade development strategies

A specific trade development strategy should be formulated for each of the traditional and emerging crops (see Table 35) with potential links to the expansion of agricultural trade and agro-enterprises using value chain analysis to identify local stakeholders and opportunities for innovation. Specific Government policies and ODA and FDI interventions can then be defined to support stakeholders in the value chain. Interventions in support of agribusiness development and agricultural trade expansion should be pro-active and not reactive. Selected interventions should focus on additional management training for middle managers on topics related to professional management systems, accounting, marketing, and quality control processes. For each crop, agribusiness managers should be trained in concepts such as hazard analysis and critical control points (HACCP), GAP, GMP, SPS measures, and technical barriers to trade (TBT).

(ii) Community-based post-harvest handling

The Agricultural Development Strategy 2011-2020 emphasizes the transfer of post-harvest handling technologies to producers to promote family- and community-based post-harvest handling of agricultural commodities. This approach will retain maximum value-added at the farm level. At the same time collectors, agro-processors, and agribusiness associations should be made aware of price structures that differentiate commodities of different quality standards. However, agro-processing of commodities for export should be undertaken by agro-enterprises to ensure quality control of final products.

To this end, MAF/NAFRI should conduct research on appropriate technologies for a variety of socio-economic and agro-ecological conditions in Lao PDR, and suitable methods of transferring post-harvest technologies to smallholder producers, including ethnic minorities, women and youth.

(iii) Role of MAF

MAF's mandate includes taking primary responsibility for coordinating and facilitating agricultural production by smallholder producers

and working with agribusiness associations. In the context of a more integrated regional and global trade dynamic, MAF should also take responsibility for the following tasks:

- Develop and apply criteria for selecting agribusiness investors, including land concessionaires, in an effort to attract more effective investment (i.e., investment that will promote environmentally neutral and equitable growth, while contributing to rural poverty reduction). Business plans for agribusiness investors should include provisions for 'triple bottom line investing'¹⁶⁸ that ensures sufficient financial returns while ensuring that investments contribute to social development and that is at least environmentally neutral. The Stora-Enso approach of tree farming in Savannakhet Province is a model for integrating a tree monocrop with smallholder inter-cropping and grazing.
- Undertake a detailed inventory of domestic and foreign agricultural land concessions including reviews of business plans, and conduct investment impacts assessments, to determine the local socio-economic and agro-ecological impacts of the investment.
- Play a proactive role in agricultural trade facilitation by working with smallholder producers to ensure a critical mass and predictable volumes of high-quality raw materials.
- Understand and internalize changes in global agricultural commodity market trends and global trade policies and adjust agricultural development policies as needed to deal with changing market conditions.
- Provide smallholders with timely market information about changes in domestic, regional and global markets, and provide guidance on the need to change cropping patterns if necessary.
- Work with existing agribusiness enterprises to strengthen farmer organizations by technical training, facilitating agricultural credit and micro-finance, and initiating SPS measures (required by global markets).
- Develop crop-specific production strategies (for both production and trade) for each major traditional and emerging crop (see Table 35) in an effort to help smallholder producers to adjust to volatile agricultural commodity prices.

168. See website: <http://www.tbli.org>.

- Establish farmers' organizations including farmer production and marketing groups that collaborate to produce a critical mass of raw materials to ensure collectors are willing to invest their time and effort into collecting the products.
- In consultation with MoF, MoIC and MPI, MAF should propose fiscal policy measures that provide incentives to domestic and foreign agribusiness enterprises to expand local processing of crops to retain maximum value-added in-country and to engage nearby rural communities in contract farming.
- The MAF Division of Investment, Department of Planning should be strengthened to include an agricultural trade section that should take responsibility for liaising with MoIC and MPI on agro-economic issues related to agricultural trade.
- A specific programme for mainstreaming trade in agriculture and forestry, and for increased coordination with MoIC should be established.

(iv) National Export Strategy

The National Export Strategy (NES) should be revised and be more agribusiness-oriented. The current NES only considers the production and export of selected organic food commodities. It should take into consideration and include separate strategies for increasing the export of traditional and emerging export crops (see Table 35).

- The NES should also focus on creating mechanisms for inter-agency cooperation to streamline procedures and institutional arrangements for issuing phytosanitary ('phyto') certificates (by provincial agriculture and forestry offices) and technical ('techno') certificates (by provincial science and technology agencies).
- More efficient procedures should be accompanied by a computer-based logistics management system to facilitate the planning and control of the flow of food and agricultural products through key border trading centres.

(v) Engaging agribusiness land concessionaires

The Government has allocated an estimated 1.5 million hectares of land to investors and agro-enterprises to operate as large-scale commercial farms (plantations). MAF should work to strengthen links between farmers' organizations and concessionaires, traders and agro-processors

to use contract farming as a tool to: (i) access regional and global value chains for food and agricultural products; (ii) transfer innovative techniques of agricultural production, pre- and post-harvest handling, and food safety technology to smallholder farmers; and (iii) access micro-finance to support systematic and continuous production of high-quality agricultural raw materials for value-added processing in-country and export.

- MoIC and MAF should work with MoF and MPI to formulate fiscal policy measures as incentives to investors to engage smallholder farmers through contract farming. The measures should aim to create 'pro-poor' and 'green value chains' linked to existing and pre-identified domestic, regional and global markets. The package of fiscal policy measures should include incentives to encourage agribusiness enterprises to expand local processing of crops to retain maximum value-added in-country.
- MAF should play a complementary role by taking the lead to organize smallholder farmer organizations and partner these organizations with the agro-enterprises.

The contract farming arrangements should be based on successful models currently operating in the country. Contract farming operated by forward-thinking and enlightened enterprises can accelerate the transfer of modern technology, particularly for pre- and post-harvest handling technologies. Given the right approach, subsistence farmers practicing natural agriculture can be converted into modern producers who adopt GAP and produce a consistent supply of quality raw materials, thus contributing to the modernization of the agriculture sector and to poverty reduction.

(vi) Promoting value-added coffee

Coffee is currently the country's most valuable agricultural export. The coffee exporters and producers associations and agribusiness enterprises in Champasack have demonstrated that significant added value can be retained in-country and retained by producers by processing, applying quality control measures, and certification (of organic and Fair Trade products).

To capitalize on the lessons learned to date, a five- to ten-year Coffee Master Plan should be prepared that proposes specific measures to train a cadre of

Lao coffee specialists, expand production, upgrade the quality of Lao coffee, obtain certification (organic, Fair Trade, Global GAP and GI), and expand global market share.

The Master Plan should include the establishment of a Coffee Institute that would offer specialized courses for public and private sector representatives interested in the production technology, agroeconomics, trade and value-added coffee processing. The objective is to create a cadre of Lao technicians and coffee trade specialists who can better manage the value-added processing of coffee to gain greater market share for Lao coffee and better prices for producers. The Coffee Institute should be a public-private partnership (PPP), with funds being generated from the coffee associations, agricultural land concessionaires producing coffee, the Government and ODA.

(vii) Wholesale markets

Wholesale markets are critical to facilitating and expanding trade and to a modern trade logistics system. Wholesale markets play a role in food distribution by encouraging competition by creating conditions for transparent price discovery at relatively low costs and by enhancing access to market information for various stakeholders. Wholesale markets require: the physical exchange of produce; sorting of produce on the basis of standard criteria, thus facilitating sales; formation of an equilibrium price for produce; exchange of information between suppliers and buyers; and risk management (price fluctuation risks). Combined with the full and strict implementation of the ADB-GMS supported Cross-Border Transit Agreement (CBTA) (negotiated through the ADB GMS programme in 1999), a modern and well managed border agricultural export market would facilitate border trade and be a significant step in overcoming the numerous logistical constraints to agricultural trade and agribusiness development. High priority should be placed on constructing a modern wholesale market at the Ban Vang Tao border market in Champasack Province to facilitate trade access to Ubon Ratchathane (a major agro-commercial hub in the southern northeast of Thailand) for producers and traders in the four provinces of Southern Lao PDR. The market should be operated as a PPP. Wholesale markets should be included in the NES.

(viii) Agribusiness associations

Associations can: facilitate producer links with markets; improve the management of commodity trading, processing and quality control; and promote contacts and contractual arrangements with agro-enterprises. Consolidation through agribusiness associations can also raise the competitiveness, quality, value and image of Lao products in international markets.

- Provincial associations of traders of fresh fruit and vegetables should be established (similar to the Coffee Exporters and Coffee Producers associations in Champasack, and the Rice Millers Association in Khammuane) in appropriate locations. High priority should be given to better organizing vegetable producers and traders in Champasack Province because of the high volume of agricultural produce traded through that province. These associations should work with the Government to address the following issues highlighted by agribusiness traders and commodity producers:

- Improving governance of tax waivers for agribusiness investment.
- Changing investment management regulations resulting in established agribusiness enterprises being in violation of their investment licenses.
- Modifying the five-year rule on making a profit, since many agro-enterprise ventures have more lengthy gestation periods (usually reflected in their business plans).
- Reviewing rules for importing improved varieties of seeds and plant material that are needed by large agricultural land concessions and their contract farmers, to enable the upgrading of indigenous agricultural products.
- Reviewing regulations related to the stocking of rice.
- Transferring industry-best agricultural production and post-harvest handling technologies to producers.
- Consolidating agro-industries (through associations) to create a critical mass of raw materials and to maximize economies of scale, especially in the use of expensive capital equipment.

(ix) Agro-industrial clusters

Agro-industrial clusters can extend complementary services to customers, manufacturers of similar

products and companies in industries related by skills, technologies and common inputs. Clusters can include public and private institutions, including universities, standard-setting agencies, think tanks, vocational training providers and trade associations that provide specialized training, education, information, research and technical support. Clusters arise because they increase the productivity with which companies can compete.

- Provincial governors and planning and investment offices should take the lead in organizing provincial task forces to accelerate urban and peri-urban land classification and zoning, prior to land titles being granted by the National Land Management Authority.
- ASEAN Agro-Industrial Estates should be developed in designated zones at major border crossings in the GMS, using Champasack Province border crossing with Thailand at Ban Vang Tao as a model. The Government could designate 'preferred development zones' in selected areas near border crossing points, where a one-stop service for processing of all aspects of trade services would be available. The objective would be to overcome the cumbersome, time-consuming and discretionary procedures currently in use.
- The industrial estates could be created around existing industrial facilities (for example, Beer Lao, the Saeng Arthit maize processor and exporter, Dao Heuang coffee in Champasack Province, and Lao Indochina cassava in Borikhamxay Province), to attract SMEs that support larger-scale agro-processing facilities (mega-projects). To promote agribusiness investments in the 'preferred development zones,' an ASEAN roadshow should be staged in Kunming, Hanoi, Ho Chi Minh City, Bangkok, Kuala Lumpur, Jakarta and Singapore, with the objective of promoting agribusiness trade and investment opportunities in selected areas of Lao PDR.
- Such an intervention would contribute to: achieving Government policy objectives related to the development of border areas with neighbouring countries; supporting and promoting domestic enterprises and entrepreneurs to undertake international business; elimination of constraints to full participation in the World Trade Organization and maximizing benefits from AFTA; the

establishment of agro-processing that uses agricultural and non-timber forestry products; and promotion of value-added production for export and transit trade.

(x) Regional cooperation

Regional groupings including ASEAN and the GMS provide opportunities for harmonizing SPS measures, regional certification of organic agricultural products, criteria for pro-poor agricultural trade and investments, GAP and GMP, and academic and institutional exchanges related to agro-economic research and development. The Government should take the opportunity to adopt industry-best standards already being used by China, Thailand and Vietnam, to gain access to high-value regional and global markets.

(xi) Extractive Industries Transparency Initiative

The EITI sets a global standard for companies to publish what they pay and for governments to disclose what they receive. The EITI consists of a coalition of governments, companies, civil society groups, investors and international organizations, who are committed to good governance and improving the management of investment in the agriculture and natural resources sector.

A similar code of conduct has been formulated by a consortium of international organizations comprised of the FAO, International Fund for Agricultural Development (IFAD), United Nations Conference on Trade and Development (UNCTAD) and the World Bank Group, related to guiding agricultural investments. The Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods, and Resources provides a framework for agribusiness enterprises to consider when planning their investments in agricultural land, water, grassland and forested areas in developing and emerging countries. These Principles continue to be discussed among key stakeholders, including international financial institutions.

The Government should consider adopting the principles of the EITI (without necessarily having to join the organization) to apply to agribusiness investors who seek agricultural land concessions. The Government should recommend that agribusiness enterprises investing in Lao PDR consider adopting and adhering to the *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods, and Resources*.

Box 14: EITI principles applied to agribusiness development in Lao PDR**EITI principles that are relevant to improving management of agribusiness trade and investments include:**

- The prudent use of natural resources should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction. As a result of the rapid (within less than ten years) granting of hundreds of thousands of hectares of agricultural land concessions, the Government should undertake to systematically and continuously evaluate the socioeconomic and environmental impacts of those grants to minimize negative effects. This is part of MAF's role mentioned above.
- The management of natural resource wealth should be for the benefit of all citizens in the domain of government and be exercised in the interests of their national development. To its credit, the Government has taken advantage of the regional development paradigm and opened up to FDI from neighbouring countries and the East Asian region. This process has stimulated growth and accelerated development in the ANR sector. Unfortunately, the effective FDI management systems are not yet in place and operational that would allow the Government to have a greater degree of control over private sector leadership in development of the ANR sector. MoIC should work with other concerned agencies to define measures for more effective directing of agribusiness FDI and to ensure that its benefits are pro-poor and inclusive of all sectors of Lao society.
- The importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability should be emphasized. Public administration reform in Lao PDR has made significant progress in raising the awareness of the importance of transparency and the failures fostered by corruption. Modern agricultural development and participation in regional and global value chains mandate the adoption by the Government of measures related to traceability, supply-side audits by third parties, credible internal control systems and certification procedures, and unequivocal enforcement of measures to ensure biosafety. Participation in formulating these important measures will foster a sense of ownership among stakeholders and aid in ensuring voluntary compliance, transparency and effective operation.
- The Government should recognize that achievement of greater transparency must be set in the context of respect for contracts and laws. The Government can easily re-position itself among high-quality investors by having national leaders emphasize – publicly and internationally – commitment to contracts and laws. In addition, the Government, following the example of China and Vietnam, should consider well thought-out demonstrations of law enforcement, showing respect for the rule of law. Such actions can lead to a more positive no-nonsense business image and provide confidence-building measures for public officials.
- Financial transparency will enhance the enabling environment for domestic and foreign direct investment. The application procedures for negotiating for land concessions should be reviewed and modified to make the application process less complicated and more systematic. In addition to reviewing lease rental fees and arrangements, the Government should mandate only one entry point for the submission of requests for land concessions and one authorized negotiating authority. Although the new Land Management Office is currently designated as the key coordinating agency, officials at other provincial departments have considerable experience and understanding of procedures and potential pitfalls. To date, the provincial agriculture and forestry offices (PAFOs) have played a negligible role in the allocation of land concessions in the ANR sector. As a result, complications have arisen and unintended negative social and environmental impacts have been experienced. PAFOs have the technical knowledge and baseline data required to ensure that many social and environmental mistakes are avoided. Similarly, the Provincial Department of Planning and Investment (DPI) has a mandate to scrutinize investment proposals for consistency with Government policies and to coordinate with technical agencies, and to facilitate investment applications. The existing capacity of these agencies should not be wasted.



13. TOURISM

Tourism has grown considerably in recent years. It is identified as a priority development sector in the 7th Five Year Plan and is recognised as a key “non-polluting” export sector in the Ministry of Industry and Commerce (MoIC) National Export Strategy. The Strategy gives tourism high importance because of: its high foreign exchange earnings; its ability to support the expansion of other services such as telecoms, banking, insurance and transport; its strong growth potential; and its ability to provide income and employment opportunities throughout the country.

There is little doubt international tourism has huge growth potential – and could provide far greater income and employment opportunities to a much broader percentage of the population, especially if backward links to the agricultural sector are fully exploited to reduce a high dependency on food imports. Public and private sector agencies, however, jointly report that a series of challenges – including a lack of high-level commitment to the sector and poor coordination between line ministries – combine to severely undermine growth and rural income potential. In some areas (including public awareness, marketing and promotion and dealing with negative impacts in Vang Vieng) the situation is causing many actors growing concern. Direct and strategic action to overcome these obstacles is required in several areas.

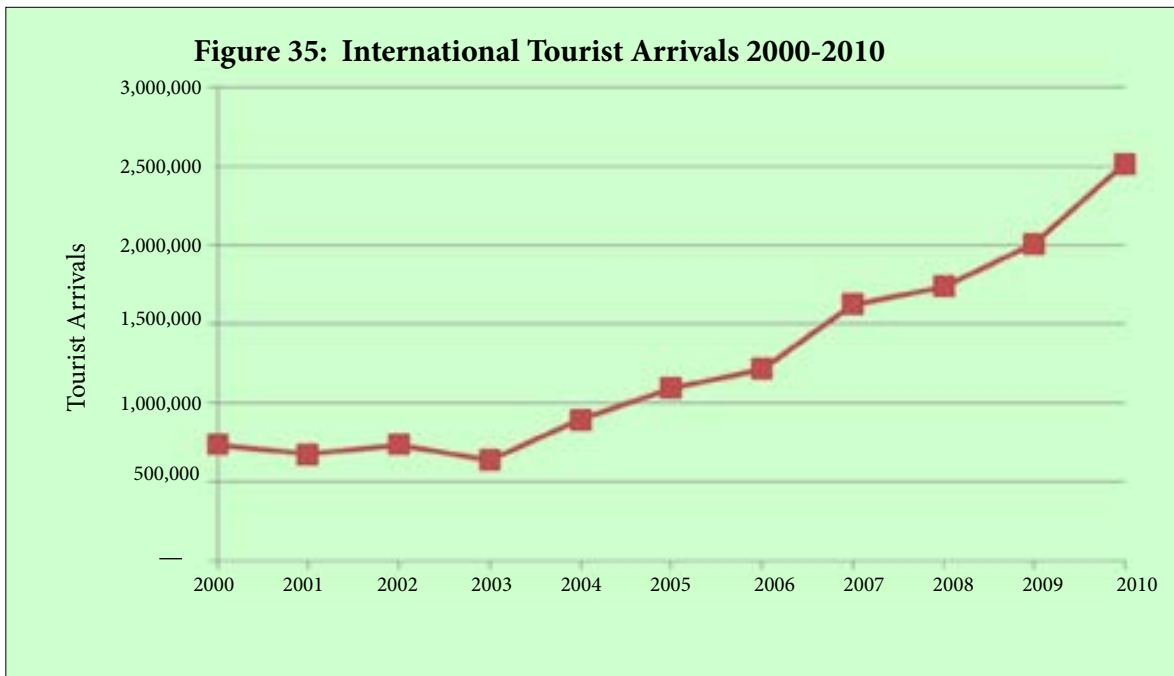
To maximise tourism potential the country needs to position and promote Lao culture, its cultural heritage, recent history and the birth of Lao PDR at the heart of its tourism product and brand. It also needs to work far harder throughout the tourism sector and fully commit to carrying approved policies through to implementation. Commitment to an ambitious but achievable vision and strategic policy tools offer the potential to completely reposition Lao PDR in the global tourism and policy arenas.

13.1 Background

In the well-formulated 2011-2020 Marketing Strategy and Plan the Lao Tourism Marketing Board (LTMB) has set a strategic goal for the sector to earn US\$1 billion by 2020. Figure 36 depicts the growth in earnings from US\$114 million in 2000 to US\$381 million in 2010.¹⁶⁹ Next to mining, tourism is currently the country’s greatest source of foreign exchange earnings. By way of comparison, and from a slightly lower number of overall visitor arrivals, it is interesting to note that in the same year Cambodia earned almost US\$1.8 billion – roughly four times more than Lao PDR. While this is largely due to Cambodia receiving a higher number of arrivals from Europe and North America, it clearly demonstrates what Lao PDR could receive in terms of yield if it were given the resources to better promote and position Lao tourism in the global market place.

Figure 34 illustrates the growth in international tourists to Lao PDR from 737,208 in 2000 to 2,513,028 in 2010 – while Figure 10.3 sets out arrivals by nationality for the top ten source markets. Figure 35 does not, however, include arrivals from neighbouring Greater Mekong Sub-region (GMS) countries. In 2010 arrivals from Thailand, Vietnam and China accounted for around 84 per cent of all arrivals. Thailand alone accounts for roughly 60 per cent of the market and Vietnam for around 17 per cent – a sizeable percentage of which is made up of day-trippers either to Vientiane or transiting through Savannakhet along route 9 between Thailand and Vietnam. Critics argue these tourists serve to distort the usefulness of the arrivals data – and stress that yield and the positioning of source markets rather than the total number of arrivals should be used as the definitive indicator to measure industry performance. In other words, greater emphasis should be placed upon increasing yield and daily spend, and efforts to attract the more lucrative markets identified in the Marketing Strategy and Plan, namely USA, France, UK, Japan, Australia, Germany and the Republic of Korea.

169. Unless otherwise stated, all data comes from the LNTA’s 2010 “Statistical Report on Tourism in Laos” or the “2011-2020 Marketing Strategy and Plan”.



13.1.1 Product

In terms of product, and beyond the sizeable and predominantly Thai day-tripper market mentioned above, Lao PDR has been branding itself as an ecotourism destination. Commitment to *hard ecotourism*¹⁷⁰ (that provides demonstrable links between tourism activity and biodiversity conservation, and supports local communities to participate in protected area management programmes)¹⁷¹ has however waned in recent years – not least due to the vagaries of development agencies changing the focus of their sector support, and also low government priority to the protected areas agenda.¹⁷² Nevertheless, a strong commitment to community-based tourism continues and, in comparison with other GMS countries, the 2011-2020 Marketing Strategy and Action Plan notes that, “Lao PDR ranks first regarding: ethnic diversity, way of life, mountains and waterfalls, adventure tourism and hospitality.” The Plan goes on to state, “people and traditions are the strongest differentiating factor for Lao PDR.” A strong association can be drawn between this statement and Lao PDR’s current and arguably most renowned destination, the former royal capital of Luang Prabang. By way of contrast with this emerging emphasis on Lao culture, it is noted the country is simultaneously developing casino tourism. Although not included or envisaged in national tourism plans and strategies, high-profile casino resorts have been developed in Savannakhet and Dannsavanh. Meanwhile a seemingly failed ‘Golden Boten City’ project in Luangnamtha is attracting controversy and negative publicity¹⁷³ and a proposed project in Bokeo Province will reportedly include its own private airport.

