

**Final Study Report  
on**

**AGRICULTURE INVESTMENT TRENDS-THE  
ROLE OF PUBLIC AND PRIVATE SECTOR IN  
Lao PDR**

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## **Part A. Overview of the Report**

### **A.1 Introduction**

Since 1992, the Government of Lao PDR had been setting the poverty alleviation as one of the national objective and strategic priority. The 6<sup>th</sup> Party Congress in 1996 had defined the long-term development objective as freeing the country from the status of least-developed country (LDC) by 2020. The National Growth and Poverty Eradication Strategy (NGPES) had been introduced as the strategic framework under which all of the Government's future growth should be developed and implemented.

The NGPES had also emphasized the link between the governance and poverty reduction. As the government has limited resources in terms finance and human resource, improved governance is an integral part of the Government's effort to strengthen the overall environment for growth and development ensuring efficient and low cost public service delivery through improved organizational structures and procedures, and creating a productive and motivated professional civil service. In addition the improved governance has also recognized that in the transition to a more market-oriented economy, the system of decision-making must be more community-based, transparent and accountable. Therefore, in 2000 the Government had introduced decentralization policy which defies provincial level as the strategic unit focusing on planning activities, district level as the budget execution unit, and village level as the implement unit (Instruction No.01/PM). The governance programme aims to improve four main areas such as public service improvement, people's participation, rule of law and sound financial management<sup>1</sup>.

Under the Prime Minister's Instruction No. 010/PM dated June 25, 2001, the poverty is defined as the lack of ability to fulfill basic human needs such as not having *enough food*, lacking adequate clothing, not having permanent housing and lacking access to health, education and transportation services. Based on the Instruction No 010/PM, the Committee for Planning and Co-operation (CPC) and the provinces have identified 72 districts as poor. A core group of the 47 poorest districts has been selected for priority investments for the period 2003-2005<sup>2</sup>. Therefore, it can be said that food security is one of the main factors of the poverty. In order to eradicate the poverty, food security must be addressed under the government programme.

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1 Strategic Plan on Governance (2006 - 2010)

2 Somsavat Lengsavad, Lao PDR - National Growth and Poverty Eradication Strategy (NGPES)

Agriculture investment can emanate from economic agents such as the: public sector (including development assistance); private corporate sector (domestic and international); and farmers/households themselves. In most developing countries of Africa and Asia, public funding help create public capacities and facilities from roads and markets to research and educational infrastructure. In many cases, this includes irrigation and other direct productive infrastructure. The essence of investment in public goods is to create conditions that can attract private capital (corporate and farm level). Given the resource constraints of developing countries of Africa and Asia as well as tight budgetary conditions facing many donor countries, the private sector, both domestic and foreign, has a potentially important role to play in undertaking agricultural investments in respective regions, thus moving development forward. However, private capital flow, in follow up to public investment, has not been particularly notable in most countries in Africa and Asia.

As the world awakens to multiple dangers posed by soaring food prices simultaneously with climate change and difficulties in the financial sector, it is not opportune to continue the practice of seeking more donor aid for public goods without taking time to reflect upon what holds back private agricultural investment from becoming vibrant. In view of this, it is envisaged to review corporate private sector investments in recent past, identify successes and challenges, and prepare the basis for a forum where corporate private sector can discuss findings and highlight its perceptions of what discourages, encourages or is not sufficiently encouraging for them to invest on agriculture on a significant scale.

## **A.2 Aims and scope of the paper**

1. Identify key national, regional and international firms that invest in agriculture and, subject to available data, indicate patterns magnitudes of investment by sub sectors/commodities and stages of the value chain (i.e. production, processing, marketing, etc.).
2. Conduct a questionnaire (to be provided) survey or interviews of operational officers of leading investors in the agriculture sector with a view to ascertaining their ideas and views on what they consider to be hindrances to more investment into Agriculture and the opportunities they think are missed in further investment into

the sector, and what they would like to see improved/changed for investment into Agriculture to be attractive.

