

## *Business Models for Foreign Investment in Agriculture in Laos*

---

*Roderick Campbell, Economists at Large*

*Tristan Knowles, Economists at Large*

*Amphaphone Sayasenh, Enterprise & Development Consultants Co.*

*July 2012*

© 2012 The International Institute for Sustainable Development  
Published by the International Institute for Sustainable Development.

---

## About IISD

The International Institute for Sustainable Development (IISD) contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, and management of natural and social capital, as well as the enabling role of communication technologies in these areas. We report on international negotiations and disseminate knowledge gained through collaborative projects, resulting in more rigorous research, capacity building in developing countries, better networks spanning the North and the South, and better global connections among researchers, practitioners, citizens and policy-makers.

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC), and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

### Head Office

161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4  
Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Web site: [www.iisd.org](http://www.iisd.org)

---

## About TKN

The Trade Knowledge Network (TKN) is a global collaboration of research institutions across Africa, Asia, Europe and the Americas working on issues of trade, investment and sustainable development. Coordinated by the International Institute for Sustainable Development (IISD), the TKN links network members, strengthens capacity in areas of research, training and policy analysis, and also generates new research to assess and address the impact of trade and investment policies on sustainable development.

The TKN brings together institutions and individuals working on common concerns, strengthening each others' research and communication capacity and knowledge bases, and developing solutions to share with others outside the network. It thereby provides a platform for partner-based research and specific policy engagement.

### Business Models for Foreign Investment in Agriculture In Laos

July 2012

Prepared by Roderick Campbell, Economists at Large  
Tristan Knowles, Economists at Large  
Amphaphone Sayasenh, Enterprise & Development Consultants Co.

### Acknowledgements

The authors would like to thank everybody who contributed to this project by providing their time and insight in person, via email or over the phone. This work would not have been possible without you.

## Abstract

Laos is a country undergoing rapid development. With a high percentage of the rural population still dependent on agriculture for their livelihoods, the sector is an important part of Laos' development strategy. With increasing inflows of foreign direct investment (FDI), it is important to assess whether or not the investment is meeting the stated development goals for the country and the sector and how different business models contribute to these goals. This paper investigates FDI into the agriculture sector in an attempt to understand the pros and cons of various business models, focusing on the model of land acquisition used by foreign investors and the extent to which various business models are contributing to economic development. In addition to a comprehensive review of secondary sources, we conducted interviews with stakeholders from the private sector and international non-governmental organizations (NGOs). Our research has shown that Laos is meeting its stated macroeconomic growth targets for agriculture, although these can mask negative impacts on local populations. This highlights the important distinction between economic growth and economic development. The link between FDI and broader economic and agricultural development goals remains unclear. To improve this, business models should be encouraged that more clearly align with both development and growth objectives. However, business models alone will not be a panacea for development of the agriculture sector in Laos. Although our research is focused on FDI, the role of official development assistance (ODA) should not be overlooked. Greater collaboration and communication between FDI and ODA projects could result in better development outcomes. Laos is making steps to improve in all of these areas but will need to ensure that initiatives at a central level are carried through and enforced at a provincial and district level. A lack of clear land rights, frequently changing investment laws and poor transparency are potential barriers to some investors. Similarly, a lack of reliable socioeconomic data makes it difficult to assess the likely impacts of large-scale projects. Having proven it can attract FDI, Laos now needs to ensure that FDI into agriculture is contributing to economic development as well as economic growth.

### Report prepared by:

#### Economists at Large

Albert Park VIC 3206  
Melbourne, Australia  
Phone: (+61 3) 9005 0154  
Fax: (+61 3) 8080 1604  
Email: [research@ecolarge.com](mailto:research@ecolarge.com)  
Web: <http://www.ecolarge.com>



Economists at Large (Ecolarge) is a team of economists with experience across economics, finance and sustainability. We provide professional consulting services to leading conservation and environmental NGOs.

#### Enterprise & Development Consultants

Ban Nakham, House No: 269 Unit 17  
Vientiane, Laos PDR  
Phone: (+856-21) 251050-1  
Fax: (+856-21) 251061  
Email: [edclao@laotel.com](mailto:edclao@laotel.com)  
Web: <http://www.edclaos.com>



Enterprise & Development Consultants (EDC) is a professional Business and Management Consulting Company that offers and delivers management tools in combination with enterprise development.