13.1.2 Access

Access is a key variable influencing the development of tourism. To promote growth and development that benefits hosts and guests alike, tourists must be able to: a) get to a destination; and b) move around the destination in an unrestrained manner. Recent political events in Thailand, including the December 2008 blockade and suspension of flights to and from Suvanabhumi, which affected non-GMS arrivals to Lao PDR in 2008 and 2009, illustrate the critical affect access has on the

market. Figure 37 depicts arrivals by province and the geographical distribution of visitors across the country. While Luang Prabang may be a key destination, the figure shows the Province is currently ranked 6th in terms of overall arrivals, with Vientiane Capital and Savannakhet receiving around 50 per cent of all visitors. The figure also highlights the significance and focus of the Thai day-tripper market and, together with Figure 38, illustrate that the vast majority of visitors arrive by road. As road and bridge building continues – and wealth and car ownership throughout the GMS continue to rise – the significance and influence of the East-West and North-South corridors on tourism and the economy will continue.

In terms of air access, Lao PDR currently has four international airports (Vientiane, Luang Prabang, Pakse and Savannakhet) and seven domestic airports. Upgrades to lengthen runways and enlarge aircraft parking areas in Vientiane and Luang Prabang are due for completion in 2012 and 2013/14, respectively. The upgrades will allow these airports to handle both larger aircraft and a growth in air-traffic. Lao Airlines will lease two Airbus A-320 aircraft in 2011 and commence new, thrice-weekly routes with four new hubs, namely Singapore, Guangzhou, Ho Chi Minh City, Seoul or Tokyo. Work is also underway to meet the 2015 deadline for the ASEAN open skies agreement. Opening up routes to competition will serve to “put pressure on the airlines to lower cost and to pass cost savings to their passengers. It is likely that low cost carriers will become more prominent in a liberalized environment, which will provide a stimulus for expanding the market.”¹⁷⁴ In other words, visitor arrivals by air can be expected to increase significantly in the coming years. Despite these efforts, however, there is considerable frustration within the hotel and tour operator sectors – with entrepreneurs: a) claiming that protectionist policies to safeguard Lao Airlines limit long-haul arrivals; and b) pushing for an earlier introduction of the open skies policy. Turning to domestic airports, upgrades are planned for Xiengkhuang, Seno District (Savannakhet) and Bokeo to allow for A-320 access. Agreements to develop new airports in Attapeu and Nok

170. As opposed to soft ecotourism, which provides few demonstrable links to biodiversity conservation and protected area management, and can also be described as nature-based tourism, and is arguably more aligned with “green washing and branding”.

171. As envisaged in: LNTA (2004), *National Ecotourism Strategy and Action Plan 2004-2010*.

172. In the Nam Ha Protected Area, for example, rubber plantations have become a common feature; the work of the multi-sectoral “Ecotourism Technical Cooperation Group” concluded in 2007.

173. Gluckman, R. 22/7/2011. “Bungle in the Jungle”. *Forbes Asia Magazine*.

174. World Bank (2009), “Laos: services, trade, development and international cooperation”.

Figure 37: Arrivals by Province 2008-2010

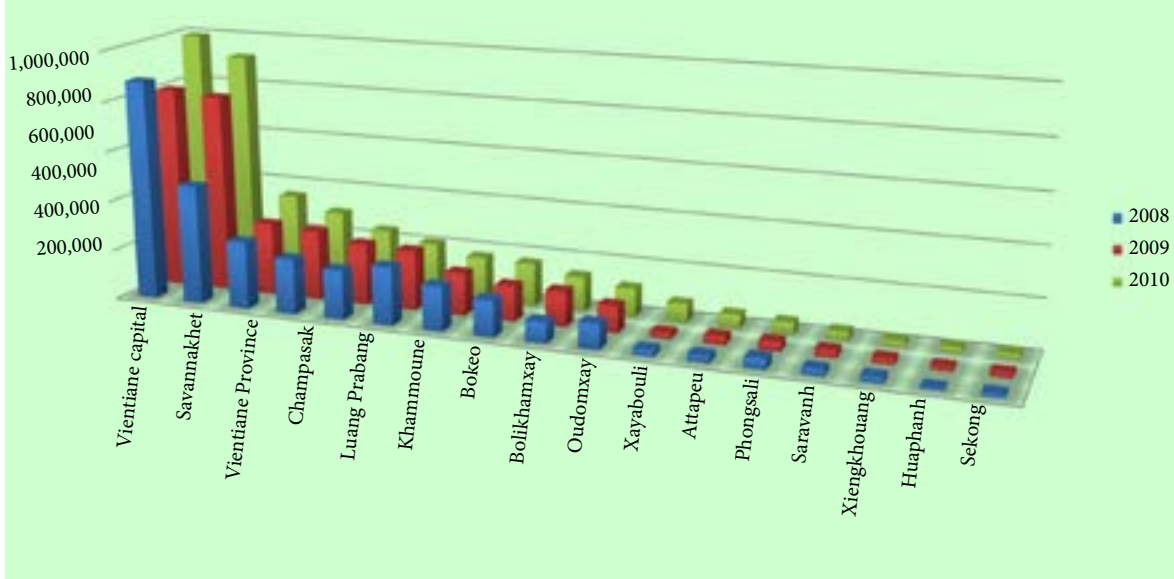
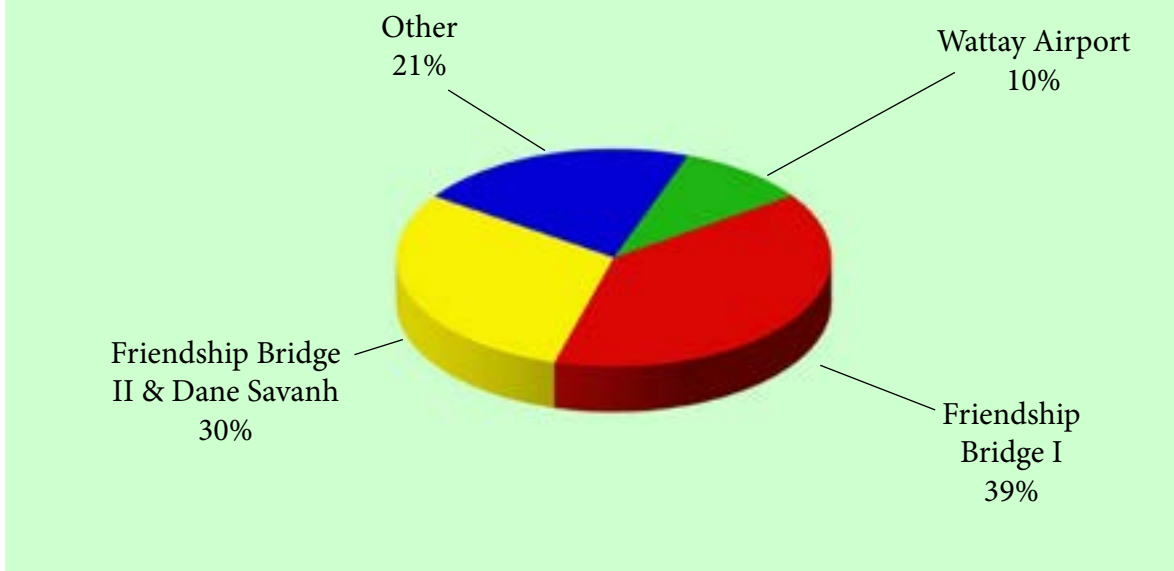


Figure 38: Percentage of Arrivals by Key Entry Points



Khan in Huaphanh have also been signed with the Vietnamese government. Collectively, these developments will play a key role in supporting the expansion of the tourism economy.

The data upon which some of the above figures are compiled is recognised by the Lao National Tourism Administration (LNTA) to be inaccurate and in need of review, and there is a need for more detailed data sets that relate to the size and value of the tourism economy. Improved collection methods are needed. Recommendations to strengthen a range of data collection methods to better illustrate, substantiate and prioritise the economic significance of the tourism economy are included in the conclusions below.

13.2 Key competitiveness issues

Five key issues heavily influence the competitiveness and market position of Lao tourism, namely: competition with other sectors of the domestic economy; marketing and promotion; human resources; the business enabling environment; and product price.

Competition with other sectors of the domestic economy

Along with agriculture, mining, hydropower and the garment industry, tourism is one of five key sectors of the Lao economy. In contrast to the high capital investment sectors of mining and hydropower, the tourism industry is complex,

fragmented and diverse. It is often a difficult industry to comprehend and unwieldy to coordinate as a development sector. It is made up of literally thousands of mainly micro, small and medium enterprises that embrace five sub-sectors (transport; accommodation; restaurant and retail; sports and entertainment; and financial services and tour operations). In the words of one interviewee, “*It is difficult for tourism to compete with mining and hydro-power for government attention because these other industries come to the centre and provincial governments with big budgets and big projects. They are top-down industries with big construction contracts, whereas tourism is made up of many small businesses and is a bottom-up economy.*” In terms of employment however, tourism is often quoted to be the world’s most labour intensive industry.¹⁷⁵ With the exception of agriculture, Lao tourism is likely to engage – or have the potential to engage – greater numbers of employees than any other sector. Current calculations are conflicting. The LNTA suggests the industry currently provides direct employment for around 40,000 people and indirect employment for around 380,000¹⁷⁶ – while a Lao tourism investment paper suggests these figures are around 17,000 and 167,000, respectively (around 5 per cent of the workforce).¹⁷⁷ This conflicting data suggests a need for more accurate research and figures. This point is taken up again in the conclusions and recommendations below.

Private sector actors in particular also express concerns with regard to the re-positioning of the LNTA with the Ministry of Information and Culture. The Ministry of Information and Culture is viewed as an agency regulating social rather than industry or business sector – and entrepreneurs are concerned that insufficient attention will be given to an already difficult business licensing and regulatory environment that exist in the tourism sector. Interviewees were unaware of any strategy behind the decision to align the LNTA with the Ministry. They typically draw parallels with a similar positioning in Vietnam,¹⁷⁸ and have concerns that attention will primarily focus upon efforts to control tourism’s negative socio-cultural

Box 15 The importance and value of marketing

In securing a larger marketing and promotion budget for Tourism Malaysia, Dr Victor Wee, Chairman of the Malaysian Tourism Board, argued that “what the government actually spends in terms of a 10% increase in the tourism marketing and promotion budget, it receives back more than 100 times this amount because marketing actions and activities translate to higher visitation and higher yields”.

impacts rather than promote the industry as a business activity, or position culture at the centre of the product and brand. The key point being, many respondents feel, that: tourism is losing out to other sectors in terms of government support, priority and importance; there is insufficient cooperation and understanding between the industry’s private sector and the Government; there is a lack of private sector confidence in the Government’s commitment to tourism; and steps are needed to improve understanding, synergy and cooperation between the culture and tourism sectors.

13.2.1 Marketing and Promotion

Despite huge progress in recent years, which included the New York Times positioning it as the number one country to visit in 2008, Lao PDR remains largely unknown and a poorly positioned destination in the global tourism market place.¹⁷⁹ In short, on-going effort is required to aggressively promote Lao PDR and Lao tourism to its key high-yield source markets (USA, France, UK, Japan, Australia, Germany and the Republic of Korea). Good news in this regard is the fact that a forthcoming issue of National Geographic Magazine will develop a feature spread on Lao PDR. It is critical that the LNTA has a marketing budget to attract, position and promote additional news-stories to capitalise on the market penetration this exceptional, high profile publicity offers. Conversely, however, while a detailed set of actions and activities to promote Lao Tourism to the above key markets has been identified in the 2011-20 Marketing Strategy and Plan, it is unable to implement these activities due to a lack

175. UNDP (2011), “*Tourism and Poverty Reduction Strategies in the integrated Framework for Least Developed Countries*”.

176. Oula, T. (2005), “*Study on Socio-Economic Impacts of International Tourism in Lao PDR*”, LNTA.

177. Focken, K. (2011), “*Tourism in Laos*”.

178. For example, when asked why tourism was being merged with the Ministry of Information and Culture, one tour operator noted, “*I think we are just copying the Vietnamese – it’s what they do there.*”

179. In a personal communication to the author, the joint owner of Intrepid, one of Australia’s largest tour operators, referred to Laos as “*increasingly a young persons’ destination.*”

of government budget and financial support to the sector. There is little doubt current budgets are inadequate and greater governmental financial support is required to position and promote: a) the unique selling points of Lao PDR as a destination to the global tourism market; and b) Lao PDR as a progressive destination seeking inward investment in the sector. The better the country promotes itself, the better it can compete in attracting both tourists and inward investment. Of the 2.5 million visitors to Cambodia in 2010, for example, around 25 per cent came from Europe and the USA – whereas for Lao PDR, less than 10 per cent of overall arrivals came from Europe and the USA. In other words, to maintain a competitive position in the global tourism market place and achieve its goal to earn US\$1 billion by 2020, Lao PDR needs to spend more on marketing and promotion. Furthermore, the spending increase on marketing and promotion activities identified in the 2011-2020 tourism marketing strategy will be recovered in higher revenues and yield.

13.2.2 Labour and human resources

Tourism is a labour-intensive service sector activity. It is also a relatively new activity to Lao PDR and the industry is faced with a series of human resource issues and challenges. Some tour operators, for example, note that tourism businesses are unable to compete with the salaries offered by the mining, donor / development and embassy sectors that attract the most skilled and able employees in the labour market – one indicator of a resource curse mentioned in Chapter 4. Similarly, to compete as a competitive tourism destination the country must provide quality tourism products and services. Semone (2011)¹⁸⁰ summarises the challenges facing the sector:

- *“the quality and scope of the country’s existing education and industry training provision is insufficient to meet the hospitality and tourism industry’s current and future labour needs;*
- *improvements in service quality are required to improve Lao PDR’s destination competitiveness and sector profitability;*
- *there appears to be demand by tourism enterprises for a variety of short term flexible training options;*
- *the existing workforce is deficient in on-the-job skills, motivation, problem solving abilities, and general communication;*

- *existing hospitality and tourism education programmes at the diploma and bachelor level face a myriad of challenges ranging from a lack of qualified instructors to substandard instructional materials and facilities; and,*
- *the hospitality and tourism industry is perceived as low paying and there is a general lack of awareness among young people of available career opportunities in the sector.”*

To address these challenges, the LNTA 2010-2020 “Human Resource Development Vision and Strategic Recommendations” defines three strategic pillars to augment improvements in service quality, namely: strengthening public sector leadership; improving stakeholder collaboration and coordination; and developing sector education and training provision. The LNTA Lao / 020 project is working to implement activities under each of these pillars, and the construction and operation of the Lao National Institute of Tourism and Hospitality as a public-private partnership offers the prospect of this initiative becoming a model for regional excellence and replication. While outstanding strides are being made in this area, this is not to say all human resource issues are being taken care of – the Lao Hotel and Restaurant Association (LHRA), for example, note that additional human resource support in other areas of the tourism economy are required to maintain competitiveness and meet market needs across the sector.

13.2.3 Enabling environment

Hotel owners and managers and tour operators note that the industry’s legal and regulatory environment has improved significantly in recent years. Observers argue however, that further improvements are required. One company operating tours throughout the GMS, for example, argues that smaller tour companies are not yet required to pay tax, which allows them to position tours in the market more cheaply than their competitors, while hotel owners complain of arbitrary implementation of tax rules and regulations, and a currently unworkable VAT system. One informed observer suggests the tourism sector has the worst of the country’s regulatory environment. According to the Asian Development bank (ADB) 2011 GMS Tourism Sector Assessment,¹⁸¹ “the IFCs 2011 Doing Business Report found Thailand to

180. Semone, P. (2011), “A Case Study: Enhancing Laos’ Tourism Sector Performance Through Destination Human Resource Development” *Asia Pacific Journal of Tourism Research*, DOI:10.1080/10941665.2011.617049.

181. ADB (2011), “Greater Mekong Sub-region Tourism Assessment and Roadmap”.

be the easiest place to start a business and ranked it 18 of 183 countries evaluated. In comparison, Viet Nam and PRC ranked 78 and 79 respectively. Cambodia ranks 147 and Lao PDR 171." The LNTA is also aware that improvements are needed in the business-enabling environment. The World Bank has recently been working with the LNTA to help simplify and streamline licensing requirements, and to harmonise and align the Tourism, Enterprise and Investment and Promotion Laws. Recommendations to continue this effort are included below.

13.2.4 Product price

The vast majority of tourists to Lao PDR visit the country as part of a regional tour. When selecting which GMS destinations to visit observers point out that both visitors and potential visitors will compare and contrast the price of Lao tourism products and services with those available in neighbouring destinations. Many tour operators suggest that Lao tour packages are typically 60-70 per cent more expensive than those available in neighbouring countries which, because decisions are cost-conscious, implies visitors, income and business are lost to other destinations. The price of vehicle hire and domestic air-tickets, for example, is regularly singled out as especially costly compared to other destinations. Bangkok car hire, for example, is around \$40 per day, compared to \$80 per day in Vientiane – while a Bangkok to Chang Mai return airfare is around \$100 compared to \$180 for a Vientiane to Luang Prabang return. While high prices may in part be due to Lao PDR being a landlocked country with higher import costs, some actors argue that more could be done to provide sector incentives or better support the agricultural sector to reduce a dependency on food imports.

13.2.5 Market Access

To gain access to tourism-related income and employment opportunities, local communities and entrepreneurs need: a reliable stream of visitors; knowledge and understanding of the types of products, services and experiences their visitors are seeking; opportunities to develop and practice tourism-related skills; and access to credit and financing to invest in and develop goods, products and services. While it is largely up to entrepreneurs and the private sector to respond to market opportunities, governments play a critical

role in creating and facilitating the conditions that allow tourism activity to flourish. Typical examples include developing roads and access, providing training and education, marketing and promotion, and initiating stakeholder coordination. In sites that are blessed with natural or cultural heritage resources and a steady stream of visitor traffic, such as Vang Vieng, which is positioned along a key transit corridor, communities may be able to respond to some market needs (such as basic accommodation and transport) with little assistance – while other needs (such as fresh fruit, western food and menus, and interpretation of a cultural monument) may be less straightforward to provide.

To help promote market access and grow the tourism economy the Lao Government is actively developing infrastructure – especially, for example, roads, airports, telecommunications and Internet access. It is also taking advantage of donor and development agency support. The award winning 1999 NZAID-UNESCO-LNTA Nam Ha Ecotourism Project is regularly cited as the first project to successfully promote poverty alleviation through community-based ecotourism in Lao PDR. Since this project, Lao PDR has benefitted from a series of other projects and programmes variously supported by the Asian Development Bank, Netherlands Development Organisation, the Wildlife Conservation Society, NZAID, WWF, GTZ, JICA, IFC Mekong Private Sector Development Facility and Lux-Dev. These interventions vary greatly in size, scale and sophistication – and have had varying degrees of success. The ADB's \$14.2 million dollar loan for the 2003-2007 Mekong Tourism Development Project, for example, operated in four provinces and built roads to Kwangsi Waterfall and Konglor Cave. It also provided a range of education and training opportunities to government officials, the private sector and local communities. The project was widely regarded to have greatly benefited a wide range of stakeholders – and its success led directly to a further five-year project (awarded as a grant as opposed to a loan) that is currently operating in nine provinces. In addition to product development initiatives the project includes a strong emphasis upon strengthening handicraft and other supply chain links. Given the poor road access to many of the country's provinces and potential destinations, as well as low capacity among government

agencies and local communities, such projects play a vital, often critical, role in stimulating market access to tourism-related income and employment opportunities. It can be argued the Government should be more direct and make specific requests for additional tourism-related development projects.

It is encouraging to note the increasing sophistication of donor projects. In addition to the Lao National Institute of Tourism and Hospitality (LANITH) programme, for example, the Swiss State Secretariat for Economic Affairs project implemented by the MoIC NIU in Luangprabang is breaking new ground in Lao PDR by seeking to improve food safety, develop workplace skills

in food handling and processing, strengthen backward links to the agricultural sector, improve the trade policy environment and increase productivity and export competitiveness. If successful the project will significantly extend and strengthen agricultural links to the tourism sector and reduce leakage of tourism earnings through food and silk imports. Lessons from this project should be applied to other provinces enjoying a growth in visitor arrivals. Put another way, there is a need for new and additional policies and programmes (including donor support) to enable rural households and provincial government to take full advantage of the growing income and employment opportunities the tourism sector

Table 37: Donor and development agency projects under implementation

Donor / Development Agency	Implementing Partner	Province(s)	Objective / Focus
ADB	LNTA	Vientiane Province, Luangnamtha, Huaphanh, Bokeo, Oudomxay, Xayabury, Saravane, Sekong, Champasack	Product development, capacity building, supply chain development, marketing, stakeholder coordination
NZAID	LNTA	Luangnamtha, Xiengkhuang, Borikhamxay, Khammuane	Product development, capacity building, supply chain development, stakeholder coordination
Lux-Dev	LNTA, Ministry of Education and Sports	Vientiane (with provincial training in key provinces including Luangprabang and Champasack)	Training and education in tourism and hospitality
JICA	LNTA	Vientiane, Savannakhet, Champasack, Khamouane	Product development, tourism marketing and promotion, stakeholder coordination
GIZ	LNTA	Vientiane-based Provincial support: Xiengkhuang, Xayabury, Phongsaly	Management support to LTMB Product development and marketing support to provincial tourism departments
Swiss State Secretariat for Economic Affairs	MoIC, ILO, UNIDO, ITC, UNCTAD	Luangprabang, Champasack	Strengthen backward links in organic agriculture and silk production
WCS	Nam Et Phou Louey National Protected Area	Huaphanh	Tiger conservation through wildlife tourism

can provide. This support is needed to maximise economic links to rural households and minimise leakage of the tourist dollar. Table 37 provides an overview of tourism-related projects currently underway in the sector.

13.3 M4P – poverty, gender and environmental linkage

As noted above, the tourism industry is labour-intensive with strong sub-sector (transport, accommodation, restaurant and retail, tour activity and entertainment, and finance) supply chain links to other sectors of the economy. It has also been pointed out that tourism is complex, diverse and dynamic and often not well understood by a range of actors, including governments, a relatively young private sector and local communities (who often have little understanding of the changing and differing demands of, for example, European, Japanese, American, Thai and Chinese tourists – who in turn travel with low or high budgets looking for different experiences). While the total market will have generic income and employment links to poor men and women and the environment, different market segments (niches) also offer different opportunities to provide focused support to the poor (some forms of community-based tourism), women (textile and handicraft tourism)¹⁸² and the environment (ecotourism and green certification).