3. Undertake consultations with relevant government line agencies to ascertain present investor incentives offered to make agriculture more attractive relative to other sectors and summarize essential features.
4. Based on the findings and responses to the questionnaire, prepare a paper for presentation at a workshop where chosen firm representatives identified in all the three countries will be invited to exchange perceptions and views and discuss how to enhance corporate private sector investment in agricultural production.

### **A.3 Methodology and sources**

Based on method of data collection, both primary and secondary data were implemented. The reviewing of essential documents includes laws, National development plan, investment research report in central level and local level. Moreover, the 10 companies interviewing were conducted by randomize over countries from which are relating in main products of agriculture investments, e.g. rubber, sugarcane, palm oil, tea, maize, coffee, etc.

This research method was applied both group discussion and individual interview. In addition a validation workshop was organized to obtain the feedback and cross check the study finding.

The research had utilized semi-structured interview schedules. It is based on both qualitative and quantitative research approach. This is a non-experimental type of research which will be both explanatory and descriptive.

## **Part B: Overview of the agriculture sector**

### **B.1 Agriculture sector performance (statistics on production, crops, imp/exp)**

In order to ensure the economic growth of 7.5-8 percent, a total investment of 73.9 thousand billion Kip is projected to be required to support the Sixth Plan (2006-2010), which is equivalent to about 32 percent of GDP. The investment would increase at about 19.3 percent per year, from 29 percent of GDP in 2005 to 34.3 percent in 2010. Of the total, about 23.1 thousand billion Kip would come from the Government budget accounting for 31.25 percent of the total investment in the society. The investment from the private sector, both

domestic and external, would cover the remaining 50.8 thousand billion Kip accounting for 68.75 percent of total investment.<sup>3</sup>

The ODA is projected to average at about USD 357 million per year over the five-year period 2006-2010; with about USD 600 million of foreign direct investment (FDI) will be mobilized each year. The sectoral shares of investment are projected at 16 percent for the agriculture sector, and 42 percent each for the industry and services sectors.

Conducive foreign policy has allowed the Lao PDR to gradually integrate into the regional and international economies and help to diversify its markets. From the period when traditional markets consisted of Thailand, Vietnam and China to the end of the Plan, exports are now destined to 40 markets, which include the larger markets such as the European Union, USA, Japan and Australia, the United Kingdom, France and Germany. Border trade too has developed strongly. More prominently, during 2001-2005, many FDI enterprises have invested in export-oriented manufacturing activities.

In 2005, export revenues reached approximately USD 456 million (USD 500 million was planned for 2005) of which agriculture and forestry exports represented 10.2 percent. The total value of imports over the past five years amounted to USD 2.86 billion with an average annual increase of 4.9 percent. But, it remains lower than the Plan target of 8.6 percent per year. The value of imports per capita in 2005 was about USD 122.30. The composition of imports has changed in accordance with the capacity and requirements of the economy. More importantly, the proportion of rice and food products in imports declined significantly from 32.6 percent in 2000 to 9.9 percent in 2002 and approximately 4 percent in 2003.

The priority plans of the Government as laid out in the Sixth Five-Year Plan for rice production to reach 3.2 - 3.3 million tons by 2010, especially in the seven plains areas with existing agricultural facilities and infrastructure. Meanwhile, efforts should be made to diversify the agricultural and forestry products to meet the existing market demand; and focus on the plantation of certain industrial crops based on the potential of each region to increase the export volumes such commercial crops as coffee, rubber, tea, cashew, maize, cassava, beans, tobacco and sugarcane. In addition, attention should be paid to raising cattle with focused efforts, such as: cows and buffalos for export; and goats, pigs and fish to meet the increasing domestic market demand. It is necessary to continue to develop and establish focal areas

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<sup>3</sup> Source: 6<sup>th</sup> NSCDP LAO PDR

for production in many locations and uplift the production capacity by applying new technology.

Also, there should be a focus on processing industries to add value to the agricultural products for export. Over the five-year period 2006-2010, the areas of slash-and-burn rice cultivation should be reduced by introducing new livelihood alternatives, such as industrial tree plantations and commercial crops, livestock rearing, and other permanent livelihood alternatives. It is necessary to establish and implement afforestation projects and water-shed protection areas, with the tree plantations reaching 25,000-30,000 hectares and increase the forest areas to 50% of the total land territory.