## Table of Contents

Executive Summary .....	1
Introduction .....	4
1.0 Agriculture in Laos.....	5
1.1 The Agriculture Sector in Laos.....	5
1.2 Production Quantity and Value .....	6
1.3 Domestic Consumption and Agricultural Trade.....	8
1.4 Employment in Agriculture.....	9
1.5 Value Adding .....	9
1.6 Food Security .....	9
1.7 Official Development Assistance in Agriculture .....	10
2.0 Development Strategy for Laos.....	11
2.1 Role of FDI in Overall Development Strategy .....	11
2.2 Strategy for Agricultural Development.....	11
3.0 Foreign Direct Investment in Agriculture.....	13
3.1 Trends in and Sources of FDI .....	13
3.2 Role of FDI in Sector Development .....	15
3.3 The Extent of Land Acquired by Foreign Investors .....	15
3.4 Nature of Investors .....	18
4.0 Policy Framework for Agriculture.....	19
4.1 Policies to Liberalize FDI in Agriculture .....	19
4.2 Factors That Regulate FDI in Agriculture.....	19
4.3 Processes to Protect Local Communities .....	22
4.4 Forms and types of Investment.....	23
4.5 Bilateral Investment and Trade Treaties .....	24
5.0 Business Models for FDI in Agriculture.....	25
5.1 Business Models for FDI .....	25
5.2 Case Examples of FDI in Agriculture .....	28
5.3 Challenges and Opportunities of Different Business Models.....	36
5.4 Is FDI Contributing to Development Objectives? .....	37
6.0 Conclusions and Recommendations.....	40
Bibliography.....	42
Appendices.....	45
Investment Application Procedures.....	45
Laws and Regulations Related to FDI.....	46
Key Authorities.....	46

## List of Figures

Figure 1: Map of Laos.....	5
Figure 2: Crop Production in 2007 ('000s tons).....	7
Figure 3: FDI Inflows to Laos Between 2005 and 2011, by Sector (US\$ billions).....	13
Figure 4: FDI Into Agriculture Sector in Laos (2005–2011).....	14
Figure 5: Agricultural Concessions by Agro-Ecological Zone.....	17
Figure 6: Area of Land Concessions, by Category.....	17
Figure A1: Commodity (Cash) Crops Grown in Laos.....	47

## List of Tables

Table 1: Scenarios for Sources of Agricultural Investment to 2015.....	12
Table 2: Summary of Land Area of Concessions Estimated From Different Sources.....	15
Table 3: GTZ's Estimated Agricultural Concession Areas by Province.....	16
Table 4: Foreign Agribusiness Investing in Laos.....	18
Table 5: Tenure Arrangements for Land in Laos.....	20
Table 6: Laos PDR Ease of Doing Business Rankings.....	22
Table 7: Types of Investment Activity in Laos.....	24
Table 8: 2+3 and 1+4 Models for Contract Farming in Laos.....	26
Table 9: Other Models for Contract Farming in Laos.....	26
Table 10: Land Fees.....	28
Table A1: FDI Into Agriculture Sector in Laos (2005–11).....	48
Table A2: Total FDI Into Laos—All Sectors (2005–11).....	48

## List of Abbreviations and Acronyms

ADS	Agricultural Development Strategy
AFTA	ASEAN Free Trade Area
AIP	Agriculture investment plan
AMP	Agriculture master plan
ASEAN	Association of South-East Asian Nations
CDE	Centre for Development and Environment
EBA	Everything But Arms regulation
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign direct investment
GDP	Gross Domestic Product
GTZ/GIZ	Deutsche Gesellschaft für Technische/Internationale Zusammenarbeit
Lao PDR	Lao People's Democratic Republic
LDC	Least-Developed Country
MAF	Ministry of Agriculture and Forestry
MNRE	Ministry of Natural Resources and Environment (Lao PDR)
MPI	Ministry of Planning and Investment (Lao PDR)
NSEDP	National socio-economic development plan
ODA	Official development assistance
PIP	Public investment program
SDC	Swiss Development Agency

## Executive Summary

The Lao People's Democratic Republic (Lao PDR or Laos) is a landlocked Southeast Asian country bordering Cambodia, China, Myanmar, Thailand and Vietnam. The population and economy of Laos are small in comparison to others in the region, with a population of approximately 6 million and gross domestic product (GDP) of US\$7.3 billion in 2010. Laos is currently classified as a Least-Developed Country (LDC) but is aiming to shake off this status by 2020.

To graduate from LDC status, Laos has ambitious plans for economic growth, including in the agriculture sector that currently supports 75 per cent of the population and accounts for 33 per cent of GDP. The sector has experienced a growth rate in recent years of over 4 per cent, and it is expected that this rate will be maintained over the coming decade.