Focusing upon gender issues, the GMS Tourism Sector Assessment and Roadmap notes that “women represent at least half of the sub-region’s tourism industry workers and hold 65 per cent or more of tourism-related jobs in Thailand and Viet Nam.” While this is seemingly positive the report goes on to note that, “Gender profile by job type varies considerably, with the majority of women employed in lower-skilled jobs paying lower wages. Observations in all GMS countries indicate that males tend to secure a higher proportion of managerial positions in government and private sector tourism enterprises. In Thailand 66 per cent of hotel and restaurant workers are women and the percentage of women employed as housekeepers in Lao PDR’s accommodation subsector is nearly 100 per cent. Despite lower wages and gender-biased pay rates that favour males, remittances from low and semi-skilled tourism workers are an important source of supplementary income

for rural households.” In other words, while it is positive that tourism provides many income and employment opportunities for women, more needs to be done across the sector to reduce gender bias and promote stronger, more positive images of female role models through niche markets and products.

The extent to which tourism can be used as a vehicle to alleviate poverty, promote gender equity, embrace minority groups, be environmentally benign and promote biodiversity conservation depends largely on the way it is planned, managed and promoted. When left to market forces destinations are unlikely to maximise, to the greatest possible extent, the socio-economic and environmental benefits the industry can provide. Box 11 provides a useful case study to illustrate this point.

There are many examples where Lao tourism initiatives have intervened to assist poor communities, reduce gender bias and protect the environment – some are included in the projects listed in Table 37, but they are not confined to donor/development agency projects – there are also many private sector initiatives.¹⁸³ The extent to which products can be developed and such links strengthened depends largely on the level of support given to the policy and enabling environment at the central, provincial and district levels. More can always be done to better promote and position the tourism sector – and ensure the strongest possible mutually supportive links with surrounding communities and ecosystems. As Table 37 above indicates, most interventions to date are focused upon product development, stakeholder coordination and marketing and promotion. This is because Lao PDR is still a relatively young and emerging destination. As the destination, together with its products and services become more established, more sophisticated interventions should come into play to strengthen supply chain and environmental links. An excellent example of this is the MoIC NIU SECO project in Luangprabang, which focuses upon building stronger links with the agricultural sector. As the tourism industry develops and expands, policies and programmes such as this – which link farming (the country’s most widespread economic activity) to the tourism sector – should be refined and applied in other provinces.

182. See for example www.ockpoptok.com.

183. See, for example: www.kamulodge.com/; www.gibbonx.org; www.kingfishercolodge.com; www.greendiscoverylaos.com/treetop/treetop.html.

Box 16: Ecotourism in Nam Et-Phou Louey

Left to market forces, the small number of tourists journeying along Road 1 visiting this remote area pass straight through or perhaps stop overnight, eat a meal in a local restaurant and then drive on. With the assistance of a donor and government project intervention, however, the local community has worked with the project and Vientiane and Luang Prabang-based tour companies to develop and promote a night safari journeying through the protected area to learn about the surrounding ecosystems, rural livelihoods and local beliefs and to spot wildlife.

Some 27 households are engaged in various (camping, guiding, boating, cooking, food supply, handicraft) activities related to the on-going management of the night safari. In addition to the direct income received for providing tour services, villagers receive an additional income related to visitor sightings of wildlife including tiger footprints while on safari. Starting from scratch, and after 1 to 2 years of operation, the project has provided around \$10,000 in new income to 14 villages. The product is set to expand from a single night / 2 day trip to a 2 night / 3 day trip. The 859 families from the initial nine villages increasingly understand the links between tourism, wildlife conservation and protected area management – and the project has been expanded to embrace 14 villages.

Fontana (2012)¹⁸⁴ notes that the tourism industry has significant potential to support the social inclusion of women, especially from ethnic minorities, but measures need to be put in place to ensure that their incorporation happens on terms that enhance their skills and status. Handicraft production is related to tourism expansion and tourism generally can also offer women job opportunities, both in the formal hospitality industry and in informal related services. Available evidence suggests that, although many women in Lao PDR are currently employed by hotels and guesthouses, food service providers and tour companies, they are under-represented in management positions. Transport and repair activities are almost exclusively male operated while it is common for women to be involved in more informal services such as operating food and drink stands. In addition to more standard forms of tourism, the development of ecotourism and ‘village’ tourism has the potential to bring resources to rural areas, but the gender division of labour and responsibilities in local communities often means that women and men do not share the benefits (or burdens) of local tourism equally. Local men are more likely to secure new income-generating and leadership roles, while local women are often engaged in lower-paid and lower-status activities such as providing meals and participating in cultural entertainment (Adams 2008).¹⁸⁵ Some initiatives (such as home-stays) may increase

their workload with little compensation because this additional labour is considered a ‘natural’ extension of women’s domestic responsibilities (LNTA 2006).¹⁸⁶ The LNTA received significant support for undertaking a Gender Assessment and Strategic Action Plan of the Tourism Sector (2006-2008) from SNV and LWU/GRID. However, it is as yet unclear how successful implementation of the strategy has been in addressing gender concerns (World Bank Gender profile, forthcoming). The industry has considerable potential to support the social inclusion of women, especially from ethnic minorities, but a number of measures need to be put in place to ensure that their incorporation into the sector happens on terms that enhance their skills and status and do not reinforce negative perceptions of their roles.

The tourism industry has numerous links to the environment that can be used in a positive or negative manner. For instance, there are opportunities to utilise the tourism industry to extract value from and help maintain Lao PDR’s natural biodiversity. In this regard the Rapid Trade and Environment Assessment (RTEA) (2007) study notes that it will be key to continue to maintain National Protected Areas, and more generally to promote genuine ecotourism initiatives. These arrangements assist through the private sector having an incentive to maintain the surrounding environment. There are various fora promoting ecotourism in which Lao PDR should continue to play an active role, such as

184. This section largely replicates Fontana, M. (2012), *Lao PDR: Mapping the gender dimensions of trade. A preliminary exposition*, World Bank, Lao PDR.

185. Adams, L. (2008), *The Socio-Cultural Effect/Impact of Tourism in the Ethnic Villages Along the Trek of Dong, Phu Vieng National Protected Area, Assessment completed for SNV Ecotourism Programme, Savannakhet Province*.

186. Lao National Tourism Association (2006), *International Tourism: Socio-Economic Impacts in the Lao PDR, Technical Background Paper for the National Human Development Report Lao PDR 2006*.

Table 38: Summary of government agency roles and responsibilities in the tourism sector

Government agency	Tourism interests
Ministry of Information, Culture and Tourism	A range of responsibilities associated with: <ul style="list-style-type: none"> - Policy issues - Product and service development - Management and regulation (including licensing of hotels, tour operators and guides) - Marketing and promotion - Research and evaluation - Management and promotion of culture and cultural heritage sites - Raising public awareness of the benefits and constraints of tourism activity
Ministry of Transport, Post and Construction / Department of Civil Aviation	A range of responsibilities related to: <ul style="list-style-type: none"> - Road safety and transport provision - Air transport policy and management including airport construction and upgrades - Tourist access to mobile and internet networks
Ministry of Agriculture and Forestry	A range of responsibilities to ensure: <ul style="list-style-type: none"> - Tourism activity supports biodiversity conservation in and around protected areas - Producers and suppliers of grain, meat, dairy produce, vegetables and fruit can benefit from trade links to the tourism economy
Ministry of Industry and Commerce	A range of responsibilities linked to: <ul style="list-style-type: none"> - Training skilled and semi-skilled employees suited to the needs of the industry - Developing teaching and training courses suited to the needs of the industry - Encouraging educational institutions to undertake quality tourism research - Promoting regional sporting events to attract regional and international visitors
Ministry of Finance	A range of responsibilities related to: <ul style="list-style-type: none"> - Evaluating income generated from the tourism sector - Allocating funds to government agencies with tourism-related agendas - Implementing tourism investment incentives - Promoting access to credit and business loans - Collection of taxes
Ministry of Foreign Affairs	Setting of tourist visa fees, rules and regulations
Ministry of Labour and Social Welfare	Responsibilities related to labour laws and working conditions in the hotel, restaurant and service sector
Ministry of Home Affairs	A range of responsibilities related to: <ul style="list-style-type: none"> - Immigration - The safety and welfare of tourists
Ministry of Health	Responsibilities related to the provision of healthcare services for tourists if they become sick or injured during their time in country

the ASEAN Tourism Agreement, the ADB Greater Mekong Subregion Sustainable Tourism Strategy, the Mekong Tourism Development Project and the World Tourism Organization. Ecotourism and sustainable tourism initiatives can also be promoted through certification in meeting key principles of sustainable tourism and ecotourism. There should also be continued strengthening of central/provincial cooperation in the sector, such as that promoted in the Lao Ecotourism Advisory Program. This includes cooperation between central and provincial institutions in the tourism sector and with the conservation community and forestry officials through the multi-sector Ecotourism Taskforce and the Sustainable Tourism Network.

However, the boom of tourism establishments can also have negative effects, such as through direct waste of from establishments and the transport of tourists. Strategies to mitigate this could include decreasing the environmental impact of tourism establishments through local sourcing of inputs (such as food), and more efficient waste treatment and processes.

13.4 National institutions: key roles and capacity requirements

While tourism is often seen as a private sector activity, government agencies are also key players in the industry's development and promotion, with some actors such as immigration officials and tourist police dealing directly with tourists, while others play a behind the scenes role (coordinating transport and investment, for example), and promote policy and enabling environments across different sectors and government line agencies. Developing consistent and compatible policy and regulatory environments across each sector, and ensuring that tourists are serviced efficiently with a polite smile, doesn't happen by accident – it requires design and understanding across government departments, and at multiple-levels within each agency. In other words there is a need for tourism-industry related knowledge and understanding within and across a range of government ministries beyond the LNTA and the new Ministry of Information Culture and Tourism.

Table 38 below provides a summary overview of the roles and responsibilities of Lao PDR's government agencies with regard to the development and promotion of the tourism sector.

Interviews with a variety of stakeholders reveal a series of issues and concerns relating to sub-optimal and inconsistent sector coordination. For example:

- Negative impacts related to Vang Vieng are poorly or inconsistently managed with very little enforcement of formal regulations related to drug use, tourist safety and noise pollution – or of informal codes of conduct related to dress and anti-social behaviour.
- Concern that Luang Prabang will continue to grow and expand with insufficient thought given to the surrounding 'green environment' or the markets it will attract, which may drive high spending markets away.
- A growth in the number of licensed tour companies resulting in more agencies chasing too few qualified staff and a relatively small tourism market.
- National Protected Area staff in Phou Khao Khuay preventing or obstructing the development of ecotourism activities that are approved by the LNTA and Department of Forests.
- Private sector actors complain of taxes that are poorly designed, complicated and sometimes unworkable.
- It can take six months to approve a restaurant licence – some provinces follow processes that are inconsistent with the current law.
- There appears to be very little coordination or activity to plan for the "Visit Lao PDR in 2012" campaign.
- Despite the Prime Minister's Office approval for a new (US\$1 and US\$2) tax on visitors coming into the country to pay for marketing and promotion activities, nothing has been implemented.
- Insufficient consideration is given to land use planning, which can, for example, result in an ecolodge being given approval only to find a rubber plantation, construction or mining site is approved literally next door.
- There is reportedly a growing incidence of bus scams being operated, whereby tourists are left stranded at borders or dropped at destinations they choose to visit – and no action is taken against such companies.

Having illustrated the common complaints of

various stakeholders, it is stressed the great majority of interviewees also recognise that the Lao tourism sector has made considerable strides in recent years. There is also little doubt the capacity of the LNTA and its ability to plan and coordinate the sector has significantly improved. Having said this, it noted that neither the LNTA nor the new Ministry of Information, Culture and Tourism have the financial or staff resources to take complete responsibility for coordinating and implementing all possible tourism sector policies and programmes. As in other countries, other government line agencies must assume responsibility for the implementation of tourism-related programmes that fall under their sector's remit and line responsibility. To build tourism capacity across government departments and help address these and other concerns, it is recommended that a Train for Trade programme in Sustainable Tourism Development be rolled out. Further justifications for this and the benefits it will provide are described in the recommendations and conclusions below.

13.5 Conclusions and recommendations

International tourism is a fundamental pillar of the nation's economy, currently delivering around 8 per cent of GDP. Either now or in the near future, it is also likely to employ – both directly and indirectly – more individuals and households than any other sector except agriculture. Over the last ten years the country has made great strides in developing key attractions and attracting inward investment. At least 14 provinces have benefitted from product development and marketing programmes – most of which had little or no previous experience of planning and coordinating the development of this complex and diverse industry. The Lao Tourism Marketing and Promotion Board's goal to increase tourism's earnings to US\$1 billion by 2020 is ambitious but achievable – as illustrated by comparisons with Cambodia, which in 2010 generated almost US\$1.8 billion – four times more than Lao PDR – from a slightly lower visitor volume.



Signboard outside the Ministry of Information, Culture and Tourism

Having moved away from concerted efforts and programmes to develop forms of hard ecotourism (that demonstrably benefit biodiversity conservation and protected area management) and aligned tourism with the Ministry of Information, Culture and Tourism, the country should seize the agenda and position and promote Lao culture and its cultural heritage at the heart of its tourism product and brand. As the new Ministry of Information, Culture and Tourism advocates on a signboard outside the Ministry (see above), *“Culture is an invaluable heritage from our ancestors. It is one fundamental factor of nationhood, the spiritual foundation of society. It is the guarantee of the perennity of our nation. It is the strength and objective of national development.”* The Lao Tourism Marketing and Promotion Board recognises the importance of Lao culture and Lao people to the integrity of Lao tourism and has articulated a well formulated strategy and plan to achieve US\$1 billion earnings by 2020. Other key projects currently being managed by the LNTA, including the ADB’s US\$10 million Mekong Tourism Development Project and the Lux-Dev tourism and hospitality management project, are also well placed to help achieve this key income goal. Additional projects and initiatives that position and celebrate Lao culture and promote the conservation of Lao cultural heritage should be embraced and promoted. A national public awareness campaign entitled, “Lao culture is worth a billion dollars” might be enacted by the Information Department of the new Ministry of Information, Culture and Tourism.

Against this positive outlook it is stressed that there is little room for complacency. A range of stakeholders from the public, private and development agency sectors report growing despair with a number of seemingly dysfunctional aspects of the tourism system, which have been outlined above. The key worry of the great majority of interviewees comes down to the single concern that the tourism sector is not taken seriously enough at the highest levels of government – and is losing out to attention given to the capital intensive mining and hydro-sectors. In other words they feel there is an overriding need to increase the standing and importance of the tourism sector, firstly at the highest levels of government, and secondly across government line agencies and departments at the central and provincial levels. To address these

concerns and further strengthen the sector the following four recommendations are made.

(i) Tourism’s contribution to income, employment and GDP

Current estimates of the number of people employed in the tourism sector, both directly and indirectly, are inaccurate and vary considerably. For any country, calculating the real contribution of tourism to GDP is complex and challenging – it requires a comprehensive economic database including detailed tourist consumption/expenditure data, sector-specific investment data and a national accounting matrix (input-output table/social accounting matrix) highlighting the flow of economic activities, along with considerable expertise in economic modelling. On the positive side, current methods used by the LNTA to calculate tourism-related foreign exchange earnings are relatively simple and cost effective to calculate. They provide a meaningful benchmark for future annual calculations and comparisons to determine if the tourism economy is expanding or contracting. Conversely, on the negative side, little attention is currently given to:

- Accurately assessing the number of people employed both directly and indirectly across the sector.
- Links between tourism and the wider economy based on an acceptable modelling strategy (such as input output modelling).
- Leakage from the tourism economy, which is an important issue especially in terms of making the sector more productive and building, for example, stronger connectivity to the agricultural sector and the rural poor.

Each of these are important considerations that should be factored into: a) measuring the overall size and contribution of the tourism economy to national development objectives; and b) illustrating to decision makers at the highest level of government the significance and standing of the tourism sector. This information is critical to informing policy and regulatory choices to maximise, to the greatest possible extent, the overall contribution of tourism to GDP and employment – with strong and on-going focus given to maximising links with other sectors of the economy and minimising leakage of the tourist dollar. To better calculate the contribution of tourism to GDP many countries

are moving to develop Tourism Satellite Accounts (TSAs) – a standardised system recommended by the UNWTO. Lao PDR has minimal experience with TSAs to date and it is not recommended that Lao PDR goes down this route now. It is, however, recommended that a tourism economist and accounting expert or university department, with experience of TSA systems and procedures, be contracted to work with the LNTA to undertake the following.

- a) Review current studies and methods used to calculate the number of people employed – both directly and indirectly – in the tourism sector.
- b) Assess alternative options and methods and, in partnership with the LNTA, design and undertake a research initiative to more accurately calculate the number of people directly and indirectly employed in the tourism sector.
- c) The study described immediately above should also assess the number and type of local jobs created in the tourism economy (for example: what type of employment is created; what standard categories are there; how many employment positions are there in different categories; what percentage of opportunities are full or part-time, permanent or temporary, skilled or unskilled; are men or women typically employed; what is the gender balance for different roles and posts; and what pay, benefits and conditions are typical). The study should consider both direct and indirect employment opportunities.
- d) Review and assess current methods used to calculate Lao PDR's overall tourism earnings and, if appropriate, recommend steps and processes to incorporate input output modelling to more accurately calculate overall tourism earnings and contribution to GDP – and identify key areas of the tourism economy where leakage of the tourist dollar occurs and where significant gains might be made in terms strengthening local supply chains.
- e) Review and assess current systems and procedures for calculating domestic, regional (GMS) and wider international visitor arrivals at the provincial level and, in partnership with the LNTA, design systems and procedures to more accurately represent these numbers.
- f) Make recommendations for additional procedures and systems that should be put in

place to prepare more policy-oriented data, and help Lao PDR prepare for a TSA system at a later date.

- g) Make recommendations to establish a tourism accounting working group that embraces key private sector associations (similar to, or in the same form as, a TSA committee) and assumes responsibility for generating economic data and formulating related policy recommendations.

The above research, information, systems and procedures are critical to inform and direct policy and planning decisions. Moreover, globally, while it is acknowledged there is an association between tourism and poverty alleviation, it is recognised the link is “neither automatic nor straightforward.”¹⁸⁷ Hence there is a need to know: a) what works in terms of the size and significance of financial flows, and where benefits are gained; and b) what does not work and where little or no benefits are earned or distributed – which involves understanding the extent to which current practices are delivering income and employment opportunities to local communities. This information is fundamental: firstly, to help replicate or improve upon current practices in different sub-sectors and supply chains; secondly, to help formulate policies and regulatory frameworks; and thirdly, to strengthen corporate social responsibility and guide private sector activity towards working practices that are inclusive, responsible and pro-poor.

(ii) Strengthen the Lao Tourism Marketing Board

The creation of a public and private sector tourism marketing and promotion board has been discussed in Lao PDR for many years. The Lao Tourism Marketing Board was established by an LNTA Resolution in December 2009 and convened its first meeting in July 2010. 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 maximises 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.”¹⁸⁸

In terms of roles and responsibilities Article 4 of the Resolution states:

- (a) “The TMB will provide ongoing strategic

187. UNDP (2011), “Tourism and Poverty Reduction Strategies in the integrated Framework for Least Developed Countries”, pp37.

188. LTMB (2011-2020), *Marketing Strategy and Plan*, pp2.

advice, recommendations and direction to the [LNTA's Marketing and Promotion Department] on:

- Marketing of Lao as a tourism destination for domestic and international tourists
- Development and Implementation of the Branding (logo, images, messages)
- Other Marketing tools and promotional collaterals
- On line marketing and Website
- Lao participation and attendance at tourism and travel shows, exhibitions and events
- Research, statistics and trends
- Tourism information offices
- Tourism awareness
- Challenges and opportunities for tourism marketing and promotion

(b) The TMB will provide ongoing strategic advice and recommendations for:

- Product development
- Licensing, standards and classification of tourism enterprises
- Policies, rules and regulations concerning tourism development.”¹⁸⁹

Articles 11 and 12 state that all members of the LTMB shall be directors of the Board, and goes on to state:

“The President is the Deputy Chairman of the LNTA, in charge of the LTMB.

There are two Deputy Presidents as follows:

- Assigned senior representative of the Lao Association of Travel Agents
- Assigned senior representative of the Lao Hotel and Restaurant Association

The other Directors are assigned senior representatives of:

- Ministry of Information and Culture
- Consulate Department, Ministry of Foreign Affairs
- Handicraft Association
- Lao Airline Company
- Tourism Working Group

- Director of LNTA Marketing and Promotion Department

The TMB may, upon the recommendation of the President, approve the appointment of other persons who have special expertise to serve as consultants or Directors of the TMB for such term and on such conditions as the TMB may approve. Such appointments are not ex officio and may be terminated at any time by decision of the TMPB.”¹⁹⁰

Discussions with a number of members of the LTMB and the LNTA confirm a strong interest in expanding board membership. It is strongly recommended that representatives from MoIC, the Lao National Chamber of Commerce and Industry (LNCCI) and the Ministry of Finance be appointed to the LTMB. Ideally the Board should be chaired by, or report directly to, a vice Prime Minister.

At present it is understood there is little if any regular or formal dialogue between MoIC and the LNTA. The MoIC National Export Strategy recognises the high value and contribution of tourism to the national economy, and is keen to develop synergies to strengthen the enabling environment, expand and promote the sector. The MoIC's inclusion on the LTMB offers a simple and cost effective opportunity to increase dialogue, understanding and cooperation between these government line agencies. It is highly likely the interests and expertise of the MoIC, especially in relation to business licensing, regulation and promotion, would strongly benefit the work of the LTMB and LNTA / new Ministry of Information, Culture and Tourism.