## **B.2 Subsector overview: main crops/livestock and markets**

In order to achieve the above mentioned objectives in the five-year period 2006-2010, efforts should be made to invest about 11.8 thousand billion kip in the agriculture and forestry sector, which would account for 16% of the total investment. Currently, several new varieties have been introduced, such as rice, maize, vegetables, beans, coffee, tobacco, tea, fruit trees and a number of domestic animals,

By 2005, the production of many crops increased significantly compared to the last year of the fourth five-year Plan (2000). For example, maize (corn) production tripled to 372,560 mt as compared to that in 2000. Maize is grown largely in the Northern Provinces of Bokeo, Sayaboury, Houaphanh and Xiengkhouang and some Central Provinces. The production of coffee, concentrated in the Provinces of Champasack, Saravane and Sekong, increased by 6 percent reaching 25,000 tons. Peanut production, largely in the Provinces of Sayaboury, Luang Prabang, Vientiane, Saravane and Champasack, doubled to 26,990 tons. Soybean production concentrated in the Provinces of Luang Prabang, Bokeo, Houaphanh and Champasak, also experienced a two-fold increase to 11,100 tons. The sesame plantation yielded 8,710 tons, up by 2.6 times, and was largely found in the Provinces of Luang Prabang, Sayaboury, Oudomsay, and Vientiane. The mung bean production was up by three times to 3,700 tons, and was concentrated in the Provinces of Luang Prabang, Vientiane, and Champasak. Tobacco planted in the Provinces of Borikhamsay, Khammouane, and Savannakhet provided a total harvest of 28,100 tons. Sugar cane concentrated in Vientiane Capital and the Provinces of Luang Namtha, Phongsaly, and Borikhamsay, had a harvest of 196,100 tons. Vegetable production

increased by 17 percent to 744,450 tons. Most noticeable is the plantations of vegetables, such as cabbage, Chinese cabbage, bananas, potatoes and ginger, on the Bolaven Plateau for export. Having won popularity, rubber trees are extensively planted in the Provinces of Luang Namtha, Oudomsay, Bokeo, Khammouane, Champasak, Saravane, Sekong and Attapeu. Orchards are being grown in a number of Provinces, particularly orange plantations in Luang Prabang, Sayaboury, Borikhamsay, Vientiane and Vientiane Capital.

The livestock and fisheries sectors are developing quite rapidly mainly due to the industrial farming systems applied in many localities and because of increased market opportunities and reductions in marketing costs. In 2005, the livestock numbers rose to 1.09 million buffalos (6 percent increase over 2000), 1.27 million cows (15.6 percent increase), 1.82 million pigs (28 percent increase), 19.8 million poultry (51 percent increase), and 190,000 goats and sheep (56 percent increase). Fish production rose to 143,000 mt (an increase of 15 percent), with fish farms accounting for 68.5 percent of the total and capture fisheries accounting for the rest (31.5 percent).

Over 300 foreign direct investments in agriculture sector between 2005-2010, mostly in rubber, softwood, sugarcane. Switch from small-holders to commercial entrepreneurs/ concessionaires. Rubber: 30,000 ha in 2005 to over 250,000 ha in 2010. Accumulated FDI: over 1.5 bil USD as of 2010 (13% of total FDI)

### **Figure 1: Investment Sectors, 2010**

## **B.3 Agriculture policy framework (key areas)**

Government of Lao PDR has policies to improve the sustainable development outcomes. NSEDP 7 sets a target for continued high economic growth, and ... 'of achieving MDGs, protecting the environment, maintaining political stability and peace, having an open economy integrated into the regional and world economy, and focusing on the quality of growth'.