Foreign direct investment (FDI) in agriculture was restricted until 2005 but has since expanded rapidly, with nearly 250 projects approved with a combined value of between US\$1.1 billion and US\$1.7 billion. Due to data limitations it is unclear how this investment has been split between investment in annual crops, perennial crops, plantations, livestock and fisheries. Adequate and reliable data remains an ongoing issue to analysis of the sector.

The stated long-term goals (by 2020) for the agriculture sector are twofold: to modernize lowland farming with a focus on market-orientated production (cash crops) for smallholders; and to better conserve upland ecosystems to ensure food security and improve the livelihoods of rural populations. The planned role of FDI is to assist with the shift from subsistence to more a commercially focused agriculture sector with a specific focus on irrigated agriculture, commodity crop production and farmer organization.

Foreign investors in Laos generally utilize one of two business models to acquire productive agricultural land: land concessions and contract farming.

Land concessions grant the use of land and associated water resources to an investor for a period of time. Concessions are common in Lao agriculture because under the constitution all land is technically owned by the state, and so the sale of land is not possible. Land concessions are more commonly used in Laos for perennial tree crop and pulp wood plantations.

Concessions are popular with investors due to the greater level of control they gain over land and associated water. The commercial orientation of concession agriculture has contributed to growth in agricultural output over the last five years. Smallholders may also favor a concession-like arrangement if they have little faith in the investors, little knowledge of the commodity or are not prepared to wait for a return. In such cases, local people may opt for the apparent certainty of rent payments and wage labour.

Negative aspects of concessions can arise because the interests of investors and government bodies are not always aligned with landholders, who often have little bargaining power to negotiate the terms of concessions on their land. Such deals often appear to be land grabs by voracious investors in collusion with corrupt officials. Numerous examples are well documented—and certainly there are many that are not—of landholders being forced to concede rights to their land for minimal compensation. In the hurry to increase investment, concessions have often been granted at rates very favourable to investors (between US\$2 and US\$6 per hectare), but that return little revenue to governments.

While concessions can provide opportunities for wage earning, limitations are often imposed on labour, such as minimum or maximum age limits, which can affect households with older members, or female-headed households. As the case example of the Mitr Lao Sugar project demonstrates, formal employment in rural areas often serves to displace traditional livelihoods based around natural resource collection and livestock ownership.

Contract farming involves agreements between farmers and downstream agricultural companies whereby the farmers agree to supply a certain quantity of agricultural commodities at a certain price. In addition, contract farming typically involves the agricultural company providing certain inputs to farmers, including seed, fertilizer and technical advice. Contract farming is intended to reduce the risk for both buyers and sellers by providing fixed prices and thus greater certainty of a return on investment. Contract farming is more commonly used in Laos for annual crop production.

As landholders maintain use rights to their land, contract farming allows investors to be involved with agricultural development, without the impression—or reality—of a land grab. Investors can secure reliable supplies and quality while farmers can benefit from the technology, capital and credit supplied by investors.

Because contract farming often involves methods or commodities that are new to participants, farmers can have difficulty gauging the risks of production or the market. Similarly, education and skill levels in commercial agriculture are often low. As a result, investors often act as de facto extension services, a role that they may not be suited for and that incurs additional costs. Additionally, there is a risk to farmers that investors may not buy the full quota, or change quality standards and prices. Similarly, for investors, examples abound of farmers selling their contracted crops to passing traders at higher prices than in the contract.

With no official government statistics yet available, estimates for total area of land acquired by foreign investors varies. Based on available data, we estimate that foreign concessions account for between 9–14 per cent of the total area of agricultural land in Laos. This is likely to be a conservative estimate of total control by foreign interests, since it does not include contract farming. Our analysis also shows that the bulk of land for concessions has gone to rubber and eucalyptus, with only minor amounts for food crops. This is a potential concern for both local and national food security in Laos.

Due to these concerns, moratoria on land concessions have periodically been proposed, although enforcing them has so far proved difficult. Another promising initiative of the government is the requirement for environmental and social impact assessments for projects. These are now officially required where a project might impact significantly on the environment or communities. In practice, however, agricultural projects have tended to avoid such assessments. Ongoing work to create a database of agricultural investments is another positive initiative, as are efforts to improve data available concerning land use titles.

Although FDI does have a role to play, it will not be a panacea for developing the agriculture sector in Laos. Our research suggests that aligning FDI directly with development objectives has so far been unsuccessful. ODA has a role to play and can contribute to the development potential of foreign-owned agriculture projects. Consequently, the Lao government should encourage greater collaboration between FDI and ODA. Similarly, the government of Laos should be careful not to over-incentivize foreign investment to the point that the government fails to receive any benefits by way of taxes and duties.