Discussions with a range of stakeholders including the LTMB, the LNTA, tour operators and hoteliers confirm a deep frustration with regard to the lack of progress to secure a working budget for the relatively modest, but fundamentally important, actions and activities identified in the LTMB 2011-2020 Marketing Strategy and Plan. It is reported that approval for introducing supplementary taxes (either through a 'bed tax' or US\$1-US\$2 visitor tax paid on entry into the country) have been approved by the Prime Minister's Office, but actions to implement these measures have not been carried forward into practice and implementation. The reasons for this are not entirely clear. As noted above, experience elsewhere confirms that astute and strategic spending on tourism marketing

189. LNTA 2009. "Resolution of Tourism Marketing and Promotion Board".

190. *Ibid.*, pp 4-5.

budgets translates into higher visitation and is returned to governments in terms of higher yields. To advance beyond this funding bottleneck and build better understanding and cooperation between the Ministry of Finance and the LNTA, it is strongly recommended the Ministry of Finance is also included in the LTMB. Inclusion of the Ministry of Finance in public private sector tourism marketing and promotion boards is standard practice in the vast majority of countries with successful tourism economies around the world.¹⁹¹

Introducing stronger private sector expertise and synergy into the LTMB is also highly recommended. It is reported that the last LTMB meeting included an approved motion to bring LNCCI onto the board. Given that tourism fares and events are regularly sponsored by Beer Lao, that it is one of the country's most recognisable brands and a key actor within the LNCCI, it is strongly recommended that Beer Lao also join the LTMB. Preliminary discussion with Beer Lao's Deputy Managing Director Commercial, Sales and Marketing confirms an openness to discuss the matter further. Other reasons for this recommendation include:

- The great majority of tourists to Lao PDR drink Beer Lao – hence a growth in visitor numbers equates to a growth in Beer Lao sales, both in Lao PDR and abroad, as tourists travel to other countries and return home and identify with the brand by purchasing it.
- Beer Lao has developed a hugely effective marketing campaign, which includes videos promoting their brand and the country – sharing their expertise, and advising the LTMB in this area could greatly benefit the tourism sector.
- Inclusion of Beer Lao on the LTMB would be viewed as innovative and creative, it would attract media attention (and could be used strategically to this end) both nationally and internationally, which in turn would inject some much needed encouragement, enthusiasm and energy into the sector.
- Beer Lao already sponsors many tourism-related fares and events – quantifying its commitments to the sector could play a critical role in convincing the Ministry of Finance it should move some way towards matching that contribution.

(iii) Enhance cross-sectoral coordination

The crosscutting and diverse nature of the international tourism industry imply no single government body can assume exclusive responsibility for planning the development of the sector. Rather, and as outlined above, many government line agencies have tourism-related roles and responsibilities. To help planning and coordination issues it is recommended that a Train for Trade programme in Sustainable Tourism Development be rolled out. The purpose of the training and guidance is two-fold. Firstly to promote a deeper understanding of the nature and structure of sustainable and responsible tourism, together with its benefits and limitations, to officials within different government line agencies and to senior government officials at the provincial level. A deeper level of the tourism industry understanding – with its market-oriented mechanisms and practices – will facilitate more coherent expectations as to what tourism activity is capable of supporting and delivering on the ground. Secondly, through this deeper understanding, the programme will strengthen cooperation and coordination in the planning and management of sustainable and responsible tourism across line agencies and between the central and provincial levels. In particular, improved coordination will lead directly to stronger links with other industry sectors and a reduced dependency upon imports, especially in the agricultural sector.

Dialogue with the LNTA and other stakeholders suggests a need to roll out a tailor made training and dialogue programme in Sustainable Tourism Development at three levels: firstly, to secretaries of key line agencies; secondly, to director generals who serve as line department heads within the government ministries; and thirdly, to key government officials at the provincial level. While these three target audiences can be defined as separate target groups, strengthened coordination may also result from mixing these audiences and improving dialogue between them. Whatever the mix, the programme would be designed in such a way as “to develop the skills of all stakeholders, encourage ongoing dialogue and support the introduction of agreed policies in various areas related to trade for development.”¹⁹² The programme will provide:

191. UNWTO (2010), “Restructuring of the Maldives Tourism Promotion Board.” & UNWTO (2010), “Budgets of National Tourism Organisations 2008-2009”.

192. UNCTAD Train for Trade booklet, www.unctad.org/trainfortrade.

- “A specific focus on the target audience: TrainForTrade projects for sustainable tourism are flexible, client-oriented and designed to deliver the most recent and relevant knowledge. They are underpinned by a needs assessment process (sectoral studies; identification of constraints and bottlenecks), followed by subsequent plan of actions devised with the beneficiaries.
- A comprehensive process: TrainForTrade projects are integrated processes, using training, advisory services and technical assistance (micro projects) to accompany developing countries towards a sustainable tourism sector.
- Multi stakeholder dialogue and participative decision processes: UNCTAD through the TrainForTrade programme serves as a facilitator in the policy dialogue and the decision-making process at the national and local level. It contributes to enhancing the importance of consultation and ownership for the key decisions on tourism.
- Networking and sharing best principles: The learning techniques enable participants to exchange experiences and best practices (either during the face-to-face seminars; or through the TrainForTrade distance learning platform). These activities and the organisation of regional study tours, stimulates the creation of formal and informal networks on sustainable tourism.”¹⁹³

The first steps towards the delivery of such a programme would be a thorough training needs assessment, not least to identify the specific target audiences for the tiered programme, followed by a thorough adaptation of UNCTAD’s generic training package and the production of a training programme unique to Lao PDR. To initiate the programme it is recommended UNCTAD representatives commence an opening dialogue at the highest levels of the LNTA / Ministry of Information and Culture. The programme should be promoted internally within the Government under the slogan, “Lao culture is worth a billion dollars”.

(iv) Review tourism laws, decrees, rules and regulations

Stakeholder dialogue with a range actors (including LNTA, tour operators, hoteliers, consultants and the World Bank) confirm varying degrees of

satisfaction and frustration with existing tourism-related laws, decrees, rules and regulations. It is also understood that within the LNTA there are differing opinions as to the consistency and quality of legal documents, and the practicality of procedures required, to establish and manage tourism-related businesses. While some private sector actors note procedures have improved over recent years, other parties suggest the tourism sector has the worst of the country’s regulatory environment. It is beyond the scope of this assignment to look in detail at, or even provide a summary review of, the current regulatory environment. Interviews confirm, however, that dialogue is underway within the LNTA – and with the World Bank – to substantially simplify procedures and align rules, regulations and procedures with other enterprise and investment promotion laws. Decisions as to the best way forward are expected once the LNTA completes its integration with the Ministry of Information and Culture.¹⁹⁴ Interviews suggest that current key issues and concerns relating to the regulatory environment include:

- The current tourism law is too broad and general in scope. It requires more focus and specific detail in many areas – especially in relation to adventure tourism and ecotourism, and new guidelines with regard to green and low carbon footprint standards and certification.
- The LNTA is keen to retain its authority of issuing operating licenses for hotels and tour companies in addition to the enterprise registration with MoIC, and would prefer investors submit their application for business operating licenses/ enterprise registration through LNTA before proceeding to MoIC’s approval or issuance of the Enterprise Certificate (other parties object to this).
- Critics of the above process suggest the LNTA currently requires applicants to meet substantial and cumbersome conditions before operating licenses are issued.
- Concerns related to investment procedures are related to the protection of domestic investors from competition, preservation of tour operator jobs for Lao nationals, and the amount of investor capital to be deposited in a Lao bank account before issuing a business operating license.

193. *Ibid.*

194. It is worth noting that, in addition to the LANITH programme, Lux-Dev also supports a law / legal programme in Lao PDR. Opportunities to link the law programme to the sector might be explored.

To resolve current issues, build confidence across the sector and establish a genuine business-friendly enabling environment (which protects local jobs and at the same times simplifies and aligns tourism with other enterprise and investment laws), a thorough review of all existing tourism-related laws, decrees, rules and regulations is recommended. The review should clarify the roles and responsibilities of related divisions and

departments within the LNTA. Some parties suggest the review should extend to a complete new canvass that allows all regulations to be rewritten. In the first instance technical assistance is required for a consultant to work with the LNTA and for other key stakeholders to write the terms of reference setting out the aims, objectives, scope, procedures – and precise outputs – of the review.





14. KEY EXPORT-ORIENTED MANUFACTURING INDUSTRIES

14.1 Textiles and handicrafts

Typical artisan crafts in Lao PDR are traditional textiles, woodcraft, bamboo crafts, ceramics, silver products and craft paper items. They maintain some link with traditional crafts used in daily Laotian life.

Statistics on output or employment in handicrafts are almost non-existent. However, based on various sources¹⁹⁵ it is estimated that the industry provides employment for an estimated 15,000 to 20,000 full-time workers, with approximately another 100,000 people engaged in the production of handicraft products to supplement their main (mostly farming) activity. According to World Bank estimates, the total export value of handicraft items including those sold to tourists reached about US\$10 million in 2010.¹⁹⁶ Because of strong economic performance in recent years (and given that most women still wear traditional skirts in offices and traditional ceremonies), the domestic market for handicraft products, especially woven textiles, has grown very rapidly. Precise data on the size of the domestic market do not exist, but based on the Lao Handicraft Association's estimates, the size of the handicraft domestic market including traditional skirts could be as high as three times that of exports, indicating a potential total industry value of US\$50 million.

Traditional textiles

Products. The weaving tradition in Lao PDR is ancient, and features unique techniques and patterns. Each locality has unique weaving and dyeing techniques and patterns, almost all using natural dyed cotton and silk yarns. In general, hand woven products are produced as clothes, home accessories and souvenirs. Some high-quality authentic works have been sold to museums and collectors' markets in US and Europe for very high prices.

Weavers from different ethnic groups, villages, beliefs and locations have their own patterns, providing the foundations for designing and making a wide range of products to appeal to both domestic and international markets.

Raw materials. The main raw materials used for textile production are cotton and silk. Cotton is mainly produced in Xayabury, Luangprabang, Savannakhet, Champasack and Saravane provinces. Due to the complexities and costs of transport, a large proportion of raw cotton is exported to Thailand. The product grown in Lao PDR is classified as 'short staple cotton' used for the weft yarn only. The 'long staple cotton' used for the warp is generally imported from neighbouring countries.¹⁹⁷

Three kinds of silk are usually used for weaving: (1) rough silk; (2) medium silk, which is widely used by the major Lao weavers; and (3) finest quality silk. The silk is produced in many villages in almost every province. However, there is only one Sericulture Center, which carries out the research on different varieties of Laotian silk.

The limited quantity of locally produced cotton and silk is considered one of the main impediments to the expansion of traditional textile handicrafts, especially for export, where local raw material is highly valued. It is estimated that local production of both cotton and silk can only meet about 10 to 20 per cent of the industry's demand.

Wooden craft, bamboo, and Posa paper

Wooden crafts are not well developed, and consist of a number of small-sized producers located in urban centres. Recently, some producers have targeted export markets and domestic tourists, but initial results are mixed. Most are facing problems either with product design or product quality

195. *Lao Artisan Craft*, UNIDO, 2001; DTIS, 2006, and UNHDR 2009.

196. This may be the value of all handicraft products including textiles, wooden products and jewellery.

197. In weaving, the warp is the set of lengthwise yarns that are held in tension on a frame or loom. The yarn that is inserted over-and-under the warp threads is called the weft,

resulting from poor dying facilities. Passing on traditional carving skills in wooden crafts is more difficult than in weaving.

Bamboo craft is widespread throughout the country, and both men and women are engaged in the production process. While men participate more in primary processing of the raw materials, women are more active in weaving, knitting and finishing. Most products are produced for the local market, including tourism. Although a few producers in Vientiane have been able to penetrate the domestic high-end market with quality products, they are facing difficulty in direct exporting due to high transportation costs.

The country has an abundant supply of raw material from bamboo forests. The majority of harvested bamboo is currently supplied to facilities in neighbouring countries after very primitive pre-processing activities.

Posa (mulberry paper) making is still in the early stages of development. It is estimated that more than 5,000 tons of Posa are produced annually, with the majority exported to Thailand without

processing into craft paper. Over the years, with support from Development Partners, the industry has been working on the development of new applications for paper, such as paper yarn and handbags.

Although handicrafts are recognized as a priority, a specific policy framework to guide development efforts is still lacking. Due to a wide range of important agendas – including poverty alleviation, rural development, women’s empowerment, preservation of traditional cultural identities, promotion of exports and micro and small enterprise development – it is very challenging to establish an effective coordination mechanism for the development of the industry.

Many key stakeholders have not tended to see the value in traditional crafts as intangible assets, and they have not used them in tourism activities. Recently, however, the Tourism Authority and Ministry of Industry and Commerce (MoIC) have collaborated more in co-organising trade fairs and tourism promotion events. This kind of collaboration should expand and continue.

Table 39: Strengths, weaknesses, opportunities and threats (SWOT) analysis of textiles and handicrafts

<p>Strengths</p> <ul style="list-style-type: none"> • Strong traditional values • Skilled weavers with attention to detail • Wide range of unique weaving techniques and patterns • High proportion of labour force engaged in traditional weaving • Successful exporters serve as models 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of coherent policy framework and effective coordination mechanism • Lack of support facilities to overcome common issues • Weak direct link between craft producers and international buyers • Lack of market knowledge and poor product design • Long lead time due to long production process • Insufficient local raw material affects quality and product image
<p>Opportunities</p> <ul style="list-style-type: none"> • Positive domestic economic outlook will most likely lead to strong domestic demand • Fast growing international tourism market segment • Established international image for Lao silk products • Rapid expansion of regional high-end market for traditional hand-made woven products • Strong demand for quality traditional textiles from international collectors 	<p>Threats</p> <ul style="list-style-type: none"> • Increased competition from other countries and substitution by low-cost mass produced products • Increasing competition for labour by other industries • Challenge in transferring traditional know-how from one generation to another

A lack of decisive government interventions to provide business development services to craft producers, especially those operating in remote areas, is another major issue. Wherever appropriate, strong and decisive government intervention (perhaps through mechanisms such as NGOs already active in this area) is necessary to assure the inheritance of traditional skills and products through appropriate government-led business development service (BDS) programmes.

A lack of support facilities for craft producers also restricts competitiveness. For example, a proper dyeing method could improve raw material quality of textile handicraft. These are common technical problems shared by various artisan craft producers. Public support to assist craft producers may be justified in overcoming these issues.

Key issues facing craft producers include:

- Shortage of local raw materials, particularly silk.
- Unavailability of skilled weavers. There is some anecdotal evidence that fewer young women are interested in learning or enhancing their skills in producing high-quality traditional handicrafts. To address this issue some specialized weaving training centres are being set up by the private sector.
- Difficulty in accessing formal credit. Most producers are unorganized, very small self-employed household businesses.
- Lack of capacity to meet the standards of importing countries. For example, large-scale Lao exports of woven textiles to Japan have to meet very strict Japanese quality certification, which includes labelling of raw materials and dyes, washing instructions, etc.
- Lack of awareness of traditional values and future potential.
- Insufficient understanding of market trends, especially in export markets.
- Lack of capacity in product design.

Because handicrafts have strong links with poverty reduction, employing a large number of people, especially rural farmers, they have attracted significant interest from the Government, Development Partners and international NGOs. Major progress has been achieved in the past few years. For example, some high-quality Lao products

are being sold to very high-end markets in Europe, USA and Japan. The industry has considerable potential if some of the key impediments can be addressed.

Future development policies and measures for textiles and handicrafts should focus on improving competitiveness in export markets through links with the international fair trade network, promoting use of the Internet as a marketing tool, building Lao brands, promoting participation in international trade fairs, improving marketing and product design skills through provision of practical training, and further developing producer clusters.

A development strategy for woodcraft, posa paper and bamboo craft should be built around making consistent, high-quality products for niche markets. Support measures should focus on improving marketing and product design capacity and knowledge of international markets.

Major actions to improve the competitiveness of the handicraft industry include:

- Promoting good practice in weaving to improve productivity.
- Improving design capacity through promoting the establishment of private design schools.
- Strengthening the Lao Handicraft Association in policy advocacy and promoting Lao handicrafts domestically and internationally.
- Addressing systemic export competitiveness constraints through partial subsidies of direct costs through an enterprise grant challenge fund.

14.1.1 Social impact of the handicrafts industry (poverty and gender considerations)

The handicrafts sector has significant potential to increase the income of rural households, including minority households which have otherwise limited economic options. The major products of the Lao handicraft industry are silk and cotton textiles, which are mostly woven by women, including women from minority ethnic groups living in remote areas. Handicraft production provides a good source of supplementary income, especially during periods of low labour demand in agriculture and, because much of it can be carried out at home, women find it easy to reconcile it with their domestic responsibilities. For these reasons, handicraft production tends to be ranked very high

in various assessments (for example in ITC 2005) for its poverty reduction and female employment generation potential. A few (often foreign) companies are very successful in exporting high-value products, combining traditional weaving techniques with western designs (and female weavers in these companies tend to enjoy a number of social security benefits).

14.1.2 Handicrafts' environmental impact

There are not many negative environmental effects from the handicraft industry (particularly silk handicrafts). However, there could be further room for improvement in the use and waste of synthetic dyes. The Rapid Trade and Environment Assessment (RTEA) study recommended using recycled waste water and upgrading technologies in processing.

Recommendations

(i) Disseminating best practices in handloom weaving

The largest part of the handicraft industry is engaged in small-scale textile production. Most of this is done with handlooms using silk yarn. Approximately 65,000 women are engaged in textile weaving, most of whom operate well below their potential: the quality of their output is variable and their productivity low. This intervention aims to address these constraints.

The upper end of the textile weaving production chain consists of approximately 10 to 12 larger weaving firms that are responsible for a large share of textile exports (US\$8 to 10 million per annum). These firms together employ about 1,200 to 1,500 weavers throughout the country. This intervention aims to engage these firms in an 18-month productivity 'benchmarking' process. The 10 to 12 upper end weaving firms would initially identify the productivity indicators they wish to collectively improve, then introduce the management systems through which they can monitor and record their achievement of these indicators on a monthly basis. After some time this is followed by anonymously sharing their individual performance against the same indicators with the other firms. This information is tabulated and plotted on charts and the best performers are requested to share the practices they used to achieve their good results. In this way several productivity best practices can be effectively and practically communicated among

the industry leaders, with the expectation that they filter down to the majority of weavers inside and outside of these firms. It is anticipated that this will result in the more widespread adoption of new technologies in hand weaving (improved looms), increased productivity and a significant leap in quality, all of which will improve the added value and export volume of silk products.

(ii) Stimulate the commercial market for textile design

Design is the most important input in any textile product. It adds value where better raw materials cannot. Fashions change every season, and with those fashions so do designs. Consequently, new designs are needed on a continuous basis for any textile enterprise to survive and grow. Currently this design function in Lao PDR is mostly provided by the owners and managers of upper-end textile weavers. Producing designs takes time and typically only 1 design in 10 is commercially successful. With growth in this industry it will no longer be possible for owners and managers to spend as much time on design; they will need to become managers of the design process. The aim of this intervention is to stimulate the emergence of a commercial market for textile designers in Lao PDR.

The intervention aims to facilitate the establishment of the first private sector design school in Vientiane. This may be done by identifying potential private investors (at least one up to now has expressed interest in this project) and facilitating their links with professional and accredited design training capacities in Thailand, with the ultimate objective of establishing a joint venture. The school would offer both short- and long-term courses in design for not only the textile industry but for the whole commercial market, including fashion, handicrafts, furniture and advertising. Graduates would enter into the market initially as employed designers and eventually, out of this pool, a set of 'freelancers' would emerge to meet the needs of the textile industry. Those who are engaged as teachers would be immediately available to work as consultants to the textile and handicraft industries. In this way design would be sustainably developed in Lao PDR.

14.2 Garments

The garment industry contributes about 10 per

cent of the country's annual US\$2 billion in export earnings and more than 30 per cent of total non-resource exports. The value of exports rose from US\$150 million in 1995 to US\$200 million in 2010. The industry, the largest employer in manufacturing, provides direct jobs for 27,500 workers and indirect jobs in supporting industries for about 2,500 workers. About 80 per cent of garment workers are women. The main products include trousers, shorts, shirts, jackets, dresses, swimwear, uniforms, sportswear and other knitted and woven garments.

Though important to Lao exports, compared to other developing textile and garment exporting countries the industry is very small. At the end of 2010, there were an estimated 55 factories producing for export and just two for the domestic market. In addition, there were about 40 small sub-contractors for direct exporters or producing for the domestic market. Based on their ownership structure, the direct export segment can be grouped three ways: 100 per cent foreign owned (27); joint ventures between foreign and local firms (8); and 100 per cent locally owned businesses (17).

The garment industry was the first manufacturing industry to attract foreign investment in the early 1990s, when the country was first opened up to

foreign direct investment. Key motivating factors behind investors' deciding to invest or relocate some of their production facilities from other parts of the World to Lao PDR at the early stage included: 1) duty free and quota free access to the European Union (EU), Norway and Canada under the Generalised System of Preferences (GSP); 2) cheap and abundant non-skilled labour; 3) availability and reasonable cost of land and utility; and 4) competitive fiscal investment incentives.

The majority of factories (up to 70 per cent) operate as cutting, making, trimming (CMT) producers based on orders provided by agents based in the region or their parent companies, which provide all fabric and other accessories, or perform some sub-contract work for larger firms. Their margins are increasingly being squeezed in the more competitive environment since the expiry of the multi-fiber agreement (MFA) in 2005.

The EU is by far the most important export destination for Lao garments. Exports to the EU account for about 75 per cent total exports in terms of value.