Investment Promotion Law 2009: investment promotion aimed to 'contribute towards improvement of living conditions of people' (article 5(1)). National Strategy for Private Investment Promotion and Management (draft 2012) emphasizes quality investments 'that reduce



poverty, enhance development of human capital, support a diversified economy and have least impact on the environment’

The key piece of policy that governs private investments is the Law on Investment Promotion, 2009. The 2009 Law stipulates a range of new investment incentives to attract investments and streamlined investment approval procedures. Investments in general business activities will be approved and managed by the Ministry of Industry and Commerce

Other critical pieces of legislation that are in place to govern investments, particularly in the natural resource area, include:

- Agriculture Law
- Foreign Investment Promotion Law
- Enterprise Law
- Environmental and Social Impact Assessment Decree (2010)
- Land Law (2003) and Decree of Land Concessions (2009)
- Ministry of Planning and Investment
- Investment Promotion Department
- Committee for Promotion and Management of Investment
- Investment promotion incentives: profit tax exemptions for different zones

## **Part C: Public sector investment in agriculture**

### **C.1 Current trends in public agriculture investment**

#### **C.1.1 Sources of investment**

Based on implementation of investment promotion and management in the past, the investment of private sectors on agriculture and forestry both domestic and foreign were very high. Especially, Land concession for the commercial production of crops, livestock, industrial trees and NTFPs to distribute within country and export to abroad. According to the reporting of planning and investment sector in both central and local level, <sup>4</sup>there are recently total 600 companies, the total investment is 2,276 million US\$ and the total of registered capital are 971 million US\$.

In those, the Domestic private sector investment is about 270 companies, total of investment are 140 million US\$ or equally

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<sup>4</sup> Land concession Presentation 20022012

approximate 6% of total investment, and the registered capital is 105 million US\$ or equally approximate 11% of total registered capital. For the Foreign private investment is about 330 companies, which are included the total of investment are 2,136 million US\$ or equally approximate 94% of total investment, and the registered capital is 866 million US\$ or equally approximate 89% of total registered capital. Particularly the Private foreign investment which is based on PDA with Government, are total 30 companies (See table below), which have the total investment about 1,333.1 million US\$, and the registered capital are approximately 495.3 million US\$. The largest investment in-flows have been from neighboring countries of China, Vietnam and Thailand (IPD, 2010). For example, Just in the Vientiane Province, concessions were granted for 293,487 ha (representing more than 15% of the total surface of Vientiane Province (1,852,500 ha)). The largest is the mining sector with 267,381 ha. Among the agricultural and agro-industry sectors land concessions of 12,114 ha were granted for the production of agro-fuel (mostly Jatropha projects), 7,290 ha for rubber production and 5,093 ha for wood production. Concession areas for food production counting for only 1,079 ha. It is estimated that all together concessions for 2-3 million ha land were granted (including domestic projects), representing up to 13% of Lao PDR's total land area. Beside Australia, which is engaged in mining activities, the main investing countries are neighboring countries like China, Vietnam, and Thailand, but also South Korea. China and South Korea are mainly involved in food production, probably for export reasons. Japanese investors like Oji Paper or Indian Birla are also big investors, both focusing on pulp wood production.

**Table 1: Domestic and Foreign Investments**

Investment	Number of Company	Total Investment (Mil. US\$)	Registered Capital (Mil. US\$)	Land Concession (Ha)
Domestic	270	140	105	70,000
Foreign	330	2,136	866	430,000
<b>Total:</b>	<b>600</b>	<b>2,276</b>	<b>971</b>	<b>500,000</b>

Sources: 2010

**Table 2: Investment Value, Capital, and Land Concession Area by Countries**

No.	Name of Country	Number of	Total Investment	Registered Capital	Land concession
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		Company	(Mil. US\$)	(Mil. US\$)	(Ha)
1	Vietnam	12	339.0	114.2	72,470
2	China	7	289.5	104.7	32,550
3	Thailand	3	162.5	65.0	22,610
4	Japan	2	89.0	26.0	74,975
5	India	1	350.0	125.0	50,400
6	Korea	1	40.0	38.7	12,290
7	Malaysia	1	53.3	16.0	10,000
8	Singapore	1	4.1	4.1	640
9	Sweden	1	3.7	1.1	810
10	Lao PDR	1	2.0	0.5	1,000
	<b>Total:</b>	<b>30</b>	<b>1,333.1</b>	<b>495.3</b>	<b>277,745</b>