It is not surprising that foreign capital is the first thing to arrive in a country undergoing market reforms, since it is highly mobile. But attracting capital is the easy part. Attracting quality capital, building strong economic institutions

and developing skills and education will be the real challenges for Laos in the coming decade. Having proven it can attract FDI, Laos now needs to ensure that FDI into agriculture is contributing not just to economic growth but to economic development.

## Key Recommendations

- Improve information collection and collation regarding investments.
- Improve data collection of trade and production statistics, with a focus on separating food crop production from non-food crop production. Currently, it is often difficult to disaggregate broad agricultural statistics between food crops, tree crops and forestry, livestock and fisheries.
- Better align economic development (as opposed to economic growth) objectives with approvals process for agriculture investments. This will require increased cooperation between foreign investors, the government and overseas development agencies.
- Improve coordination and communication between Ministry of Planning and Investment (MPI) and the Ministry of Agriculture and Forestry (MAF).
- Improve clarity of land tenure, which remains an ongoing source of uncertainty for rural populations and investors.
- Take a broader perspective of food and livelihood security when assessing project impacts on rural communities—consider ecosystem services and non-market/informal economy values.
- Conduct reviews of the effectiveness of specific agriculture projects in achieving stated development goals. This will require improved measurement of baseline indicators prior to a project and continual assessment over the project lifespan.



## Introduction

The Lao People's Democratic Republic (Lao PDR, or Laos) is a landlocked Southeast Asian country bordering Cambodia, China, Myanmar, Thailand and Vietnam. Laos is small by comparison to its neighbours, with a population of approximately 6 million and gross domestic product (GDP) of US\$7.3 billion in 2010 (World Bank, 2012; United Nations Food and Agriculture Organization [FAO], 2012a).

Laos is a single-party state that has seen rapid economic growth since market reforms began in the late 1980s. GDP has grown at a rate of above 4 per cent since the early 1990s and above 7 per cent since 2005 (World Bank, 2012). Between 2005 and 2011, Laos also saw significant inflows of foreign direct investment (FDI) as regulations were relaxed to encourage investment. Between 2005 and 2011, US\$7.4 billion of FDI was approved, with the biggest areas of investment being mining, hydropower, services and agriculture.

This paper looks specifically at FDI in the agriculture sector in Laos and the business models used by foreign investors. In particular, this report will focus on investment and issues surrounding food production—specifically crops and livestock. Plantation timber will be mentioned throughout but not in significant detail. Riparian fisheries constitute an important part of the Lao diet but are not discussed extensively in this report because they have not seen a significant amount of foreign investment to date.

**Section 1** provides a background to the agriculture sector, including levels of production, major commodities, agriculture's role in the economy and its contribution to food security and development.

**Section 2** outlines how FDI and agriculture are expected to fit into the official development strategy for Laos.

**Section 3** examines FDI in the agriculture sector: its role, trends and levels of investment, and the types of investors involved.

**Section 4** outlines the policy framework relating to FDI in agriculture: how the government promotes and regulates the sector, as well as measures to reduce adverse impacts, types of investment and the role of bilateral trade and investment.

**Section 5** looks at the types of business models that are being used and explores the challenges and opportunities of various models. Case examples conducted for this report and those from other reports are used to illustrate the reality of projects on the ground.

The report aims to provide an overview of trends in FDI and socioeconomic impacts of different business models for agricultural production. We hope that this overview will help to inform domestic policies and laws to ensure that investment projects better contribute to economic development in the future.

## 1.0 Agriculture in Laos

### 1.1 The Agriculture Sector in Laos

While declining as a portion of GDP, agriculture remains central to Laos' development, as it contributes to the livelihoods of 80 per cent of the population (World Bank, 2006). Agriculture and forestry accounted for 33 per cent of GDP, or approximately US\$2.4 billion in 2010 (World Bank, 2012). This is down from 61 per cent in 1990 and 52 per cent in 2000 and reflects the growing importance of other sectors such as mining, hydropower and services (World Bank, 2006).

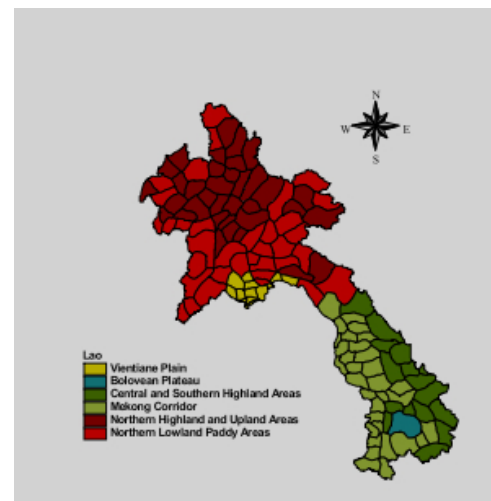
The agriculture sector includes crops, livestock, fisheries and forestry. Agriculture is sometimes more broadly referred to in government documents as the agriculture, natural resource and rural development sector, or ANR (MAF, 2010a). This is an indication of the strong relationship the government sees between agriculture and development.