In the past 20 years the industry has coped with three major external shocks relatively well, including: 1) suspension of preferential market

Figure 39: Key players in the garment industry

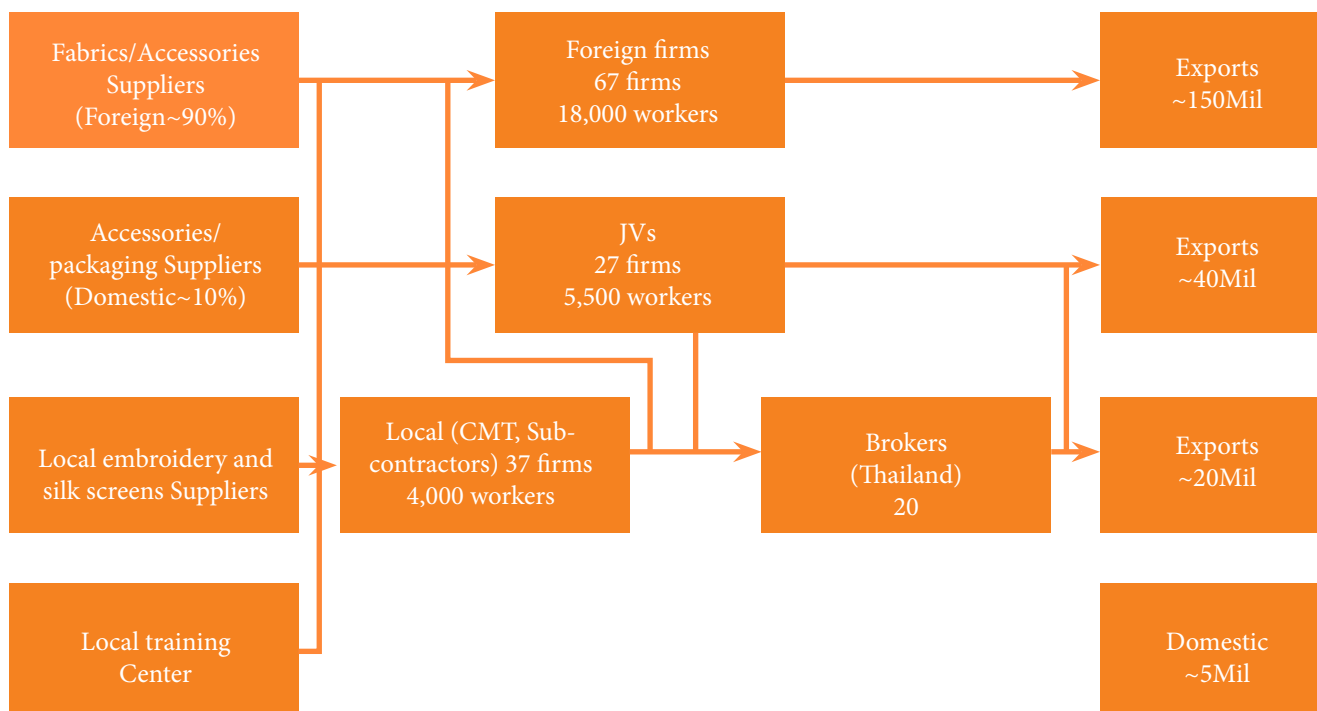
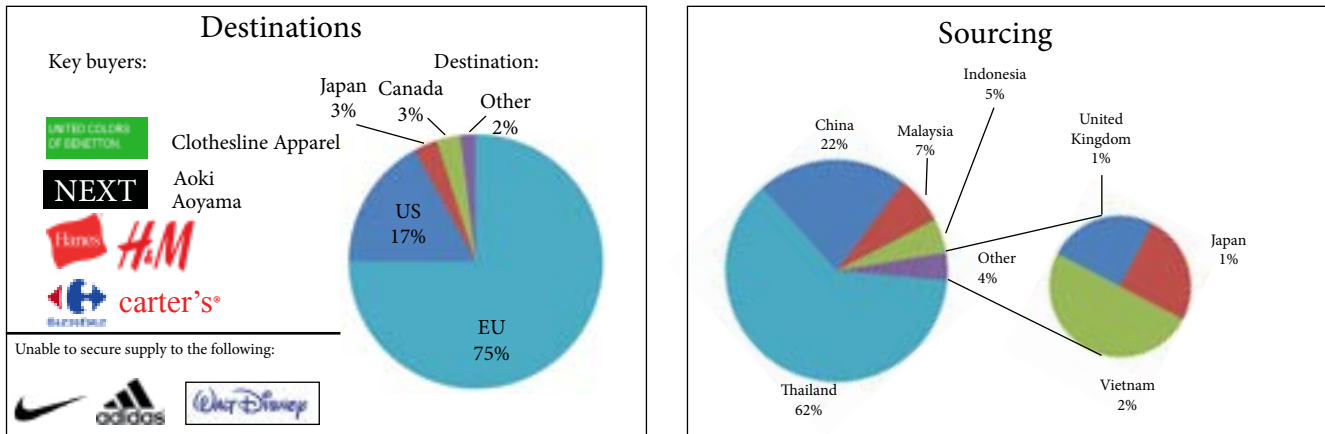


Figure 40: Destinations and sourcing in the Lao garment industry

Source: TTFPA Presentation, World Bank

access to the EU due to Lao exporters' inability to meet local content requirements, which were later relaxed by allowing Lao producers to use inputs from ASEAN, SAAARC and the ACP countries; 2) the end of the multi-fiber agreement; and 3) the reduction in global demand following the global financial crisis.

Under recently relaxed rules-of-origin requirements under the EU Everything But Arms (EBA) initiative, products manufactured in Lao PDR from woven fabric or yarn imported from the EU, ASEAN (except from Myanmar), SAARC and the ACP countries are considered as originating in Lao PDR under regional accumulation allowances. Fortunately, most garment producers in Lao PDR have close links to the Thai textile industry and the majority use imported fabric and accessories from Thailand. As a result, most garments made in Lao PDR qualify under the EBA. It is estimated that about 62 per cent of fabrics are sourced in Thailand, 22 per cent in China, and the remainder in Malaysia, Indonesia and other countries.

The Lao Garment industry weathered the global financial crisis and the end of the MFA expiry remarkably well. Interviews with industry leaders revealed that the limited impact of the post-MFA era and global financial crisis can be explained by the fact that majority of Lao producers have established strong relationships and trust with EU buyers. In addition, Lao PDR is seen as an important source of alternative supply to the main garment producing countries. The Lao garment industry is tiny compared to other developing garment exporting countries in the region. For

example, Lao garment exports account for only about 10 per cent of Cambodian and 4 per cent of Bangladeshi textile and garment exports. Lao PDR accounts for only about 0.1 per cent of the EU market.

The post-MFA environment has brought a number of significant changes to the global competitive environment of the textile and garment industry. Before 2005, the sourcing of clothing was largely influenced by quotas in the sourcing country. Sourcing now occurs increasingly from countries that are competitive in terms of cost, quality, delivery time, productivity and compliance with labour standards, and countries that have vertically integrated production of textile and garments will gain an important comparative advantage. Due to the significant investment required and the scale of operations, backward integration in Lao PDR – the production of woven fabrics – is hardly viable.

In addition, consumers are becoming more concerned about the conditions in which garments are made. This provides opportunities for buyers and manufacturers that apply national and international labour standards. Recently, a number of important international buyers including Nike and Adidas suspended their sourcing from Lao PDR due to concerns about conditions.

Preliminary findings of the recent World Bank study on labour practices and conditions in the garment industry revealed that labour practices and conditions vary widely across firms. Significant issues are found even in larger well-established firms, including poor enforcement of the labour law and minimum wage. Workers have very limited

information on their rights, resulting in weak bargaining power. These issues could potentially be key factors behind the current high labour turnover rate (about 50 per cent per annum), which negatively affects labour productivity. The study also proposed some concrete practical measures and longer-term recommendations to improve the current situation. The short-term measures include increasing the provision of drinking and washing water, and improving management and standards for dormitories and meals (for example, sanitation

facilities, light and air quality). Longer-term recommendations include improving information provision through labour market information systems, better formal and informal mechanisms for worker representation, and better sexual and reproductive health information services.

Being based in a small, landlocked country, the industry's excessive lead time is also damaging its competitiveness, as it takes 70 days from the time an order is placed to the delivery of a finished product. The global industry standard is 30-

Table 40: SWOT analysis of the garment industry

<p>Strengths</p> <ul style="list-style-type: none"> • Stable political environment • Comparable wages to Cambodia and Central Vietnam • Reasonable utility cost • Relatively good infrastructure in urban centres • Generous investment incentives • Low unionization • Relatively small industry, so it is easier to influence and 'brand' Lao PDR as a source (e.g., in standards, quality, and ethics) 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Low labour productivity • High turnover of labour • High transportation costs • High inventory levels • High financing costs because of underdeveloped financial sector • Lack of forward and backward integration leading to long lead times • Long lead time (70 days compared to international average of 30-45 days) • Lack of clearly defined industry strategy • Lack of local design skills • Lack of appropriate quality measurement facilities • Low population density • High living cost due to low domestic production of goods • Limited exposure to industrial environment • Unfavourable tax regime for sub-contractors • Complex licensing procedures
<p>Opportunities</p> <ul style="list-style-type: none"> • Duty free access to EU, Norway, Canada and Japan • Relaxed Rules of Origin (RoO) requirements • Close proximity to source of raw material and accessories • Close proximity to fast-growing economies with high income levels • Rising production costs in main exporting countries such as China and Thailand • Trainable workforce and ability to perform complex work • Strong weaving tradition 	<p>Threats</p> <ul style="list-style-type: none"> • Increasing competition in a post-MFA era from other low-cost producing countries that have abundant labour force, higher labour productivity, integrated textile industry, strong public sector export promotion programme, better physical infrastructure and lower logistics and transport costs • Increasing demand for quality and social standards by international buyers • Growing competition for labour from fast-growing resource, service sector and strong demand for low-skilled labour from Thailand • Appreciation of local currency against major trading foreign currency • Relatively high living cost in urban areas

45 days. Lao PDR undoubtedly suffers from its distance from major markets, a lack of supporting industries and inefficient inland facilities. Being landlocked imposes penalties on exporters in terms of both additional costs and additional time incurred. According to the World Bank study, the average cost of transporting an export container to a European or US destination from Lao PDR is about 50 per cent higher than from Thailand, which is within the range of average cost for landlocked countries. However, in terms of transit time, Lao exporters suffer more with an average time penalty much higher than the average for other landlocked developing countries.

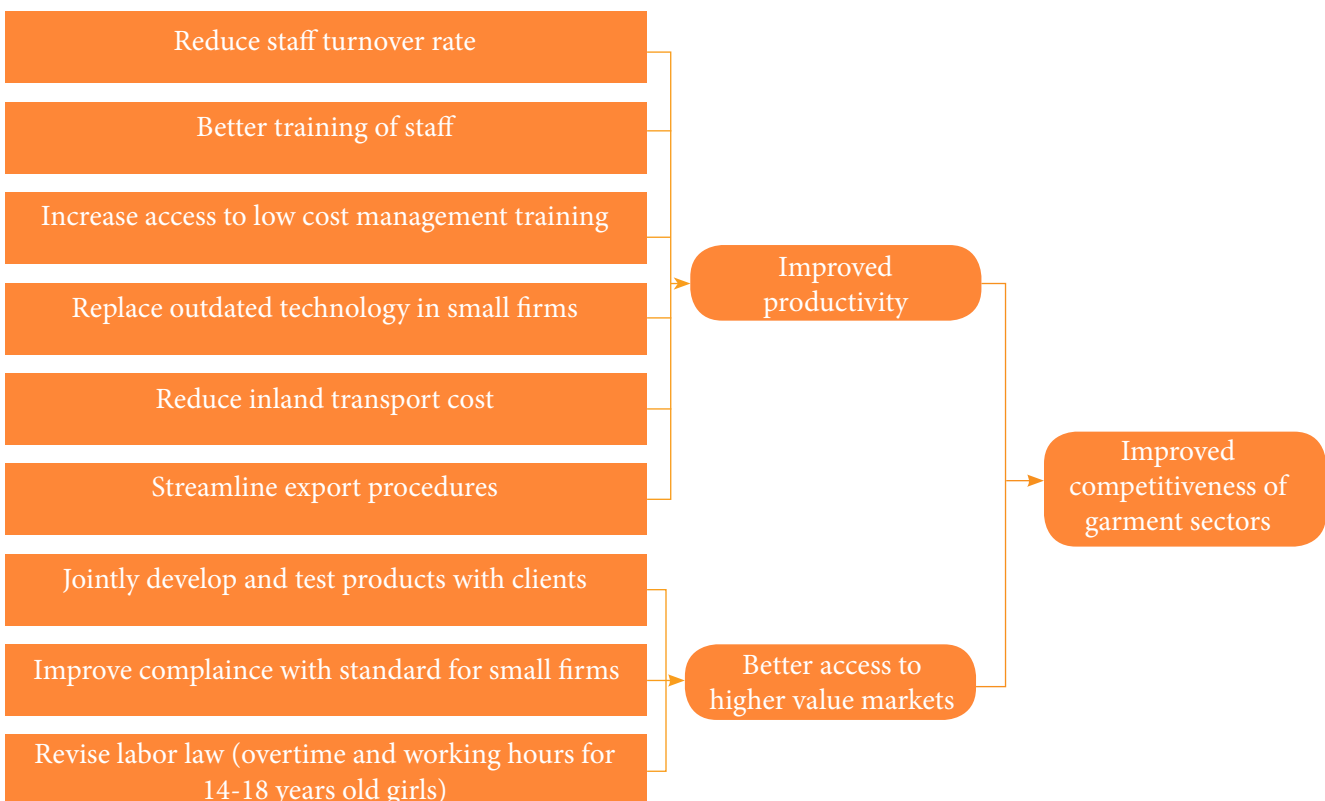
In addition to high inland transport cost, the Lao garment industry complains about the high cost associated with customs clearance at border checkpoints, especially the additional fees required to clear export cargo between 16:00 hrs and 21:00 hrs and on Saturdays.

The industry’s export performance in the post-MFA period demonstrates that it has been able to withstand increased competition despite fears that jobs could be lost on a massive scale. In the future, competitive pressure will come from rapidly changing domestic economic structure (the strong growth of resource exports – mainly electricity and minerals – leading to an increase in real

wages, appreciation of the currency, and increased competition for labour from both resource and service sectors); and growing demand for non-skilled labour from neighbouring countries, especially Thailand, as shown in Table 40.

The SWOT analysis shows that the overall comparative advantages of the Lao garment industry have been declining due to changes in the internal and external environment. It is clear that sources of future growth in this industry will mainly come from the improved productivity of existing producers and a shift to higher-value products. Some existing producers have been able to penetrate the niche high value-added segment. Japanese investors have recently relocated their suit production facilities from China, demonstrating that the Lao PDR garment industry will be able to penetrate and compete in the high value-added segment by focusing on products with high labour content such as multi-layered jackets, special wear, and hand-knitted garments. Future support measures should focus on improving productivity, enhancing marketing capacity, firms’ overall capacity to meet growing demand for quality and social standards, reducing the overall cost of doing business by reviewing the existing fiscal regime, and improvement in logistics and trade facilitation. Key competitiveness issues for the garment industry are summarized in Figure 41.

Figure 41: Competitiveness issues in the garment industry



Measures to consider include:

1. Continue supporting the Garment Training and Service centre and explore the scope of services in areas of certification, quality testing and design services.
2. Measures to enhance marketing capacity (provision of market information, participation in trade fairs) through an enterprise grant challenge fund.
3. Measures to improve producers' capacity to meet growing demand for quality and social standards (support for improving quality [ISO], certification programme (WRAP, SA 8000), better factories project).
4. Measures to reduce the overall cost of doing business by:
 - a. Reviewing the existing fiscal regime.
 - b. Improving logistics and trade facilitation (see Chapter 8), further reduction of inland

transportation cost between Vientiane and Bangkok, and expenses associated with customs clearance at border checkpoints could significantly help improve overall cost competitiveness of Lao industry.

- c. Reviewing the labour law.

14.2.1 Social impact of the garment industry (poverty and gender considerations)

The sector with the strongest potential for trade-related female employment generation is the garment industry. The garments sector is the most female-intensive sector in the Lao PDR economy, although it is still currently of modest size in relative terms. Working conditions vary. The garments sector employs around 27,500 workers (or about 1 per cent of the total labour force). About 80 per cent of the labour force in the garment industry is women aged between 16 and 25 who are mostly hired as unskilled and semi-skilled workers performing activities such as cutting, sewing,

Box 17: Survey of labour practices and conditions in the Lao garments sector

- Garment factory workers are mostly young women from rural areas seeking a better life and opportunities for themselves and their families. Factory work, although difficult and demanding, is considered less arduous and offers more opportunities for earning income than the alternative of working on family farms.
- Learning about big city life, making new friends and earning income motivates young women to continue working in the factories as long as they can. However, they often find it difficult to adapt to the long hours and demands of industrial work and they struggle to cover the rising cost of living in urban areas, build savings and send remittances to their families in rural areas.
- Most women have limited information on working and living conditions before they are recruited. As a result they are often quite overwhelmed by transition into industrial labour and urban environments. Furthermore, they appear to gain only a limited understanding of their contractual rights and obligations – even after recruitment – placing them at a distinct disadvantage when claiming benefits, negotiating improved working conditions and reporting unfair labour practices. Many workers complain of long hours with too much compulsory and poorly paid overtime. Even in relatively 'good' factories, there are complaints of insufficient drinking water, poor air quality and hot working conditions, poor sanitation facilities, and controlling and sometimes abusive behavior by supervisors.
- While the Lao Labour Law establishes basic standards such as minimum wages, restrictions on overtime, and entitlements such as maternity and sick leave, these appear to be only weakly enforced and there is very limited opportunity for third party arbitration or dispute resolution. Labour standards established under contracts with foreign buyers or international trading regimes seem to create stronger inducements for compliance. These systems of voluntary certification and periodic auditing appear to be insufficient, however, to counter some of the unfair labour practices reported by workers.
- Lack of collective bargaining or effective representation through existing mass organizations means workers have limited effective negotiating power vis-a-vis their employers. As a result, when individuals are dissatisfied, they simply quit their job.

Source: World Bank (2012) *Labor Practices and Productivity in the Lao Garments Export Sector*, forthcoming.¹⁹⁸

198. Fontana, M. (2012), *Lao PDR: Mapping the gender dimensions of trade. A preliminary exposition*, World Bank, Lao PDR.

packing and ironing. Employers and managers in this sector are rarely women and the few female-owned enterprises tend to be small, with more restricted access to financial resources than male-owned ones. Average wages in the garments industry are lower than in other industries where male workers predominate. Working conditions vary depending on a number of factors. Initial findings from a recent study (World Bank, forthcoming) paint a diverse picture, with some workers complaining of strict rules and supervisor harassment in some of the larger, export-oriented factories, while others reported greater satisfaction from working in smaller, Lao-owned operations because of their 'softer' family-style management – even when wages, benefits and physical working conditions are less attractive.

Some garment producers report not being able to meet demand from buyers, and identify labour shortages and difficulties in attracting and retaining workers as their main constraint (World Bank Investment Climate Assessment 2011). Reasons for the existing shortage appear to be migration challenges for young rural women, difficult working and living conditions in garment factories, the negative social status associated with being a garments worker and the higher relative wages for other unskilled jobs in Thailand.

New research on labour practices, labour productivity and firm performance is currently being undertaken by the World Bank, through a series of firm surveys and focus group discussions with garments workers. This research suggests that much scope exists for targeted investment and strengthened public-private partnerships to increase skills and productivity, and for interventions to improve management, working conditions and the representation of workers (Box 12).

14.2.2 The environmental impact of the garment industry

The RTEA (2007) study notes limited specific environmental concerns from the garments industry, with the exception of the transport of goods to market often by truck, and at times via airfreight.

Recommendation

Reducing staff turnover rates in garment factories

The global garment industry is very competitive,

and buyers have many options for sourcing their products. Manufacturing technologies are relatively consistent throughout this industry; it is frequently the people and their quality that make the difference in a buyer's decision. This applies to both the management and the workforce. The garment industry in Lao PDR has survived and grown even after the end of the MFA. In total there are now 127 garment factories producing US\$200 million worth of products every year, the vast majority of which is exported.

To remain competitive in this market, management needs to stay in touch with its client base to keep up with changing trends, and factory labour has to compete on productivity with Bangladesh, Vietnam and China. There are several factors that affect the productivity of the workforce, including quality supervision, appropriate technology, and larger order runs, but one of the most pressing of these is high staff turnover rates. Staff turnover is highest at the machine operator level, where it can be as high as 50 to 60 per cent per annum. The impact of this turnover is significant: it breaks down production line efficiency with continuous replacements; it takes away supervisory time to train new staff just to get the operators to a basic standard; and it prevents factories from meeting the ever-increasing quality standards demanded in the market. It is a problem that affects all garment factories in the country and is currently one of the most urgent.

Different factory owners and managers have their own views on how to deal with this problem of high staff turnover, including better accommodation for their workers, improved security, better management relations and better staff selection. The aim of this intervention is to support the Lao Garment Industries Association to develop a set of best practices to reduce the staff turnover rates in the garment industry by 20 per cent below its current levels. The aim is to work with 20 factories that are committed to staff turnover reduction and implement measures oriented towards turnover reduction. These measures would be financed by the individual enterprises and would then be examined for their cost-effectiveness and shared with the rest of the industry as a way to collectively address this issue. This intervention would last for 24 months and its indicator of success would be a clear, measurable and sustained drop in staff turnover for the whole industry.

14.3 Wood processing

The Lao wood processing industry contributes 40 per cent of the country’s annual US\$500 million non-resource merchandise exports (excluding electricity and minerals), up from about US\$110 million in 2000. The industry employs about 20,000 workers including those in supporting industries.

Wood processing is characterized by low value-addition and efficiency, the non-transparent allocation of logging quotas and low capacity utilization. To operate at full capacity, the wood processing industry would require an equivalent to three to five times the sustainable annual allowable cut. On present trends and without significant reform in promotion and regulatory policy and improvement of private sector capacity, the industry will be unable to contribute meaningfully to the economy in the near future.

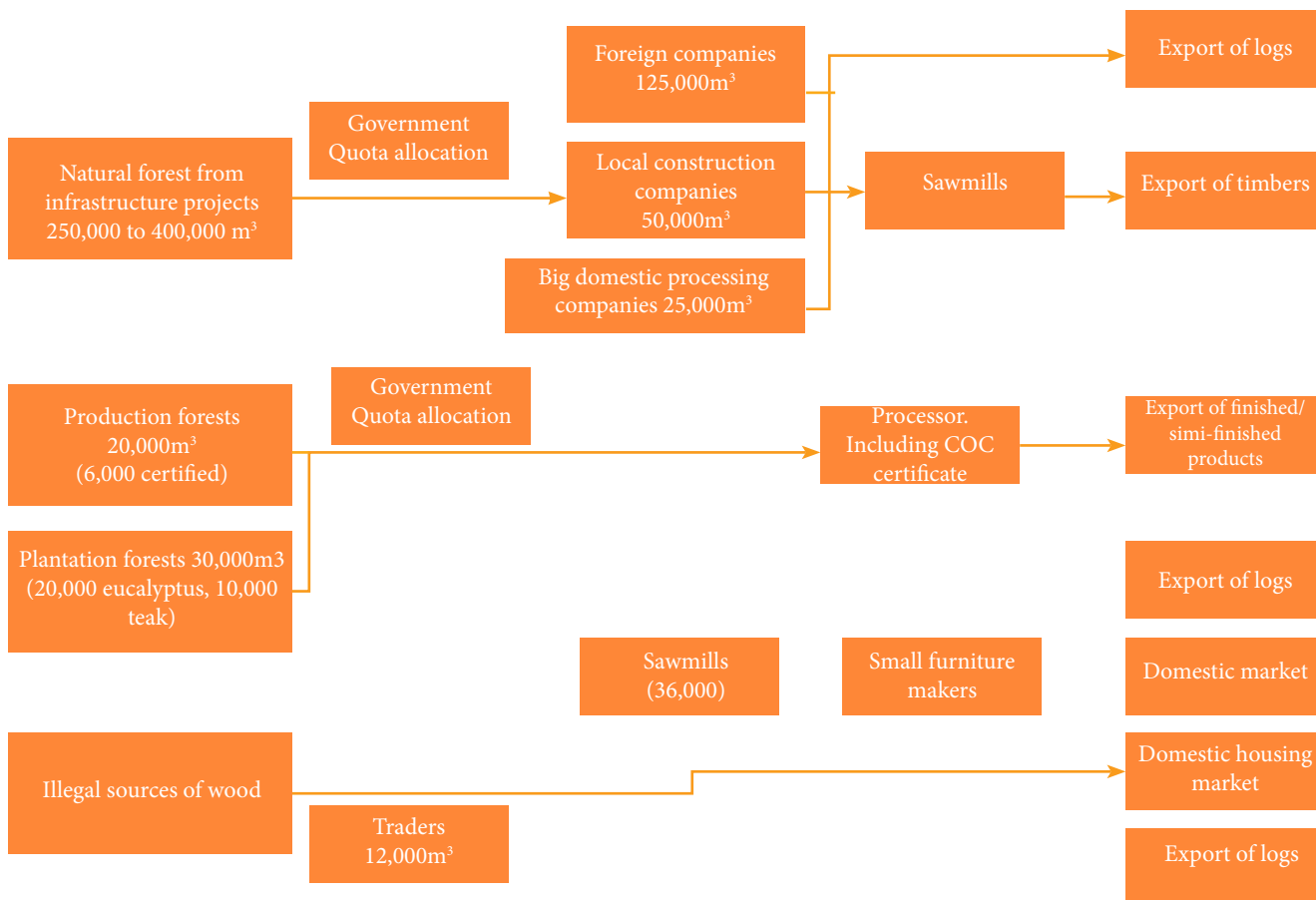
Products

The main semi-finished product is sawn wood, which is sold on the domestic market and to small factories producing finished products that do not have log quotas or sawing capacity of their own.