Sources: 2010

**Figure 2: Investment by Country, 2010**

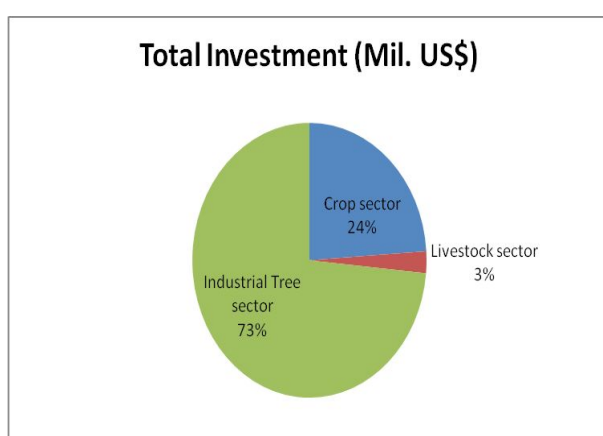
### **C.1.2 Sectoral allocations**

The domestic and foreign investment on the commercial production in agriculture and forestry by sector consists in 3 sectors: Crop, Livestock and Industrial Tree. They are total 594 companies, total investment is 2,422 million US\$ and the total registered capital is 994 million US\$. Based on dividing by sector, Cropping sector for agriculture and industrial crop production have 261 companies, the crop investment is 580 US\$ or equally approximate 24% of total investment and the registered capital is 298 million US\$ or equally approximate 30% of the total registered capital. Livestock sector have total 90 companies, the livestock investment is 62 million US\$ or equally approximate 3% of total investment and the registered capital is 43 million US\$ or equally approximate 4% of the total registered capital. Industrial tree plantation sector have 243 companies, the industrial tree investment is 1,780 million US\$ or equally approximate 73% of total investment, and the registered capital is 653 million US\$ or equally approximate 66% of total registered capital.

**Table 3: Investment Value by Sectors**

Investment	Number of Company	Total Investment (Mil. US\$)	Registered Capital (Mil. US\$)
Crop sector	261	580	298
Livestock sector	90	62	43
Industrial Tree sector	243	1,780	653
<b>Total:</b>	<b>594</b>	<b>2,422</b>	<b>994</b>

Sources: 2010



**Table 3: Investment Value by Sectors, 2010**

### **C.1.3 Government initiatives to promote investments in agriculture**

Directives and tasks of development in Agriculture and forestry of 7<sup>th</sup> NSEDP. Build the capacity and potential of agriculture by developing 7 priority plans, as well as developing small plans in the north of the country in an appropriate manner to ensure food security and supply raw materials to the processing industry. On the other hand, integrated agriculture, green agriculture and organic agriculture must be promoted in response to domestic and export demands.

#### **Main targets:**

**Food production:** By 2015, rice production should reach 4.2 million tones with a yield of 4 tons per hectare on average in one season; meat production should reach 221.5 thousand tons per year and aquatic foodstuff (fish, frogs and shrimp) production should amount to 157.2 thousand tons per year.

**Commercial production:** 600,000 tons of rice to be produced for export annually.

**Forestry:** Increase forest coverage to 65 percent of the country's total area by 2015, rehabilitate 3.9 million hectares of natural forest and reforest 200,000 hectares. Undertake a survey of 60 percent of forest cover under the three classification types and expand the certified production forest area by 10 percent in 2015.

**Food crops and vegetables:** The production volumes of food crops should continue to be increased to adequate levels to ensure food security and maintenance of food reserves. Rice production in 2010 should reach about 3.2 -3.3 million tons, with the volume of all food crops production reaching 3.8 - 4 million tons, providing for an average food availability of 450-500 kilograms per capita. Corn production should be promoted by increasing the planted area to 28,000 - 30,000 hectares, with a total production capacity of 135,000 - 140,000 tons. The low productivity land areas should be transformed for plantation of other types of tree crops. Intensive agriculture should be promoted in order to increase the productivity of this sector. The agricultural focal areas should be developed with specialization of plantations, vegetables, and fruits with special Lao characteristics (e.g. organic fruits).