Agriculture is broadly divided into lowlands and uplands systems (World Bank, 2006; MAF, 2010a; FAO, 2011). This reflects the geography of Laos, with a land area of approximately 240,000 square kilometres, of which around 80 per cent is mountainous (FAO, 2011). Approximately 25 per cent (or 60,000 square kilometres) of the land area of Laos is used for crops, livestock or forestry. In 2009, 10 per cent of Lao's land area was considered agricultural land. Of this, approximately 6 per cent is arable, used for temporary crops or fallow, while approximately 4 per cent would be used for perennial crops and livestock grazing (World Bank, 2012). A further 15 per cent of the land area of Laos is estimated to be potential production forest, (Tong, 2009).<sup>1</sup> The areas of arable and agricultural land show an increasing trend due to land-use change.

Lowland agriculture is dominated by rain-fed and irrigated cropping, while upland agriculture is dominated by shifting cultivation (MAF, 2010a). Irrigated crop production for commercial commodity production is the dominant mode of expansion in lowland agriculture, while upland agriculture is focused on food security and livelihoods of rural populations (MAF, 2010a).

In addition to the broad distinction between lowlands and uplands agriculture, a further six agro-ecological zones are commonly referred to:

- Mekong Corridor
- Central-Southern Highlands
- Vientiane Plain
- Bolovan Plateau
- Northern Highlands
- Northern Lowlands



**FIGURE 1: MAP OF LAOS**

Source: World Bank (2006), p. 4.<sup>2</sup>

<sup>1</sup> Tong estimates that 3.5 million hectares or 35,000 square kilometres (approximately 15 per cent of the total land area of Laos) will be deemed potential production forest areas.

<sup>2</sup> The World Bank authorizes the use of this material subject to the terms and conditions on its website, <http://www.worldbank.org/terms>.

## 1.2 Production Quantity and Value

Of the US\$2.4 billion that agriculture contributes to GDP, crops account for 54 per cent (US\$1.3 billion), livestock and fisheries for 36 per cent (US\$0.9 billion) and forestry for 10 per cent (US\$0.24 billion) (FAO, 2011; World Bank, 2012). In 2008, rice had the largest production value of all crops, approximately US\$700 million, much of which is consumed by growers rather than marketed. Corn was the next most valuable crop with a value of US\$91 million, mostly used for livestock feed (FAO, 2011).

Agricultural output from Laos has increased markedly in recent years, growing at 4.1 per cent annually from 2006 to 2010 (Government of Lao PDR, 2010). Contributing factors have been trade reforms, improved infrastructure, economic growth in surrounding countries, price increases, land availability, increased involvement of the private sector and increased domestic demand (MAF, 2010a). It is expected that the growth rate for the sector will remain above 4 per cent over the next 10 years (MAF, 2010a).

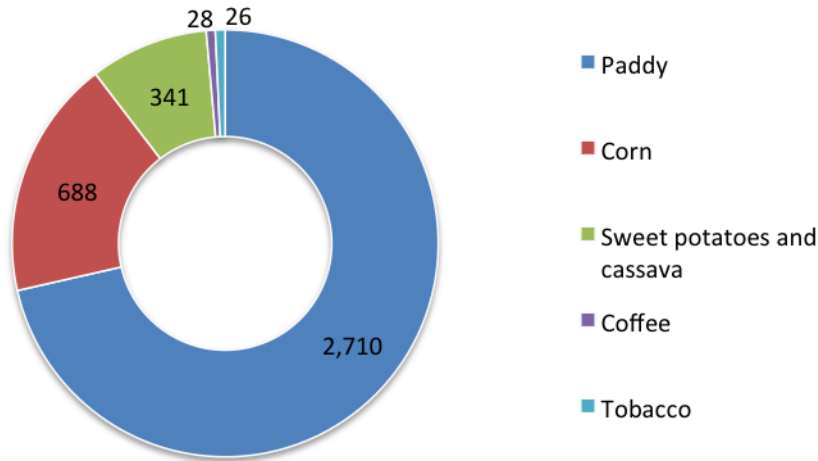
The majority of production remains for domestic consumption, but this is changing as the economy develops and opens up to international trade. Exports have risen in recent years, but the true extent of agricultural exports is somewhat masked by informal trade and a lack of accurate data (World Bank, 2006).