The finished products can be broadly divided into four categories: joinery products; flooring; furniture; and handicrafts. The first two categories are the main raw materials for further processing in larger sawmills. Some furniture factories buy logs and saw them, while others purchase sawn wood and other raw materials on the local market. Most furniture factories are small, but they make up the largest number of enterprises, accounting for 655 of a total of 945 wood processing enterprises (MAF, 2011). The main joinery products are sawn timber for construction, wall and ceiling panelling, door and window frames, and doors. Flooring products consist of both parquet and strip flooring. Output from furniture factories ranges from relatively low-priced bedroom and living room units produced in large quantities, to standard designs and chairs and sets of traditional Lao chairs, benches and tables, made from solid wood and commanding a high price.

Apart from the domestic market, the principle markets for Lao wood products are in Thailand, Vietnam and China, with small amounts going to the EU and other countries. Although there

Figure 42: Key players in the wood industry



is an official ban on the export of logs and sawn wood, Lao timber is still mainly exported in the form of logs or different kinds of primary wood processing products. These include sawmill items, with additional minor quantities further processed into strip parquet flooring, furniture and other secondary wood processing products.

There are significant differences between the different sources of official export statistics and the mirror import statistics for the main countries importing Lao wood products. For example, for the latest year for which data is available (financial year 2006/7), MoIC data shows exports with a total value of US\$72.53 million, while the Customs Department shows US\$45.86 million, and importing countries report US\$201.8 million for 2006 and US\$105.5 million for 2007.¹⁹⁹

According to detailed import data of wood products by major importing countries such as Vietnam, Thailand, China, Japan and EU presented by the Lao Sustainable Forestry and Rural Development Project (SUFORD), round sawn and squared wood accounts for about 95 per cent of total imports from Lao PDR, while manufactured wooden products account for only about 5 per cent.

Some of the main challenges facing businesses include high financing; the cost of raw materials (associated with upfront payment for logs and sawn wood); labour costs (resulting in the need to recruit foreign skilled workers); export administration (which is expensive and time-consuming); and land transport costs to Thailand.

Interviews with industry representatives revealed that export procedures for processed wood remain lengthy and costly. On average it takes about 10 days to complete all the paperwork for export. This entails significant resources on the part of the exporting companies, who must allocate staff for export clearance procedures. Usually this process involves a number of people, including significant management resources, to oversee the documentation process. Unofficial payments at every step of export clearance are still common and unofficial fees generally exceed official fees.

A more fundamental problem is the lack of investment in the secondary wood processing industry, either by the existing wood processing industry itself or new entrants. This is for a number of reasons, including uncertainty in raw

material supply, the lack of strong business links with processors in neighbouring countries, and restrictions on FDI.

One prerequisite for the long-term sustainable development of the industry is greater certainty about the future supply of raw materials. Without this, investment in production facility and human resources becomes difficult, and existing industries are forced to take a short-term approach, neglecting strategic competitiveness in both domestic and international markets.

Strict enforcement of the ban on the export of logs and sawn wood could potentially stimulate investment in the secondary industry by both existing and new entrants. It would be supplemented with a medium-term plan for the supply of raw materials from all main sources, including production forests, plantations, land clearance related to agriculture, road construction and hydropower projects. This could potentially lead to natural consolidation of the industry, which could in turn gradually achieve the promotion of high value-added processed wood products. Sustainable forest resource management could be pursued by lowering output and raising the productivity of the primary industry, whilst raising the capacity and productivity of the high value-added secondary industry.

It is advisable to keep a window open for new innovative, serious enterprises to enter the secondary processing industry (however restrictive policy regarding entry into the primary processing industry should be maintained), as these enterprises may introduce new technology, products and markets.

During 2007-9, an estimated average annual quota of 300,000 cubic meters was issued by the Government. About two thirds of logs came from hydroelectric power projects and the remaining third came from production forests, plantation and land clearance related to agriculture and road construction projects. Of the latter, 80 per cent came from production forests.

The Forestry Department estimates that the annual allowable cut from 3.6 million ha of production forest (of which 1.9 ha is heavily degraded) will be between 200,000 to 300,000 cubic meters. Half of these will be new species of wood that have not been used widely. The volume coming from land

199. SUFORD, 2011.

clearance related to infrastructure and investment projects in hydroelectric power and agriculture will be hard to estimate. Most current plantations are developed by international investors linked to pulp paper or cellulose fibre production. In the near future, the estimated harvest from plantations owned by smallholders is unlikely to exceed 5,000 cubic meters a year.

Another major issue is the current discretionary and distorting log quota allocation system, which results in an unfair allocation of quotas, creates uncertainty for individual enterprises and deters investment in secondary processing. The Government has introduced both direct allocation and a system based on competitive bidding, but the initial application of the system has not produced desirable results. A more competitive system would result in the survival of the most competitive and the closure of less competitive firms. This would support the much-desired reduction in capacity in the industry.

The situation of the wood processing industry is summarized in Table 41.

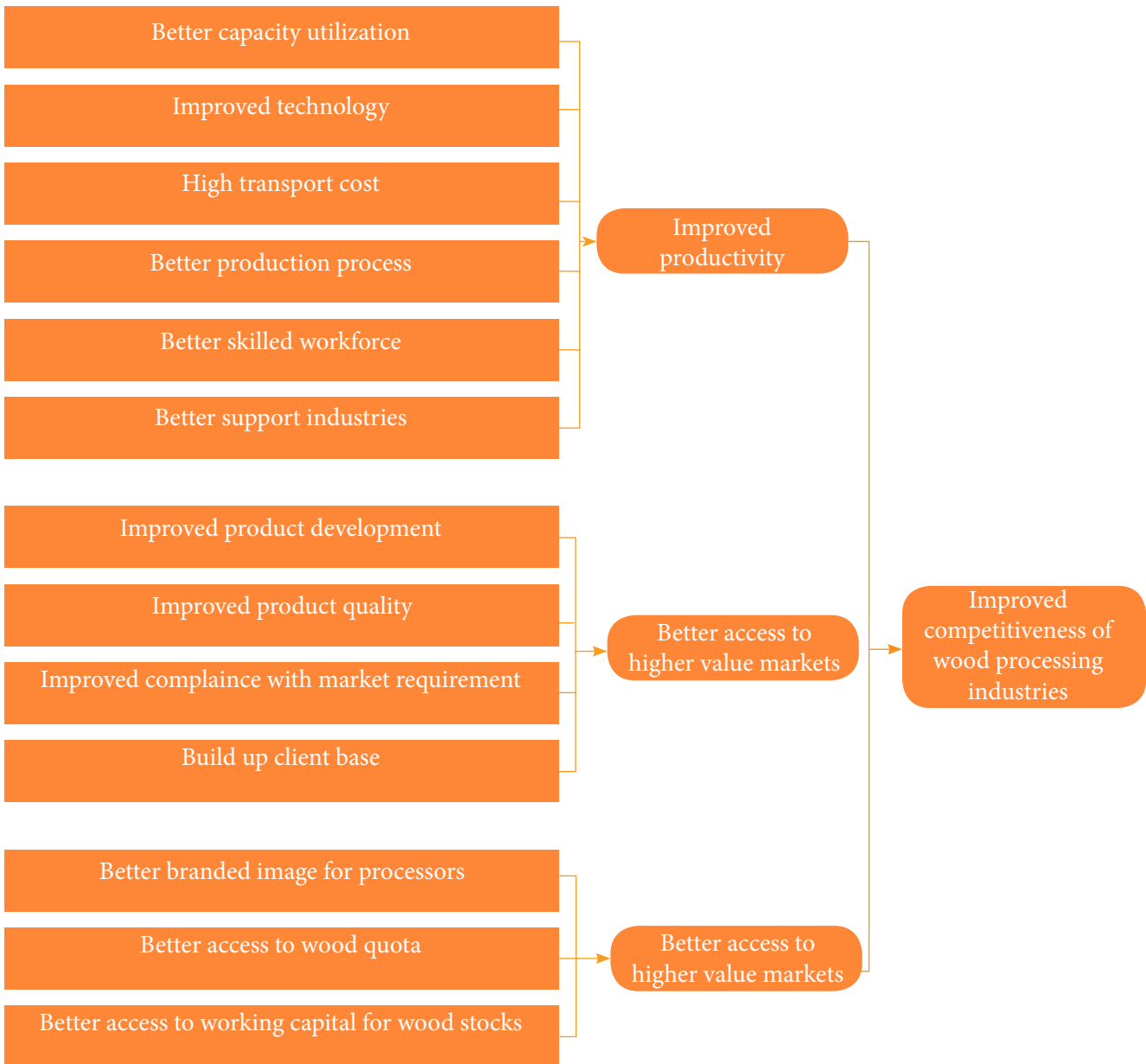
Since the supply of natural wood will continue to decline, it is imperative for the industry to increase the value added from the available supply of raw material. The industry will have to adjust its strategy by increasing the value added to high-value species for regional markets, and penetrating the high value-added markets in Europe and the USA with processed products using less known species by improving product quality and complying with legality and sustainability criteria.

Improving the performance of the wood processing industry will require major action, including: the creation of a predictable policy environment for the supply of raw materials; measures to encourage investment in the secondary processing industry; and a productivity improvement programme. Key industry competitiveness issues are summarized in Figure 43.

Table 41: SWOT analysis of the wood processing industry

<p>Strengths</p> <ul style="list-style-type: none"> • Large Forest Stewardship Council (FSC)-certified forest area (more than 80,000 ha) • Large production forest area (3.1 million ha) • Availability of high-value certified species • Strong policy to promote high value-added processing industry 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of complete FSC chain of custody • Strong links with regional processing industry • Weak relationship with high value-added wood markets • Of 51 certified production forest areas, only 8 have completed inventories and sustainable management plans • Inability to meet traceability and legality requirements under EU-FLEGT/EUTR and US Lacey Act • Lack of availability / awareness of market information, outdated production facilities • Only two companies are FSC Chain of Custody (CoC)-certified
<p>Opportunities</p> <ul style="list-style-type: none"> • EU (FLEGT) and US (Lacey Act) legislation on the legality of wood imports creates a market pull (through Vietnamese and Thai markets) on the Lao wood industry for legal and sustainable wood products • Strong demand for Lao hardwood in international markets 	<p>Threats</p> <ul style="list-style-type: none"> • Regional markets will continue to source unprocessed wood from Lao PDR • Strong links between logging businesses in Lao PDR and the regional processing industry • Lack of acceptance of 'Lesser Known Timber Species (LKTS)'

Figure 43: Key industry competitiveness issues in wood processing



Major actions to be considered include:

- (i) Improving readiness for and compliance with the EU Timber Regulation and Timber Legality Assurance systems by promoting industry certification systems (for example, FSC CoC, ISO 9001, 14001).
- (ii) Conducting an assessment of the international demand and price points for different product groups in the different markets, and general market trends leading to recommendations for competitive niches.
- (iii) Establishing a strategic partnership between Lao wood processors and leading processors in neighbouring countries to improve productivity and improve access to high-value export markets.
- (iv) Improving access to working capital to increase the added value of wood exports.
- (v) Carrying 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.
- (vi) Carrying out an assessment of the natural forest, and conducting production forecasts under sustainable management conditions by species classes for periods of five years until 2020.
- (vii) Relaxing temporarily and restrictively the ban on foreign investment in secondary wood

processing based on natural forests.

- (viii) Improving and extending the system of competitive bidding for log quota allocations.

Recommendations

(i) Increasing the added value of wood exports

Lao exports the bulk of its timber resources unprocessed. At the same time its embryonic wood-processing sub-sector is operating well below installed capacity. The aim of this intervention is to assist wood processors to increase their access to approximately an additional 100,000m³ of logs.

The modern wood processing industry consists of approximately 50 medium-sized enterprises employing about 5,000 people and exporting the bulk of its production. The enterprises currently source raw materials either from plantation forests that produce eucalyptus and teak, or from a government auction system that manages production forests. This amounts to about 40,000m³ of logs per annum, which is only about 30 per cent of the demand from the Lao processors. For these processors to reach their present full capacity they would need approximately an additional 100,000m³ of logs every year.

It is estimated that between 250,000 to 400,000m³ of wood leaves the country as round or square logs. The allocation of these logs is managed through a government quota system, mostly in lieu of cash payments to foreign and local companies that are implementing infrastructure projects on the part of the Government. This timber is then exported at world market prices to either Vietnam or Thailand where it is further processed. This intervention aims to assist Lao wood processors to access long-term working capital financing of up to approximately US\$22 million for the purchase (at market prices) of up to 100,000m³ of logs per annum. The effect of this would be to triple the current output of processed wood products for export. The processors would not enter into the transactions related to the existing quota system but would rather offer themselves as an alternate market for the unprocessed logs currently leaving the country, paying a fair market price to the existing exporters.

(ii) Improving the productivity of Lao wood processors

In addition, Lao processors working below capacity also face problems with productivity and market access. The aim of this second intervention is to improve productivity and to establish stable marketing channels for the export of processed wood products.

Initially 10 to 15 of the 50 Lao processors would be linked with five or six wood processors in Thailand or Vietnam that are exporting to the EU, US and Japan, and who are members of the Global Forest and Trade Network (GFTN), in a business relationship through which the Lao processors would supply the foreign firms with wood components for final assembly in Vietnam or Thailand. As part of the deal between Lao and foreign firms, the Lao firms would receive technical assistance from the foreign firms in upgrading their production processes, training their staff and introducing them to new technologies. At the same time, the Lao processors would ensure that they are fully compliant with whatever forestry standard (such as the FSC) is most relevant to the foreign exporters. If this relationship between the Lao and foreign firms is maintained for about five years, it may then be possible for these local processors to competitively enter into the international market on their own and in full compliance with international standards. If this relationship works with the initial 10 to 15 Lao firms, this model may be scaled up to the others in this sub-sector.

These two interventions are integrated in the sense that access to additional raw materials is essential for the second intervention to be attractive to the Lao processors and foreign exporters. The hoped-for combined impact of these interventions would be to triple processed wood exports in the next three years.



15. IMPLEMENTATION, MONITORING AND EVALUATION

15.1 Introduction

One of the main lessons of the original 2006 DTIS is that mechanisms for implementation must be put in place as part of the DTIS itself. The efficacy of trade policy recommendations is considerably enhanced by paying attention to the institutional context. In addition, in recent years managing the results of aid, including Aid for Trade (AfT), has risen on the international agenda. Trade development, which cuts across multiple sectors and involves a variety of stakeholders, poses its own challenges for monitoring and evaluation (M&E). With various donors taking initiatives to enhance their approaches towards M&E of AfT, a key task is to identify an overall evaluation approach that assesses the impact of the joint AfT flows of all donors in a given country or region.²⁰⁰ The DTIS update in Lao PDR provides an opportunity to develop such an approach, under the leadership of the Government, in order to enhance AfT programming and its results.

This chapter looks both at requirements to address the increasing demand for accountability and at opportunities for learning from and enhancing development results. It defines what is meant by a 'programmatic approach to trade' alongside challenges to its implementation. A system known as managing for development results (MfDR) is then discussed. The chapter then presents a draft results framework in which key components of the DTIS are interrelated in terms of results chains that link outputs with outcomes and impacts.

15.2 Implementation

15.2.1 Programmatic approach to trade development

By further mainstreaming trade into the National Socio-Economic Development Plan (NSEDP) using key (regional and sectoral) policy documents and inputs, trade and private sector development is taking a higher place in Lao PDR's development

strategy. Key to success was the ability to map out extra-budgetary resources and share this information with Development Partners (DPs) in a meaningful way, triggering better alignment of donor assistance in the trade area to national priorities.

The evolutionary nature of trade-related technical assistance, accelerated since the launch of the AfT initiative in 2005, has had an impact on the ways the Government and trade stakeholders perceive and absorb development assistance. With the Paris Principles Declaration on Aid Effectiveness and the localized Vientiane Declaration Plan of Action, the Government has succeeded in promoting the use of national systems for effective aid resource management in several key areas (health and education are often quoted as success stories). Those social sectors have benefited from a concerted Programme-based Approach (PBA), one of the most effective sector development mechanisms. The trade programme in Lao PDR already has many elements of a PBA, although more can be done.

The successes generated by the use of national systems, procedures and resources has generated further interest, primarily from DPs, in using programme-based approaches in other sectors in Lao PDR. However, there is widespread perception among trade stakeholders in the country that PBAs and Sector-Wide Approaches (SWAp) are cumbersome, complex and donor-driven instruments that are difficult to absorb for capacity-constrained administrations.

15.2.2 What are PBAs and SWAp?

A definition of a PBA as used by the Government of Cambodia is a way to work together in a coordinated partnership under the Government's leadership to achieve results in an efficient and sustainable manner. PBAs are mostly used in

200. Solleveld, L. (2009), *Responding to the Challenges of Aid for Trade (II): Aid for Trade Evaluation and Impact Assessment*. Draft Paper, December 2009.

social sectors, like education or health, and only occasionally in trade.

The PBA is a planning and management instrument for government, which can be supported by donors; this means that PBA can be used by the Government without donor support, although this is a rare practice. The PBA offers a government an effective tool for donor coordination to which all support modalities can be aligned (Project support / non-pooled funds, Common Pool Funding and Budget Support).

The definition of a SWAp is provided by Foster (Foster, 2000): “All significant funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across the sector, and progressing towards Government procedures to disburse and account for all funds.” A SWAp represents a programmatic approach, where a set of interventions is aimed towards a shared programme goal, as opposed to a project approach characterized by a set of unrelated projects in one particular area.

SWAps and PBAs have not always received good publicity, especially when they are used outside the social sectors, and their use in the trade sector is controversial. The following are the most common reactions in Lao PDR to the question: *why do you think the SWAp is difficult to apply to the trade sector in Lao PDR?*

- Trade is cross-cutting in nature, so it will involve working with different public stakeholders who tend not to work together.
- SWAps work in human and social development, but much less in productive sectors.
- SWAps are only about getting finance and budget right but have little effect on sector performance.
- SWAps would only help Development Partners to channel more funds into Lao PDR, but would not help to coordinate or develop the sector harmoniously.
- The role of government in trade is on the enabling environment, not in providing services.
- The amount of donor assistance in the trade sector is very little compared to health and education, so a SWAp or PBA is not justified.

To summarize, the common thinking on PBA and SWAp in trade in Lao PDR is:

- They are donor-driven mechanisms, not necessarily something desired or needed by the Government or the sector.
- PBA is another aid disbursement modality, which should be aimed solely at sector development (taking the means, the alignment, coordination and harmonization of aid, for its end).
- The country system is not ready to ‘absorb’ a PBA in trade, and the amounts at stake are too little for such a complex tool.

The above perception echoes that of many other developing and Least Developed Countries (LDCs) when first faced with the option of a PBA or SWAp: “It might be a good idea for my sector, but how will a PBA or SWAp work?”

15.2.3 Rationale for a programmatic approach to trade

To address the valid concerns expressed by numerous stakeholders in Lao PDR, the focus of a PBA in trade will need to move beyond the aid delivery focus and embrace the concept as an approach to effective sector development: taking a sector-wide perspective makes common sense from a planning and development point of view. It should not be ‘just’ about how aid can best be delivered but rather about how the sector can best develop, and if and how donors can support this. Aid then becomes one (potential) means towards the end of development.²⁰¹ It is important at that stage in Lao PDR to develop a shared vision of what the trade sector and trade development progress will be in the future, rather than to focus on the best modalities of how to get there. In this sense, it is more opportune to talk of a programmatic approach for trade sector development in Lao PDR, than to use generic terms that may not apply. The direct tie to government aid, budget and planning mechanisms could be more relative in early years, therefore focusing on opportunities for the Government and DPs to work together towards common goals.

In addition, as mentioned above, Lao PDR has made good progress in developing the elements of a programmatic approach to trade. The national implementation arrangements through

201. SWAp in Motion, JLP, Train4dev.net, 2007.

the National Integrated Framework Governance Structure allows for regular consultation between the Government and DPs at the policy and technical levels, as exemplified by the Trade Executive Committee. The mechanisms put in place through the Trade Development Facility, supported by several DPs, have made the planning process leaner and smoother. The DTIS update is expected to trigger the development of a robust M&E Framework for implementation.

Several LDCs, such as Cambodia, Tanzania and Zambia, have started a programme-based approach in the trade sector in the past few years, following their respective DTIS updates. Lessons learnt and best practices could be extracted from their experience. The analysis below is inspired by those experiences.

A programmatic approach in the trade sector in Lao PDR could be used to improve the alignment of donor assistance with the national development plans and their subsequent economic and trade-related performance indicators. This could represent a new way of delivering trade-related assistance. The crosscutting nature of trade will not change by using a SWAp-like modality, and individual projects will still be the norm. However, using a SWAp should lead to more attention being given to overall policy coherence, improving planning, coordination and monitoring, and giving a stronger role to government.