**Industrial trees:** The general guideline for the five-year period 2006-2010 is to establish various special plantation areas for certain types of trees in order to secure the quantity of supply to domestic/local processing industries and for export. The plantation of industrial trees should be coordinated with the establishment of the infrastructure for processing industries. The focal and central investments should be organized to apply advanced technology, and new improved varieties of higher quality so as to increase the volume of exports. The plantation of such crops as rubber, coffee, tea, tobacco, cotton and cashew, should continue to be expanded in areas suitable for these types of crops.

**Livestock:** First, it is necessary to strive to ensure the supply of a sufficient amount of meat to domestic markets. Animal raising activities on farms should be promoted, with priority to large animal raising programs, especially big animals and poultry, through new effective breeding of high quality animals. Animal feeding should be ensured to enable the export of a larger quantity of animals. The efforts to increase the livestock should be intensified; especially big animals and poultry, with the growth reaching about 4-5% per annum. By 2010, the livestock sector should account for approximately 42 - 45 % of the total value of production of agricultural-forestry products.

**Fish Production:** The production of aquatic animals of high commercial value should be increased, especially fish raising in the Mekong and its tributaries. The fish processing industry should be improved and expanded to increase the value-added in this sector.

**Forestry:** The administration and exploitation of timber and non-timber forest products should be improved and reformed, with controls on the exploitation of timber. At the same time, tree plantation and forest protection should be promoted. The categorization of different types of forests, including the identification of ownership types (such as state-owned, collective, community and other forms of ownership) should be accomplished. The exploitation (use) of forest areas in the watersheds should be reduced by organizing strong management by the state units and increasing the forest cover. The investments should be focused on plantation in order to ensure the supply of raw materials to processing industries, such as paper and plywood mills.

The efforts on forestry plantation should be intensified to reach the level of 25,000 – 30,000 hectares. The forest cover should be increased to above 50 percent of the total land area of the country by 2010, including through mobilization of tree plantation in public places and alongside the roads.

## **Part D: Private sector investment in agriculture**

### **D.1 Current trends in private agriculture investment**

#### **D.1.1 Key national, regional and international firms/banks investing in Agriculture**

The key of private foreign investment are from China, Europe, Japan, Korea, Singapore, Thailand, Viet Nam.

##### **The main firms in agriculture investment**

- Coffee
  - Dao Heuang (Champasak)
  - Sinouk (Champasak)
  - Lao Mountain Coffee
  - Outspan Coffee (Singapore)
  
- Vegetables

- Lao Agro Industry (Vientiane Province)
- Mme. Inpeng (Champasak)
- Taniyama-Siam (Sekong)
- Textiles
  - La’ha (cotton indigo) (Savannakhet)
  - Lao Sericulture (Mulberries) (Xieng Khouang)
- Benzoin
  - Agroforex (France) in Huaphan
- Sugar cane
  - Mitr Lao (Thailand) in Savannakhet
  - Savan (Thailand) in Savannakhet
- Jatropha
  - Kolao (Korea) in Vientiane P
- Tree plantations
  - Oji (Japan) in Borikhamxay, khammouane)
  - Birla (India) in Savannakhet
  - Sun Paper (China) Savannakhet
- Cassava
  - Yetao (China) in Savannakhet
  - Henan (China) in Savannakhet
  - Tenghui (China) in Savannakhet
  - Hu Phu (Viet Nam) in Salavan
- Rubber
  - Dak Lak Rubber Co. (Viet Nam)

- Quasa Rubber (VietNam)
- Huang Anh Rubber (Vietnam)
- Sino-Lao Rubber Co., Ltd. (China)
- Zenhua Rubber (China)
- Ruifeng Rubber (China)
- Jianfong Rubber Development Co., Ltd.