### Crops

Agricultural cropping in Laos is still dominated by smallholders engaged in low-productivity subsistence agriculture (MAF, 2010a; FAO, 2011). The main staple crop is rice, accounting for the vast majority of cultivated area (World Bank, 2006; FAO, 2011). Glutinous rice in particular is cultivated in Laos for domestic consumption. Other crops grown include vegetables, corn, coffee, tea, fruit, spices, sugar cane and cotton. Corn, mainly for livestock feed, has grown at the fastest rate in recent years, with production increasing by 545 per cent—from 143,000 tonnes<sup>3</sup> in 2003 to 947,000 tonnes in 2008 (IMF, 2009) and (FAO & WFP, 2011).

Levels of production reflect the land area dedicated to particular crops, as seen in the chart below. Rice is the largest crop by production, with over 2 million tonnes produced in 2007. The second biggest crop by production quantity in 2007 was corn (FAO & WFP, 2011).

<sup>3</sup> The IMF appears to report using imperial tons while the FAO/WFP use 'tonnes' which we have assumed is metric tonnes (1000kg). For this report, we report figures based on the usage in the original source document.



**FIGURE 2: CROP PRODUCTION IN 2007 ('000S TONS)**

*Note: Because this chart refers only to data provided by IMF (2009), we have used their spelling, tons.*

### Livestock

Between 40 and 60 per cent of households own some sort of livestock, particularly in rural areas outside the more developed Vientiane Plain (World Bank, 2006). Poultry, pigs and cattle are mostly kept for eggs, meat and milk, while buffalos are used extensively for draft power to assist with rice cultivation. Recent growth in animal numbers has been in poultry and pigs, due to increased intensive raising for commercial meat production (MAF, 2010a). This is typical of developing livestock sectors, as poultry and pigs are most suitable to more intensive raising (Campbell & Knowles, 2011).

Poultry far outnumber other livestock in terms of numbers, but pigs, cattle and buffalo account for the vast majority of meat production (International Monetary Fund [IMF], 2009).

### Fisheries

Fish from the Mekong river and its tributaries are an important source of protein for people throughout the region, particularly for rural households, where fish account for around 40 per cent of total protein intake. By 2020, the government plans to increase annual fisheries production per capita from 10 kilograms to 23 kilograms by developing aquaculture industries (World Bank, 2006).

### Forestry

Like many other countries in the region, Laos has seen its forest cover and density decline dramatically. In 1940, forest cover was 70 per cent but has since declined to between 40 and 50 per cent (Tong, 2009; FAO, 2011). Dense forest areas have decreased from 29 per cent in 1992 to 9 per cent in 2005 (Tong, 2009). Deforestation is caused by shifting cultivation methods (slash and burn), uncontrolled logging and land-use change (to agricultural or other uses) (Tong, 2009).

## Timber

The forestry sector in Laos is focused on roundwood, sawn wood and wood-based panel production for the furniture industry (Tong, 2009). In 2007, approximately 450,000 cubic metres of sawlogs were harvested from Lao forests. Plantation forestry is increasingly encouraged with common plantation species including eucalyptus and teak (Tong, 2009).

## Non-Timber Forest Products (NTFPs)

NTFPs are non-timber plant or animal products collected from forested areas. The uses of NTFPs include food, fibres, medicines and extracts or ornamentals.<sup>4</sup> NTFPs are particularly important to rural livelihoods. The total value of NTFP's to rural households has been estimated at over US\$500 million (Foppes & Samontri, 2010).

## 1.3 Domestic Consumption and Agricultural Trade

### Domestic Consumption

Most of Laos' food crop production, particularly paddy rice, is consumed domestically. Only 10 per cent of rice produced is marketed, with the vast majority being consumed by farm households (MAF, 2010a). Limited exporting of rice occurs because the main variety grown is glutinous (sticky rice) and is not in high demand on the world market. By contrast, cash crops such as coffee and maize as well as timber are nearly all exported (United Nations Conference on Trade and Development [UNCTAD], 2010).

### Trade

While total exports from Laos increased from US\$0.47 billion in 2003 to US\$1.3 billion in 2007, imports increased at the same rate and so the trade deficit for agriculture has increased from US\$0.3 billion to US\$0.8 billion (IMF, 2009).

Between 2003 and 2009 the biggest absolute growth in exports for Laos has come from copper, although the category "Other" has also grown significantly. The situation is the same for imports, with the two biggest increases in "Capital Goods" and "Other." This highlights the insufficiency of data available for Laos and hinders further analysis.