One of the key advantages of using a SWAp-like approach will be the attention given to capacity building and capacity development, versus capacity substitution. Technical cooperation often achieves

Table 42: Lao PDR: Paris Declaration monitoring indicators

No.	Indicator	2005 Baseline (2006 survey)	2007 Status (2008 survey)	2010 Status (2011 survey)	2010 Target
1	Operational development strategies	n/a	C	tbc (1)	B or A
2a	Reliable public financial management (PFM) Systems (CPIA rating)	2.5	3.0	tbc (1)	3.0
2b	Reliable procurement systems	n/a	C	n/a (2)	B
3	Aid reported on budget	108%	66%	114%	85%
4	Coordinated technical cooperation	16%	54%	73%	50%
5a	Use of country PFM systems	34%	31%	41%	56%
5b	Use of country procurement systems	17%	16%	38%	40%
6	Parallel Project Implementation Units	90	25	22	15
7	Predictability of aid flows	77%	38%	74%	56%
8	Untied aid	n/a	99%	tbc (3)	> 98%
9	Use of programme-based approaches	5%	9%	18%	66%
10a	Coordinated missions	12%	21%	26%	40%
10b	Coordinated country analytical work	37%	25%	53%	66%
11	Results-based monitoring framework	n/a	C	tbc (1)	B or A
12	Reviews of mutual accountability	No	Yes	Yes	Yes
Note					
(1) Indicators 1, 2a and 11 are to be provided by OECD/DAC based on World Bank CPIA and reviews of country report					
(2) Indicator 2b is based on voluntary MAPS self-assessment, which Lao PDR did not undertake on this occasion					
(3) Indicator 8 for untied aid to be provided by OECD/DAC.					

Source: OECD

its project-level objectives but it is not associated with a holistic capacity needs assessment and fails to impact on organisational performance. DPs drawing qualified staff away from the Government creates a parallel market and limits the effectiveness of capacity development activities; something a SWAp can help address. The DTIS can lay the basis of a programmatic approach for the Trade and Private Sector Working Group.

15.2.4 Action plans, road maps and M&E framework

The DTIS update and action matrix provide a unique opportunity to reinforce the foundations for the development of solid sector development mechanisms, using the best practices from other countries and the example of other sectors using PBA in Lao PDR. The DTIS update provides the elements of a vision of the sector’s development for the coming years, and this vision must be shared by the Government and DPs alike.

It will be important to move DTIS implementation away from resource mobilization to focus on a shared vision, strategic outcomes and key performance indicators. The example of Cambodia could inspire the Government to operationalize a programmatic approach in a harmonious way, using Development Road Maps for both planning and monitoring purposes.

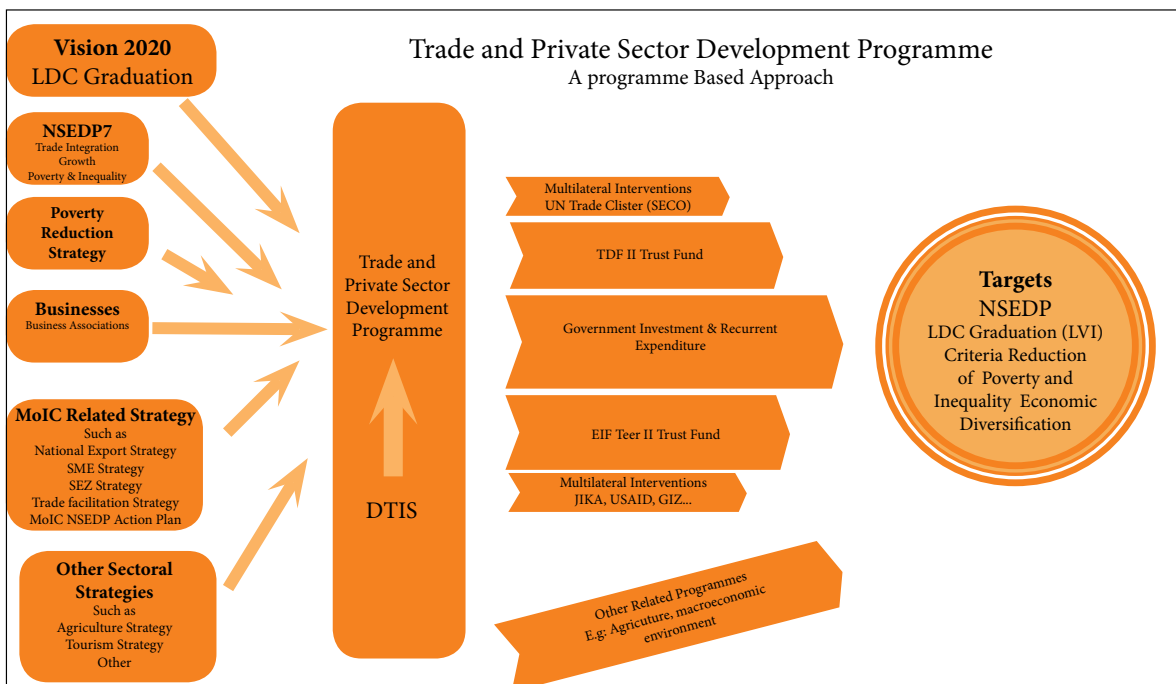
The approach promoted in this DTIS update, and the unique opportunity provided by the

harmonization of future DTIS and NSEDP, underlines the need for a robust Monitoring and Evaluation Framework for DTIS implementation. Monitoring implementation of the DTIS update, considered as a Trade Integration Strategy, will provide the necessary data for measuring progress of the trade-related actions of NSEDP 7 and lay the foundations for a better integration of trade into NSEDP 8. DTIS implementation in many LDCs is not properly monitored. The proposal below, tested in Cambodia, provides an avenue for a rapidly implemented DTIS, with clear indications of strategic outcomes, which themselves create the foundations of a shared vision for trade sector development.

Roadmap: What is it for?

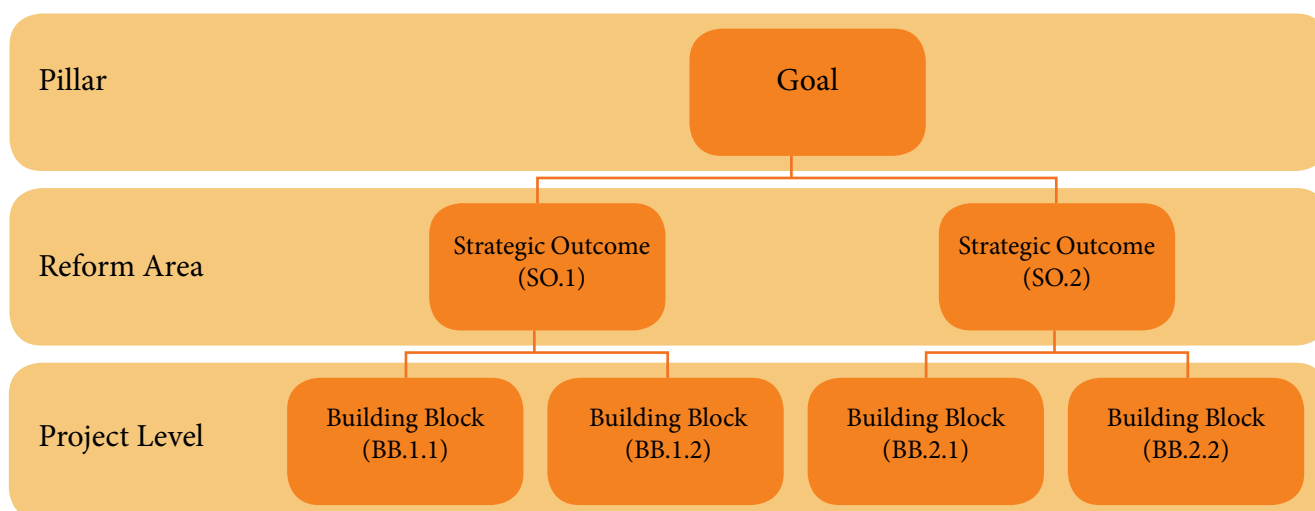
- It is a mid-term (five-year) strategic framework to guide, coordinate, manage and monitor the implementation of reforms described in the Trade Integration Strategy.
- It helps the Government to keep focus, and improve ownership.
- It helps DPs to coordinate, align and harmonize.
- It helps the Government and DPs to gauge the importance of specific project actions (how to use AfT resources), in view of their contribution to achieving strategic goals.
- It places the action matrix into context.

Figure 44: Proposed set-up for a programmatic approach to trade development in Lao PDR



Source: NIU

Figure 45: Cambodia trade SWAp road maps (<http://www.moc.gov.kh/Tradeswap/>)



In Figure 45 above:

- Goal: each Pillar has one Goal, corresponding to the key DTIS components.
- Reform Areas: for each Pillar there are several reform areas as indicated in the DTIS update, with specific Strategic Outcomes and Indicators (for example, SPS, legal reform, trade related investment). corresponding to major reforms identified in the Trade Integration Strategy.
- Project Level: for each Strategic Outcome there are several Building Blocks, each with a detailed Action Plan.

The Road Map development process should be owned and driven by the Government. It should take place concurrently with the finalisation of the DTIS update and should be finalised post validation by the Government. The Road Map must be considered overarching in sector development planning and donor programming. All project and programme development objectives must be aligned with the road map indicating which outcomes, output and KPI they intend to support. For that to bear fruit, road maps should be developed in, or translated into the Lao language and widely disseminated.

15.2.5 Challenges for a programmatic approach to trade

For a programmatic approach to meet Lao PDR trade development goals, the following pre-conditions are needed:

- A validated, realistic and comprehensive medium-term plan, such as the DTIS update.
- Sufficient funding from DPs (traditional and non-traditional).
- Government commitment.
- Discipline from DPs and the Government in combining plans, funding and commitment towards monitored implementation.

However, this is easier said than done, as experience

shows that with programmatic approaches the government must have a bigger role to play (in the implementation of projects and in the overall management of the sector), while DPs stand to lose individual control over design, implementation of projects, individual visibility and credit for results. Some agencies may lose direct access to funding and review their programming practices. But all stand to gain in efficiency and achieving sustainable development outcomes.

In the end, the key challenges for the Government will be:

- More and better donor coordination.
- More and more effective government leadership on trade policy issues.
- More and better inter-governmental coordination.
- More private sector involvement in setting agenda and monitoring outcomes (for example, by empowering the Lao Business Forum) and more civil society involvement in setting agenda and monitoring outcomes.

15.3 Monitoring and evaluation

In recent years managing the results of aid, including AfT, has become increasingly important. Trade development, which cuts across multiple sectors and involves a variety of stakeholders, poses its own

challenges to M&E. With various donors taking initiatives to enhance their approaches towards M&E of AfT, a key task is to identify an overall evaluation approach which assesses the impact of the joint AfT flows of all donors in a given country or region.²⁰² The DTIS update in Lao PDR provides an opportunity to develop such an approach, under the leadership of the Government, in order to enhance AfT programming and its results.

15.3.1 Accountability in AFT initiatives

A recent Organization for Economic Cooperation and Development (OECD) overview of accountability in AfT initiatives concluded that the status of M&E in AfT is relatively weak. With increased investment in trade-related initiatives, there is a need to demonstrate that initiatives have been well implemented and that they have reached their development objectives.²⁰³ The last few years have seen an enhanced focus on M&E in AfT initiatives. In the self-assessment conducted on AfT programming in 2009 it was observed that two-thirds of partner countries regularly monitored and evaluated their trade-related programmes.²⁰⁴

A meta-evaluation²⁰⁵ conducted as part of the OECD overview identified a variety of weaknesses in the evaluation of trade-related programmes, including: a relative lack of focus on trade in evaluations;²⁰⁶ an absence of policy linkage; an insufficient definition of broader objectives such as

poverty alleviation; a lack of realistic timeframes for what is achievable in the short and long term; and little insight on what works in AfT initiatives and why.²⁰⁷

A review of 85 recent World Bank trade-related projects revealed that only five included rigorous evaluation components. Basic questions on the effectiveness of trade-related assistance often go unanswered (see Box 18 below). Two reasons are provided for this lack of evaluation: trade policy research has been slow to respond to changing needs and has insufficiently moved away from tariffs, which are no longer the key barrier to trade; and the AfT community has been slow to build a culture of rigorous evaluation.²⁰⁸

Impact assessment methodology in evaluation of trade-related assistance needs to be conducted cautiously as a separate exercise rather than imposing an extra burden on project managers. It also requires buy-in from governments, building evaluation capabilities in the process. There is a need to reduce the cost of such exercises, which should be commensurate with the importance of the support concerned, and which should use local resources.

In general, M&E of AfT faces a number of challenges, including at the project and programme level, the attribution of higher level outcomes and impacts

Box 18: Questions that go unanswered in present Trade-Related Assistance

- If reducing trade costs is the objective, should limited resources be focused on transport or customs reform?
- In customs reform, should the emphasis be on computerizing processes or on creating incentives for integrity?
- In transport, should the emphasis be on containerising ports or improving inland links?
- If the object is to enhance the ability of firms to export, should the focus be on assistance to particular firms or on improving the business environment?
- If the focus is on improvements in the business environment, should it be economy-wide or good-governance enclaves such as export processing zones?

Source: Cadot, Olivier et al. 2011.

202. Solleveld, L. (2009), *Responding to the Challenges of Aid for Trade (II): Aid for Trade Evaluation and Impact Assessment*. Draft Paper, December 2009.

203. OECD (2011), *Strengthening Accountability in Aid for Trade*.

204. OECD/WTO *Aid for Trade at a Glance 2011: Showing Results*.

205. The meta-evaluation covered 162 trade-related evaluations conducted between 1999 and 2010 of programmes and projects in Vietnam and Ghana and in the transport and storage sector in a number of countries, in OECD: *Strengthening Accountability in Aid for Trade* (2011).

206. This as most of the evaluations concerned trade-related assistance in the categories now covered by AfT rather than AfT-specific initiatives.

207. OECD, *Strengthening Accountability in Aid for Trade* (2011), Another meta-analysis focuses on DTISs of low-income countries in order to fill a gap in knowledge of export growth and diversification in LDCs. This paper focuses on macroeconomic and trade policies, supply side constraints and investment in new export activities. Tyler Biggs: *Export Promotion and Diversification: What Do we learn from the DTISs in Low-Income Countries?*

208. Cadot, Olivier et al. (2011), *Where to Spend the Next Million? Applying Impact Evaluation to Trade Assistance*. The World Bank and Centre for Economic Policy Research, Washington D.C.

to specific initiatives and contributions. Links between project objectives and more strategic, long-term development outcomes are often weak, and the sequencing of projects and programmes is often not made clear.

The World Bank/CEPR Report stresses the need for the use of impact evaluation to assess aspects of effectiveness in trade assistance and mainstreaming these approaches in project design and implementation. It is argued that trade-related interventions can be evaluated formally, provided that they are open to a variety of methodologies, including randomized controlled trials and other quasi-experimental evaluation methodologies. In practice a variety of methods can prove useful in the evaluation of trade-related assistance (see Table 43).

Most donor agencies make use of generic evaluation methods and guidelines for M&E of AfT programmes. Various agencies have developed their own evaluation frameworks. Though overall there is strong support for trade leading to development results, more needs to be understood about when and where AfT interventions make this

possible or enhance this. Despite the momentum in performance management, the development of a genuine performance culture based on results remains a challenge for both partner countries and donor agencies.

There is a need to carefully plan for evaluations from the start of projects and programmes, with a combination of: ex-ante reviews (assessing what the programme or project hopes to achieve); baseline studies (reflecting the state of key performance indicators at the start of the intervention); and ex-post assessment (comparing the same performance indicators at the end of the intervention or at a certain period after the intervention terminates). Evaluations assessing the joint efforts of DPs are considered to be particularly important, because they pool expertise and realize significant cost savings, including transaction costs. A mixture of methodological approaches is needed, with some expected outcomes quantifiable but others more suited to qualitative analysis (for example, dialogue processes, institutional capacity development, adaptation of national regulatory frameworks and reform of national policies).

Table 43: Methods of assessing attribution in evaluation

Method	Application	Advantages	Disadvantages
Opinions of key informants and expert interviews	May be important when the key change is driven by one person (e.g. a politician changing a policy)	Low cost	May be influenced by interviewer; likely to be somewhat subjective
Comparison of treatment and control group (randomised samples)	When samples are large enough, in measuring changes attributable to one step in the results chain (probably not feasible for the whole model in one trial)	Considered by statisticians to be the most reliable way to measure results (albeit based mainly on experience with simple/single treatments)	Difficult to design and administer if the treatment group is self-selecting (e.g. buying a service). In this case, a randomised sample would need to be refused a service they tried to purchase
Quasi-experimental design (differences of differences: comparing before and after for treatment and control groups)	Often appropriate for pilot efforts and/or measuring attributable changes with regard to one step in the results chain	More approximate, in acknowledging that the control group is not an exact control	Cheaper than randomised controlled trials, but still expensive. Careful design and measurement needed to ensure accuracy. Not valid when the target group is unique, as is often the case with large urban clusters, or when interventions can influence the control group as well as the treatment group
Participatory approaches (e.g. focus groups)	Where the change in behaviour might have been caused by different factors	May be the only way to show attribution in some cases	May be subjective, open to bias (e.g. high subsidies may attract positive ratings, even though not sustainable)

Observation	Where attribution is fairly clear (e.g. resulting from new technology)	Low cost	May not be perceived as convincing, especially where attribution is not obvious
Regression analysis	Where a wide range of data can be accurately gathered	Can be reasonably accurate if well designed and executed	High level of skill needed; accuracy relies on identifying and gathering data on other significant factors contributing to the change
Extrapolation of attribution proven in pilot or case study	Where funds are not available for large-scale measurement	Low cost; relatively convincing	Needs periodic verification by other means (e.g. through surveys or additional case studies)
Trend analysis	Where other, large trends are very significant and trends can be reasonably tracked and estimated	Takes into account larger economic and market trends; relatively low cost	Risks assuming that the identified and measured trends are the only (or main) ones applicable; best used, therefore, in combination with other methods
Case studies analysing behaviour and performance changes at each step of the results chain	Where qualitative understanding is needed to interpret quantitative data	Low cost; can be a good indication of attribution if well designed and executed	May not represent the universe of beneficiaries; can be time-consuming; may be influenced by interviews

Source: OECD 2011.

The recurrent OECD monitoring exercise on AfT initiatives focuses on: demand (mainstreaming and prioritizing trade in development strategies); response (AfT projects and programmes); outcomes (enhanced capacities to trade); impacts (improved trade performance and reduced poverty); and relies on data provided by partner countries and donors through a self-assessment.

In an increasingly globalized world it is not enough to know how Lao PDR is performing in terms of trade and trade-related issues, but how it is performing in relation to other countries in the region and in the wider development arena. The need for active knowledge sharing is recognized through strengthened dialogue among stakeholders with a focus on how best to show the impact of AfT on trade performance, economic growth and poverty reduction.

15.3.2 Managing for Development Results

The Paris Declaration of 2005²⁰⁹ established a results focus for global efforts to improve aid effectiveness. This results focus includes the use of people-oriented goals, reaching them through intermediate level changes, and the notion of continuous improvement of programming, based on learning and informed by M&E. Managing for Development Results (MfDR) in AfT initiatives such as the EIF enhances accountability in trade-related support and improves decision-making. The ability to better manage and demonstrate results can help generate greater political and public support within partner and donor countries for enhanced support to AfT programming.

MfDR includes practical tools for strategic planning, risk management, progress monitoring, and outcome evaluation. An essential part of MfDR is the results chain, which links inputs, outputs, outcomes and impact causally (see Table 44).²¹⁰

209. High-Level Forum on Aid Effectiveness, Paris Declaration. The Accra Agenda for Action in 2008 further added agreements on aid predictability, use of country systems as first option, aligning conditionality with country's own development objectives and untangling of aid.
210. Emerging Good Practice in Managing for Development Results, Source Book, 3rd Edition. Washington D.C., 2008.

Table 44: Results Chain in MfDR

How should this be implemented		What should be produced?	What outcomes do we expect from this investment? (How are outputs used)		Why should we do this?
Inputs	Activities	Outputs	Short-term outcomes	Medium-term outcomes	Long-term impacts

Source: OECD (2008) *Emerging Good Practice in Management for Development Results Sourcebook, Third Edition*. <http://www.mfdr.org/sourcebook/3rdEdition/SourceBook3FINAL.pdf>

The MfDR approach has been taken up in many sectors and programmes in order to enhance accountability, improve programming and maximize development results. It is also beginning to be applied to AfT initiatives and is seen as critical for the realization of AfT objectives, enhancing the effectiveness of programmes and learning about what works and what does not.²¹¹

The application of MfDR in AfT has its own complications. In AfT there is often a substantial time lag between aid delivery and its impact, which needs to be taken into account in the evaluation of trade initiatives. There are, moreover, methodological and practical difficulties in assigning trade outcomes and impacts directly to AfT initiatives.

A number of key lessons from MfDR may prove useful for AfT programming, including:

- The need for strong leadership and support from the top.
- The sustainability of MfDR reforms requires a mix of top-down and bottom-up approaches.
- MfDR reforms must be prioritized by the organizations concerned and complement existing initiatives, strategies and national development plans.
- Training and capacity-building for MfDR practitioners and leaders is needed to institutionalize MfDR.

Box 19: MfDR Principles

- Focusing the dialogue on results at all phases of the development process.
- Aligning programming, monitoring, and evaluation with results.
- Keeping measurement and reporting simple.
- Managing for, not by results.
- Using results information for learning and decision-making.

Source: Cadot, Olivier et al. 2011

211. OECD/WTO, *Aid for Trade: Is it working?*

212. MfDR CAP – Scan Manual; CAP-Scan, *Managing for Development Results Capacity Scan, Measurement Framework, 2010*; World Bank (2009): *MfDR CAP-Scan, Managing for Development Results Capacity Scan (booklet)*, January 2009.

213. UNDP (2008), *Aid for Trade and Human Development, a Guide to Conducting Aid for Trade Needs Assessment Exercises*. This assessment includes attention to the macroeconomic and business environments, trade and investment policy, trade facilitation, sectoral analysis, trade policy impact assessment.

- Incentives (either positive or negative) and other motivating factors are important aspects of enhancing MfDR.
- Sufficient operational capacities and resources are required to successfully adopt MfDR.
- Suitable business systems and processes are necessary to mainstream MfDR, both in the programmes that donor organizations support and in the organizations themselves.
- It remains a challenge to link good practice examples with the development of countrywide systems and full country ownership.