### **D.1.2 Major areas of investment**

The area of investment classified by country:

- China
  - Mostly in the North
  - Rubber, tea, vegetables, cassava, livestock, NTFPs
  - Rubber processing
- Europe
  - North, South
  - France: Jatropha, benzoin
  - Hungary: livestock
- Japan
  - Central, South
  - Eucalyptus, Acacia, vegetables
- Korea
  - Central, South, North
  - Jatropha, NTFPs
- Singapore
  - South
  - Trade zones, coffee
- Thailand



- Central, South
- Sugar cane, coffee, vegetables, cassava, pigs, cattle, maize, macadamia nuts, oil palm, peanuts, castor bean, cardamom, cassava
- Viet Nam
  - South, North
  - Cassava, rubber, livestock, forestry, NTFPs, maize, cattle, buffalo

The area of investment classified by Agro- processing region:

- **Agro-processing: North**
  - Organic tea to China
  - Rubber to China
  - Maize to China, Thailand, Viet Nam
  - Soybeans to Thailand
  - White sesame to Thailand
  - NTFPs to China, Japan, Korea
- **Agro-processing: South**
  - Okra to Japan
  - Coffee to Hongkong, Europe, Thailand
  - Cabbages to Thailand, Viet Nam
  - Bananas to Thailand, Viet Nam
  - Cotton indigo products to Japan
    - Peanuts to Thailand, Viet Nam
  - Cassava to Viet Nam
  - Rubber to Viet Nam
    - Soybeans to Thailand, Viet Nam
- **Agro-processing: Central**
  - Maize to Thailand

- Sweet corn to Europe
- Vegetables to Europe
- Peanuts to Thailand
- Cassava to Thailand
- Black glutinous rice to Europe, some organic

### **D.1.3 Investors' assessment of factors influencing their investment decisions**

In general, there are limitations in attracting foreign direct investment due to the lack of a domestic workforce with technical capacity. Human resources development requires an extended period of time. A solution at the initial stage may be to import international labour required to support projects receiving foreign direct investments. Clearer labour policies will be issued to promote the private sector and foreign investors to invest more capital in developing the industries. Foreigners working for enterprises investing in the country have to contribute to commodity production. Employees and technical workers are urged to prepare for meeting the needs of foreign investments. Thus, there is an urgent need to train technical workers.

Based on occupation types and regional specialty, a development plan will be determined in order to attract foreign investment. For example, foreign investment will be attracted in hydro-electricity, mining, food processing, cattle rearing and export industries. A list of projects that require foreign investment will be compiled within each period of the five-years in relation to the granting of foreign investment permits. A supporting committee will be assigned to inform potential investors in capable countries to attract foreign investment. Major cities should set up meetings for discussion and report on the foreign investments that suit the capacities, strengths and priorities of the local people as well as the country. Senior Government leaders should arrange meetings with local and international investors/enterprises to receive feedback, in order to improve the public investment environment. The difficulties that confront the enterprises should be addressed and solved immediately in order to encourage and facilitate production and business operations. Regular budgets will be injected into enterprise activities to enhance integration, discussion and assistance, solving difficulties that confront foreign investors.

## **D.2 Foreign direct investments (FDI)**

The 7<sup>th</sup> NSCDP has gathered a development aspects based on FDI to achieve the expectation of increase and target of development. Based on a previous benefits from FDI, This five-year development plan is concentrated on attracting the FDI as follow these circumstances below:

1. Generate income to Government for involving into social and human resources development
2. Create stable occupation/professional and income to people for reducing a poverty and increasing a civilization of country
3. Transfer a new skills and technologies to a local private business development and
4. Preventing environmental recourses.

From 2001 to 2005, the Lao PDR has received 585 FDI projects with a total committed capital of USD 2.8 billion. But, only USD 1.07 billion worth of funds were actually brought in (disbursed) during the period. The agriculture sector received 14 percent of the total number of projects accounting for 7 percent of the total investment capital. The proportions of investment in the agriculture and services sectors show an increasing trend. In the five year period, FDI disbursements reached USD 933 million of which USD 326 million was received in 2005. Capital injected from abroad reached USD 855 million, accounting for 91.6 percent of the total.<sup>5</sup> Disbursements in agriculture, forestry and fisheries sectors at 4 percent.