Nonetheless, Laos is currently a net importer of agricultural products, with imports exceeding exports by US\$182 million in 2008 (FAO, 2011). Overall, agricultural exports from Laos have grown at a slower rate than exports from the mining and energy sectors and as a result now account for a smaller share of total exports.

### Agricultural Trade

Exports of non-timber agricultural products were estimated at US\$53 million in 2008 (FAO, 2011), an increase of nearly 40 per cent from 2005, when FDI in the sector was liberalized. The most significant export crops by production value were coffee and maize (FAO, 2011). In 2009, live cattle imports were valued at US\$21 million, live pig imports at US\$8 million and live chicken imports at US\$0.2 million. Laos exported 3000 buffalos in 2009 with a value of US\$0.25 million. Despite this, official statistics show that Laos neither imported nor exported any meat products in 2009. However, it did import US\$6.6 million worth of processed dairy products (FAO, 2012b).

<sup>4</sup> For a more comprehensive list of NTFPs harvested in Laos see Foppes & Samontri (2010).

WFP (2007) also notes that the development of commercially focused agribusiness, particularly rubber, sugar and maize plantations, can adversely affect the livelihood strategies of food-insecure people and urges close monitoring of these developments. These developments are often linked with FDI.

FAO and WFP (2011) suggest that little has changed in the years since 2007, with recovery of food production and distribution following cyclone Ketsana in 2009 being hampered by erratic rainfall and dry conditions in many areas.

Stakeholder feedback emphasized the same points, highlighting that where land use change results in replacement of forests or staple food crops with commercial cash crops, income and food security can be affected. A forthcoming report by Vong (2012) will look at the impact of cash crops on food security in rural areas. Preliminary findings suggest that, for several reasons, cash crops (the focus of FDI) can have adverse impacts on food security for rural households.

## 1.7 Official Development Assistance in Agriculture

Laos is still heavily dependent on official development assistance (ODA), though the percentage of government expenditure covered by ODA has decreased from 92 per cent in 2007 to 53 per cent in 2010 (World Bank, 2012). Net ODA received by Laos in 2009 is estimated at approximately US\$540 million (OECD, 2012).

ODA tends to take the form of low-interest loans, grants or technical assistance (UNDP, 2008). Many ODA programs in Laos are targeted at education, unexploded ordinance (UXO) clearing, market reforms and efforts to achieve the millennium development goals (MDGs). Based on data from UNDP (2008), we estimate that over US\$200 million of ODA went to agricultural projects between approximately 2001 and 2010.

The organizations or countries with a greater priority on agriculture and natural resource management include (Source: UNDP, 2008) :

- The Asian Development Bank
- Food and Agriculture Organisation
- Finland
- France
- India
- Japan
- Korea
- Luxembourg
- New Zealand
- Norway
- Sweden
- Switzerland
- UNDP
- World Bank

## 2.0 Development Strategy for Laos

The Socio-Economic Development Strategy is the government's development strategy to 2020. It is implemented in successive five-year plans; the current plan is the 7th National Socio-Economic Development Strategy (NSEDPS) and covers the period of 2011-15 (MPI, 2010).

The overall goal for economic development is to achieve sustainable economic growth while reducing poverty and inequality. By 2020, Laos aims to "graduate" from Least Developed Country<sup>5</sup> status. To achieve this, the government is aiming for GDP growth of at least 8 per cent per annum between 2011-2015. They propose to broaden the economic base, improve human capital and labour productivity, and promote inclusion of marginalized groups such as women, ethnic minorities and remote communities (MPI, 2010).

The agriculture and forestry sector is expected to grow at a rate of 3-3.4 per cent and account for 23 per cent of GDP by 2015, down from 35 per cent in 2009. The declining size of agriculture relative to GDP reflects expected growth in other sectors. Agriculture and forestry are seen as having an important role in food security, employment and poverty reduction. The government hopes to turn Laos from a net importer of agricultural products to a net exporter by 2020 (MPI, 2010).

### 2.1 Role of FDI in Overall Development Strategy

To achieve its development goals and meet the growth target of 8 per cent per year between 2011-2015, the government estimates that total investment US\$15 billion is required. At least 50 per cent of this is expected to come from FDI, with a target of US\$1.6 billion of FDI per year. ODA is expected to remain constant at around US\$500 million per annum (17 per cent of total), with government and domestic investment accounting for the remaining 30 per cent (PEI Lao PDR, 2011). This highlights the importance that the government of Laos is placing on FDI in its development strategy (MPI, 2010). When it comes to agricultural development strategies, however, the government expects a greater relative contribution of official development assistance (ODA) to the agriculture sector (see the following section).