Several tools have been developed for countries to assess their capacities in terms of MfDR, including: leadership; M&E; accountability and partners; planning and budgeting; and statistics.²¹² The Inter-Agency Cluster on Trade and Productive Capacity of the United Nations Chief Executive Board (CEB) collaborated in the production of a tool for AfT needs assessment.²¹³

15.3.3 M&E as part of the DTIS

A focus on managing for development results requires the early inclusion of M&E aspects in the DTIS. It will enable the government and other stakeholders to go beyond the identification of priority activities as part of a DTIS action matrix, to include what the various actions are meant to achieve and to clarify the wider outcome and impact level changes that they are meant to

Box 20: Tracking criteria of trade-related assistance**Key recipient country capacities used for tracking trade-related assistance:**

- Formulate and implement a trade development strategy and create an enabling environment for increasing the volume and added value of exports, diversifying export products and markets and increasing foreign investment to generate jobs and trade.
- Stimulate trade by domestic firms and encourage investment in trade-oriented industries.
- Participate in and benefit from the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

contribute towards. Putting these results together in a results framework can in turn enhance the shared understanding of the goals and objectives of trade and private sector development. The DTIS uses a roadmap approach to lay out the framework for M&E, linking priority activities to outcomes and results. A more detailed results framework for the implementation of the roadmap will be established post validation.

The development of a results framework can further enhance the ability of all stakeholders in the implementation of the DTIS to assess whether results at various levels in the results chain are actually being achieved. Such assessments can be used to inform management decision-making in trade development support programmes. This application of results-based management can further enhance the implementation of the DTIS action matrix. The results framework can also be used to identify activities to support and where these would fit in the wider results framework.

M&E helps an understanding of what is working and what are the key ingredients for success. Results-based M&E can inform results-based management of initiatives to build trade capacities, and enhance the ability of initiatives to reach expected results in building human and institutional capacities, supporting the private sector, meeting standards, remedying market failures, facilitating trade and improving infrastructure.

15.3.4 An Aft M&E system in Lao PDR

M&E of trade-related activities in Lao PDR will need to be conducted on multiple levels. At the lowest level is the M&E of project and other specific interventions and their results. Within the wider set-up of the DTIS these projects will need to contribute to the realization of intermediate or outcome-level changes. These outcomes do not stand on themselves but are in turn meant to

contribute to impact-level changes. Attention must also be paid to the interrelations between these three levels.

Though impact evaluation is important, there is an increased realization that Aft initiatives do not necessarily affect impact level indicators in the short term. Various studies point to the importance of intermediate level outcome changes that are more likely to occur in the short to medium term, and which are more directly linked to the outcomes of individual projects and programmes.²¹⁴ This would enable the provision of relevant data on whether changes are occurring on an overall country level in the short and medium term, as well as in the long term. In the assessment of these intermediate (and higher) outcome-level changes, impact assessment methodology can be used to establish attribution between project and programme activities and outputs and outcome-level changes.

An M&E system is a complex whole and consists of multiple aspects (see Box 21 below for an overview). In the establishment of an M&E system for Aft in Lao PDR it will be important to make this a country-led endeavor, making as much as possible of existing systems and capacities in M&E and further enhancing these as part of the support provided, coordinating support efforts on capacity development for performance management.

Monitoring and evaluation are not meant to be 'passive' activities conducted by selected staff members for regular reporting purposes, but must consist of an active review process in which partners jointly analyze data and develop a shared understanding of what works, what does not, and the reasons why. Of particular importance for M&E will be the allocation of responsibilities for regular monitoring functions, which will need to be allocated to each of the participating agencies, and for evaluation functions that are more likely

214. OECD (2009), *Strengthening Accountability in Aid for Trade*, 2011; Solleveld, Leen: *Responding to the Challenges of Aid for Trade (II): Aid for Trade Evaluation and Impact Assessment. Draft Paper*, December 2009.

Box 21: Aspects of an M&E System for DTIS Update**• Roles and Responsibilities**

- Establishing where responsibilities for M&E functions will reside, who will play what role(s) and how the various people with responsibilities will be connected in terms of management structure and technical support; incorporation of roles and responsibilities in job descriptions.

• Results Framework

- A framework in which activities, outputs, outcomes and impact are connected in a logical way and which forms the basis for M&E.

• Monitoring Plan

- Planning what kind of data will be gathered by whom at what intervals and how information will be managed, analysed and used for reporting and management
- Inclusion of targeted, flexible studies to address emerging issues and challenges.

• Data management system

- Set up a data management system for management and analysis of data gathered.

• Evaluation Plan

- Planning for evaluation, including baseline study, mid-term evaluation and end of programme evaluation; planning for the use of impact assessment methodology.

• Data Analysis and Reporting Arrangements

- Means to discuss M&E findings amongst stakeholders concerned. Reporting system.

• Development of M&E Capacities

- Enhance stakeholder capacities to monitor AfT flows and trade-related initiatives, relating to existing capacities and enhancing national ownership of the process.
- Building a community of practice, linking with AfT M&E networks.

• Financial Resources

- Allocation of budget for Monitoring as well as for Evaluation.

to be centralized in the National Implementation Unit (NIU). Projects would have their own M&E responsibilities on the project level, linking as much as possible with existing monitoring systems in the government ministries and departments.

In order to support M&E on a project level and to manage the programme- (sector-) wide evaluation function, an M&E unit would need to be established within the NIU and work in or closely with the Technical Unit. This unit would need to combine support to regular monitoring of projects and interventions of the various ministries and departments with the management of programme/sector-wide evaluation on outcome- and impact-level changes. It would need to be responsible for intermittently gathering sector-wide data on selected indicators (twice a year or yearly depending on the availability of data of selected indicators), and for focused studies

on selected issues based on requirements. This would include the use of impact assessment to assess the attribution of intermediate and higher outcome-level changes. Moreover, the unit would coordinate and support M&E conducted at the project level. Projects within the programme would not necessarily have their own M&E units but would need to specify responsibilities for both monitoring and evaluation, with clear lines of reporting to project management and in technical terms to the NIU M&E unit.

The set-up and functioning of an M&E system requires sufficient financial resources for the system to fulfill the expected functions. Funds need to be earmarked for M&E on both the programme level and at the level of specific projects and interventions. Given the substantial resource requirements for impact evaluation, a separate budget line needs to be included in order

to ensure that impact assessment can be used within the set-up of the DTIS M&E system. The average amount allocated to M&E (including the use of impact assessment) may reach up to 6 per cent of the programme budget.²¹⁵

The Results Measurement System for Trade and PSD Programme would be composed of several elements, including:

- The Roadmap for Trade and PSD, which will include a results chain that establishes overall programme deliverables, in terms of impact and outreach.
- Key processes and methods that are used in designing, selecting, monitoring and assessing interventions.
- Documents (reports, surveys, assessments) that feed reliable and timely information into critical management decision-making points in the life cycles of interventions.
- People that are well trained in: the application of the processes and methods used; the collection of the right information needed for documenting programme results; and assessment methods for making critical decisions.

- Guidelines and standards for use in the implementation and management of processes, documentation and decision-making.

Any results measurement system requires resources. The typical allocation for this function is 8 to 10 per cent of implementation disbursements. However, since results measurement is today more used in the design, monitoring and impact assessment of projects, these costs are most often integrated into project management, rather than being seen as a separate allocation. It is important that in addition to dedicated M&E staff in the NIU, other staff in operational departments realise their critical role in the day-to-day design, monitoring and assessment of interventions. These embedded personnel should be trained by the NIU M&E specialists in how the 'system' works and help in the aggregation of intervention results across the whole programme. Given the size of the Trade and PSD programme it is suggested that a staff of 5 to 7 professionals be spread throughout the various operational divisions of the NIU. These staff members would have a substantial responsibility for M&E in addition to other project management and support functions.

215. USAID in its latest evaluation policy devotes an approximate average of 3% of programme monies to external performance and impact evaluation, which is distinct from resources dedicated to monitoring. USAID: Evaluation Policy, Evaluation: Learning from Experience. January 2011.

ANNEX 1: OBJECTIVE OF THE NATIONAL EXPORT PROMOTION COUNCIL

The main objective of the establishment of the National Export Promotion Council (NEPC) is to manage the Lao PRD National Export Strategy (NES). The NEPC will serve as a Public/Private Coordination Platform for dialogue on export promotion-related issues and for the implementation of export promotion support activities. It will serve as a forum for advocating and raising awareness of challenges faced by exporters, which will feed directly into national Public Private Dialogue Forums such as the Lao Business Forum, and/or to government authorities via the appropriate formal channels such as the National Steering Committee for Economic Integration (NSCEI) or the Business and Export Competitiveness Secretariat. It is suggested that the “Government will not consider any individual issues submitted directly from business groups, associations or companies, as has been the case in the past.”²¹⁶ The NEPC will interface between the business membership organizations (BMOs) and apex Private Sector Organizations such as the Lao National Chamber of Commerce and Industry (LNCCI) and public authorities.

NEPC Structure and composition

The NEPC will be set up as a “collective organization or agency of public and private sectors with financially independent status and politically under the supervision of industrial and commercial sector at central and provincial levels. It will be composed of members from Private Sector (Exporters and BMO representatives) as well as representatives from public agencies.” The role and membership proposal in the NES is somewhat unclear and will need to be defined. As it stands it is envisaged that the private sector members will be permanent members of the NEPC, whereas those from the public sector will be non-permanent members of the NEPC. The Public Sector Members will “attend the annual ordinary meetings and play a coordination role for their own sector at central and provincial levels, but will not be involved with the routine work of NEPC.”²¹⁷ The NEPC will have a management board with a three-year term, which will be elected by the NEPC members. The NEPC will establish a set of regulations, which will be approved, possibly by the board.

Funding and operationalisation

It is envisaged that the NEPC will be funded by the Public Sector budget and Export Promotion, with membership contributions coming from the private sector. The NEPC will have a management budget collected from members and other sources of income and NEPC members will not receive salaries, but will get some fringe benefits.²¹⁸ The funding and budget allocation is yet to be established. As it stands, the NES document fails to provide clear guidance on how the Council will work and be funded. This is an obvious critical factor for the set up and operationalisation of the NEPC.

It is foreseen that the NEPC will set up its own promotion fund called the Export Promotion Fund (EPF), which has been adopted under the Prime Minister’s Decree No. 34/PM, dated 14/02/2006. However, to date no such fund has been set up. Discussion on the NEPC budget and detailed operational aspects will need to be discussed in depth with the Ministry. The viability and feasibility of the NEPC lie on this critical step in the set up of the NEPC.

It is foreseen that all export promotion-related activities nationwide will be a duty of the NEPC and that the NEPC will be operational on two levels – central and local (provincial) – with the NEPC Secretariat at Central Level, which will be linked to export units in each province (17 provinces nationwide). The NES is silent on how this will operate and what will be the required funding for staffing and operating such a structure. It may be envisaged that the export units be placed in Ministry of Industry and Commerce (MoIC) provincial offices, or through the provincial Chambers of Commerce. These units would work in collaboration with the Lao PDR Provincial Public-Private Dialogue (PPPD) fora.

It is envisaged that an NEPC Secretariat will be established and that it will deal with all administrative work of the NEPC (such as coordination, office administration, preparation of meeting documents). As an interim arrangement this Secretariat will be set up at MoIC (possibly Trade Promotion and Product Development [TPPD]) and will have focal (coordination) points at the Industry and Commerce Services (Departments) located in all provinces. Staff working at the NEPC Secretariat will come from the public

216. NES pg 35.

217. *Ibid.*

218. *Ibid.* pg 37-38.

and private sectors. Once the NEPC structure, budget and modus operandi are fully fleshed out and financial and human resources are secured for its functioning, the NEPC will establish an independent office.

Role of the NEPC Management Team:

- 1) Organizing training for existing and aspiring exporters to upgrade their knowledge and skills in various fields, and designing business and export training courses in collaboration with different levels of educational institutions. Some of the possible areas of training will include:
 - a) Quality and standards improvement and control
 - b) Product design
 - c) Negotiation skills
 - d) Foreign languages
 - e) Improvement of logistics systems
 - f) Banking payment mechanisms, access to finance, and
 - g) Entrepreneurship development
- 2) Organize business meetings for Lao and foreign business people, and occasionally organize domestic and overseas exhibitions and study tours, and conduct negotiations with trading partners.
- 3) Introduce export business techniques to producers' groups, helping them to understand the export related requirements.
- 4) Publish monthly magazines on the export business for wide public awareness.
- 5) Act as an interface between Public and Private Sector on all policy- and strategy-related dialogue, and act as an advocacy channel for export-related issues.
- 6) Act as a platform for dealing with all export-related issues and reforms such as export-related legislation, regulation, policy, and tax incentives.

The provisions laid out in the NES 2011-2015 documents need further definition and discussion. A number of grey areas remain, including in relation to its functioning, budget and funding, the composition of its members and board, and technical team. Importantly, as it stands the mandate of the NEPC and that of TPPD show strong overlap. The MoIC will need to establish a clear division of labour between the two entities and ensure that clear roles are assigned. Given the central role that the NEPC is to play in the promotion and operationalisation of the Lao NES, further in-depth work will need to be undertaken in this area. One of the actions that could be envisaged under the DTIS update would be as mentioned in previous section; that the overall Export Promotion architecture be reviewed, with a detailed mapping of the various public and private entities currently in place. This review would also have to look into the rationale, viability and feasibility of setting up the two proposed entities; that is the Business and Export Competitiveness Secretariat and the NEPC. The detailed operation of the NEPC will need to be designed with possible technical support coming from Development Partners.

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ANNEX 3: LIST OF STAKEHOLDERS CONSULTED

List of Participants for the 1st Review Committee Meeting (TPSDWG) to approve the Concept Note 23-02-2011

No.	Name and Surname	Position	Organization
1.	H.E. Mrs. Khemmani Pholsena	Vice Minister	Ministry of Industry and Commerce
2.	Dr. Bounthavy Sisouphanthong	Vice Minister	Ministry of Planning and Investment
3.	Mr. Henry Prankerd	Chargé d'Affaires	Delegation of the European Union
4.	Mr. Peter Wienand	German Ambassador	Embassy of Germany

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1.	Mr. Bounsom Phommavihane	Director General	Foreign Trade Policy Department, MoIC
2.	Mr. Wang Phommasack	Director General	Industrial and Handicraft Department, MoIC
3.	Mr. Santisouk Vilaychalern	Director General	Domestic Trade Department, MoIC
4.	Mr. Khemdeth Sihavong	Deputy Director General	Department of Import and Export, MoIC
5.	Mr. Lueangxay Littideth	Deputy Director General	Department of Trade Promotion and Product Development, MoIC
6.	Mr. Viengsavanh Thippavong	Deputy Director General	Economic Research Institute for Trade, MoIC
7.	Mr. Phouvieng Phongsa	Director of ODA Division	Foreign Trade Policy Department, MoIC
8.	Ms. Kingsadone Phetdaohueang	Director of Division	Foreign Trade Policy Department, MoIC
9.	Ms. Sodavanh Souvannaphoum	Deputy Director of DOA Division	Foreign Trade Policy Department, MoIC
10.	Mr. Khamsonvanh Phoutdavong	Deputy Director of Division	Cabinet, MoIC
11.	Mr. Aphisith Sengsoulivong	Deputy Director of Bilateral Division	Foreign Trade Policy Department, MoIC
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13.	Mr. Monekham Saybounhueang	Officer	Foreign Trade Policy Department, MoIC
14.	Ms. Vilayvanh Bounleuth	Officer	Foreign Trade Policy Department, MoIC
15.	Ms. Pakou Va	Officer	Foreign Trade Policy Department, MoIC
16.	Mr. Phoutsavong Phatsouda	Public Relations Officer	National Implementation Unit, MoIC
17.	Mr. Simon Peter Hess	Trade Advisor	National Implementation Unit, MoIC
18.	Ms. Vidaovanh Phounvixay	Senior Trade Analyst	National Implementation Unit, MoIC

19.	Ms. Litdaphone Silavong	Senior Trade Analyst	National Implementation Unit, MoIC
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21.	Ms. Kinnaly Phommasack	Officer	Department of Planning, MAF
22.	Mr. Bill Emmerson	SPS Advisor	FAO
23.	Mr. Lattaphong	Administrative Officer	Department of Planning, MAF

Associations

24.	Mr. Phoulatsami Douangphonexay	Secretary	Lao Tourism Association
25.	Ms. Dalivanh Sithphasay	Vice President	Lao Handicraft Association
26.	Mr. One-sy Boutsivongsackd	President	Lao Garment Industry Association

Integrated Framework Secretariats

27.	Mr. Sombuth Bounphanya	Deputy Director of Division	Ministry of Science and Technology
28.	Ms. Viengkham Vongduean	Deputy Director of Division	Ministry of Energy and Mines
29.	Mr. Lysong Luesaytou	Deputy Director of Division	Ministry of Justice
30.	Mr. Saiysamone Singbundith	Executive Director	Lao National Tourism Administration
31.	Mr. Oudone Ounnaphao	Director of Division	Ministry of Labour and Social Welfare
32.	Mr. Therthoun Soukaloun	Officer	Ministry of Finance
33.	Mr. Phengkhit Vongphaseuth	Officer	Ministry of Planning and Investment
34.	Mr. Viengkham Phunthalamixay	Officer	Ministry of Planning and Investment
35.	Ms. Souksakhone Sengdala	Officer	Ministry of Planning and Investment
36.	Mr. Khuankham Vongkhamsao	Officer	Ministry of Planning and Investment
37.	Ms. Khamfong Sayalath	Officer	Ministry of Foreign Affairs
38.	Ms. Southida Vongphachit	Officer	Ministry of Foreign Affairs
39.	Ms. Angsounalin Chanthaviloun	Officer	Bank Of Laos
40.	Ms. Thippaphone	Officer	Bank Of Laos
41.	Mr. Khemthong Ponmala	Officer	Small and Medium Sized Enterprise Promotion and Development Office
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Others

43.	Mr. Phasong Vongkhamchan		Ministry of Labour and Social Welfare
44.	Ms. Valy Vethsaphong	Acting President	Young Enterprise Association Of Lao PDR
45.	Mr. Somphone Phasavath	Vice President	Freight Forwarders Association
46.	Mr. Manothong	Officer	Water Resources and Environment Administration

47.	Mr. Bouama Khattiya		Lao Special Economic Zones
48.	Mr. Anoupheng Keovongsa	Officer	Ministry of Education and Sports
Embassy			
49.	Ms. Raine Dixon	First Secretary	Embassy of Australia (AusAID)
50.	Ms. Phanthakone Champasith	Program Manager	Embassy of Australia (AusAID)
51.	Ms. Honnart Clotilde	Chargee d'études	Embassy of France
52.	Ms. Sirisavanh Phathaphone	Atlahee Settorielle	Embassy of France
Donors			
53.	Ms. Khankeo Moonvong	Programme Officer	Delegation of the European Commission
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57.	Mr. Richard Record	Trade Specialist	World Bank
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60.	Mr. Franck Caussin	International Coordinator	United Nations Office for Project Services

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7.	Ms. Philayhuk Phothisane	Officer	Lao National Chamber of Commerce and Industry
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12.	Ms. Vidaovanh Phounvixay	Project Officer	National Implementation Unit, MoIC
13.	Ms. Litdaphone Silavong	Project Officer	National Implementation Unit, MoIC
14.	Mr. Phoutsavong Phatsouda	Public Relations Officer	National Implementation Unit, MoIC
15.	Mr. Simon Peter Hess	Trade Advisor	National Implementation Unit, MoIC
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17.	Ms. Thavychan Thiengthepvongsa	Deputy Director of Investment Promotion Division	Department of Investment Promotion, MPI
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5.	Mr. Phouvieng Phongsa	Director of ODA Division	Foreign Trade Policy Department, MoIC
6.	Ms. Kingsadone Phetdaohueang	Director of Planning Division	Foreign Trade Policy Department, MoIC
7.	Mr. Khouanchay Iemsouthi	Director of Division	Foreign Trade Policy Department, MoIC
8.	Mr. Santisouk Phonesavath	Deputy Director of Multilateral Division	Foreign Trade Policy Department, MoIC
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50.	Mr. Steve Parker	LUNA Project Director	USAID/LUNA
51.	Ms Julie Graham	Program officer	SNV
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10.	Mr. Chanthamaly Phunnaphet	Account Clerk	National Implementation Unit, MoIC
11.	Mr. Khoun Southammakot	Director General	Department of Import and Export, MoIC
12.	Mr. Sysangkhom Khotyotha	Director of Division	Trade and Product Promotion Department, MoIC
13.	Mr. Dala Indavong	Deputy Director of Division	Trade and Product Promotion Department, MoIC

14.	Mr. Houmpheng Khamphasith	Deputy Director General	General Investment Promotion Department, MoIC
15.	Mr. Xaysomphet Norasingh	Director of Division	Economic Research Institute of Trade, MoIC
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21.	Mrs. Khongthong Nanthavongduangsy	Handicraft specialist	Lao Handicraft Association
22.	Mr. Sebastian Schrader	Regional Project Coordinator	World Wildlife Fund
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Luangprabang Province

24.	Mr. Bouakong Nammavong	Vice Governor	Luangprabang Province
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26.	Mr. Somyot Sisavath	Director of Domestic Trade Section	Provincial Industry and Commerce Office (PICO)
27.	Mr. Phommavong Daohongsouly	Director of Industry Section	Provincial Industry and Commerce Office (PICO)
28.	Mr. Sisomphone Phatsanouvong	Director of Promote Section	Provincial Industry and Commerce Office (PICO)
29.	Mrs. Thongpheng Phasouk	Director of Import and Export Section	Provincial Industry and Commerce Office (PICO)
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32.	Mr. Bounthong Soulayyakhom	Technical Officer	Provincial Agriculture and Forestry Office
33.	Mr. Bounlerth Paduth	Deputy Director	Provincial labor and Social Welfare Office
34.	Mr. Sisavath Yilatchay	Director of Section	Provincial Information, Culture and Tourism Office
35.	Mr. Houmphann Phommachack	Deputy Director of Division	Provincial Education and Sport Office
36.	Asso. Prof. Visay Chansavang	Vice Dean	Luangprabang University
37.	Mr. Singkham Phommalat	Director of Division	Provincial Science and Technology Office

38.	Mr. Houmpheng Khammany	Director of Division	Provincial Natural Resources and Environment Office
39.	Mr. Kee Vang	Cabinet	Lao National Chamber of Commerce and Industry
40.	Mr. Itsala Bounyasone	Technical Officer	Import and Export Section

Private Sector

41.	Mr. Phousith Thoummavong		Agriculture Development Company
42.	Mr. Tong Inthalath	President	Food Processing Group
43.	Mr. Vong Sythanath		Business Association
44.	Mr. Chanpheng Phengdaloun		Business Association
45.	Mr. Bouasone		Business Association
46.	Mrs. Veomany		Business Association
47.	Mr. Bounthieng Soulivanh		Tourism Association

Luangnamtha Province

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