### **D.2.1 Factors affecting the business climate for FDI in the agriculture sector (FDI attraction policy)**

The overall strategy is to create a more favorable environment to promote the private sector and to attract foreign direct investment (FDI). Existing regulations, laws and procedures will be changed to accelerate the process of setting up a business. The rate of growth of foreign investment into various projects will be accelerated. Investment activities will be varied due to an open environment for attracting foreign investments from the private sector or Lao people living overseas to be involved in commodity production for domestic and/or international markets. There will be measures for developing market

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<sup>5</sup> From 6<sup>th</sup> NSEDP

types, science and technology services, intellectual products and business consultancies.

The Government will conduct regular assessments of enterprise business operations for every economic sector (e.g. private and state sectors), and has policies to reward people with great achievements with medals. Regulations and services will be improved and disseminated in order to simplify investment, and shorten the time for granting investment permits. The effectiveness of investment promotion will be improved and there will be a new method to gain awareness about investments with ownership and suitability for local conditions and types of enterprises. The policies on investment priorities will be reviewed, including the regulations on granting investment permits, especially land acquisition fees, transportation and telecommunications service charges and others, to build a more favorable investment environment in the Lao PDR. Projects with permission can be implemented immediately and new project registration will be speeded-up.

Positive impacts from agriculture investments (evidence from PEI/IUCN/NERI studies), such as increased employment and income for local people, stimulates other investment opportunities (spillovers), contribution to community development, support development of rural infrastructure, generated revenues to provincial and national government. In contrast, its negative impacts were including a loss of local people's access to land for agricultural/livestock and forests (NTFPs), land disputes, low returns to labor, possible increased vulnerability to food insecurity, impacts of chemical use on human and environmental health, costs of social environmental impacts are not accounted, increased uncertainty and lack of adequate protection from market volatility

## **D.3 Opportunities and incentive to private investment**

### **D.3.1 Public sector support for private sector investments**

Overall, FDI has made a positive contribution to the manufacture of goods, economic growth and the restructuring of the economy. It also helped to develop the private sector. These achievements were attributed to the incentives provided by the Government and other measures, such as the decentralization of foreign investment licensing. From 2005 onwards, provinces have been delegated by the authorities to license foreign investment projects valued up to USD 2 million. This

has led to significant increases in FDI compared to the beginning of the Plan period. Annual forums with investors and businesses were organized to discuss constraints and explore solutions. At the same time, the infrastructure has been improved rapidly providing better facilities to attract FDI. In October 2004, the National Assembly revised the Law on Foreign Investment including the incentives, thereby paving the way for increasing FDI in 2005 and thereafter.

The vision is to make the private sector an increasingly important driving force for accelerating economic growth, generating high-paying jobs, and reducing poverty. Increased private investment will provide new income generating opportunities including many new jobs during the next five years. Private sector investment will also play a pivotal role in increasing the competitiveness of the Lao economy in regional and international markets during the period.

#### **D.4 Conclusions and policy recommendations**

The Sixth Plan (2006-2010) will translate programme into actions and methods for economic development that incorporate foreign investments. There will be an immediate materialization of laws related to foreign investments. The 5th National Assembly already made some changes to the mechanisms, policy, plans, procedures for granting investment permits, etc. These will be monitored regularly for further improvement and to enlarge the investment environment. This will create fast investment procedures, which will become simpler.

#### **Agricultural development Targets**

- Reform the laws and regulations involved in setting up enterprises and streamline the process;
- Finalization, implementation and enforcement of the implementing regulations for the Business Law;
- Improve the quality and professionalism of public service provision;
- Increasing transparency;
- Hold regular meetings between the central and local level Government and the private sector;
- Reform regulations and administrative constraints that give rise to monopolies such as: lift restrictions on the movement of goods

between provinces; and abolish limitations on restricting provincial contracts to local firms;

- Lift some restrictions on foreign workers;
- Reform the tax system, setting up proper monitoring agencies;
- Increase foreign investment;
- Continue to develop regulations and business operation laws and improve the business licensing processes; reduce unnecessary procedures; and increase fast and convenient services to businesses and entrepreneurs;
- Promote the establishment of enterprises, cooperatives and family businesses in all areas permitted by the Government; Increase people's access to financing.

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