### 2.2 Strategy for Agricultural Development

The Agricultural Development Strategy (ADS) is the official strategy for development of the agricultural sector. It emphasizes a gradual transition from subsistence to commercial agricultural production and is supported by two implementation plans: the Agriculture Master Plan (AMP) and the Agriculture Investment Plan (AIP).

The stated long-term goals (by 2020) of the ADS are to modernize lowland farming with a focus on market-orientated production (cash crops) for smallholders, and to better conserve upland ecosystems to ensure food security and improve the livelihoods of rural populations (MAF, 2010a).

In the shorter term (2011-2015), the strategy includes four main goals:

1. Improving livelihoods through agricultural activities (crops and livestock) with a focus on food security.
2. Increased and modernized production of agricultural commodities (cash crops) based on organizations of smallholder farmers and utilizing private sector investment.

<sup>5</sup> For a definition of what constitutes a Least Developed Country, see <http://www.un.org/special-rep/ohrls/ldc/ldc%20criteria.htm>.

3. More sustainable production systems, including the stabilization of shifting cultivation, climate change adaptation and improved targeting of production based on socioeconomic and agro-economic conditions of different regions.
4. More sustainable forest management to improve the quality and quantity of national forestry cover and allow for mixed-uses of forest resources.

### Agriculture Master Plan (AMP)

In order to achieve the four goals outlined in the ADS, the Ministry of Agriculture and Forestry will implement eight programs covering the following areas:

1. Food production
2. Commodity production and farmer organization
3. Sustainable production patterns, land allocation and rural development
4. Forestry development
5. Irrigated agriculture
6. Other agriculture and forestry infrastructure
7. Agriculture and forestry infrastructure
8. Human resource development

### Agriculture Investment Plan (AIP)

The AIP outlines the potential for development partners and the private sector to enter into partnerships to finance the implementation of the eight programs outlined above (MAF, 2010b).

The AIP outlines three potential scenarios for investment in the agricultural programs run by the MAF: realistic, conservative and optimistic. Each scenario estimates a different mix of funding sources for running the eight programs within the Ministry of Agriculture and Forestry.

Under a “realistic” scenario, FDI is expected to contribute 46 per cent (US\$0.85 billion) of all investment into the sector by 2015. Overseas development assistance (ODA) is estimated to contribute 48 per cent (US\$0.89 billion), with only minor contributions from government budgets, (MAF, 2010b).

**TABLE 1: SCENARIOS FOR SOURCES OF AGRICULTURAL INVESTMENT TO 2015**

SCENARIO	INVESTMENT SOURCE (% OF TOTAL FUNDING FOR MAF PROGRAMS)		
	LAO GOVERNMENT INVESTMENT	ODA	FDI
Realistic	6	48	46
Conservative	12	88	0
Optimistic	3	34	63

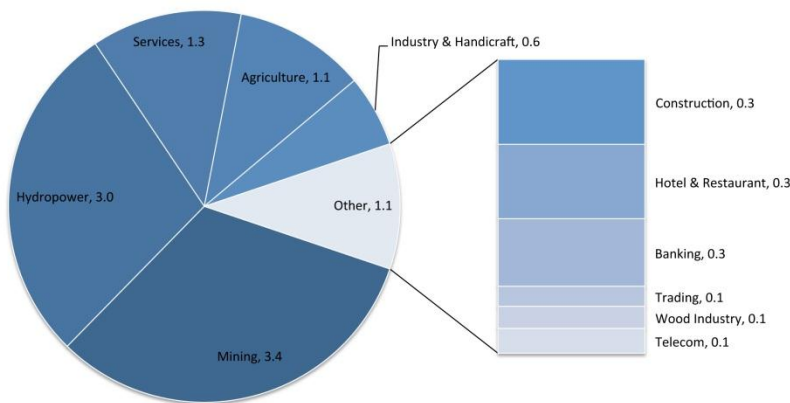
Source: MAF (2010b, p. 3)



### 3.0 Foreign Direct Investment in Agriculture

#### 3.1 Trends in and Sources of FDI

The Lao economy was opened to FDI in the mid-1980s and has grown strongly through the 1990s and 2000s. Since 2005, projects with foreign investment valued at between US\$10.7-12.7 billion<sup>6</sup> have been approved. The sectors receiving the most FDI have been mining (US\$3.4 billion), hydropower (US\$3 billion), services (US\$1.3 billion) and agriculture (US\$1.1 billion).



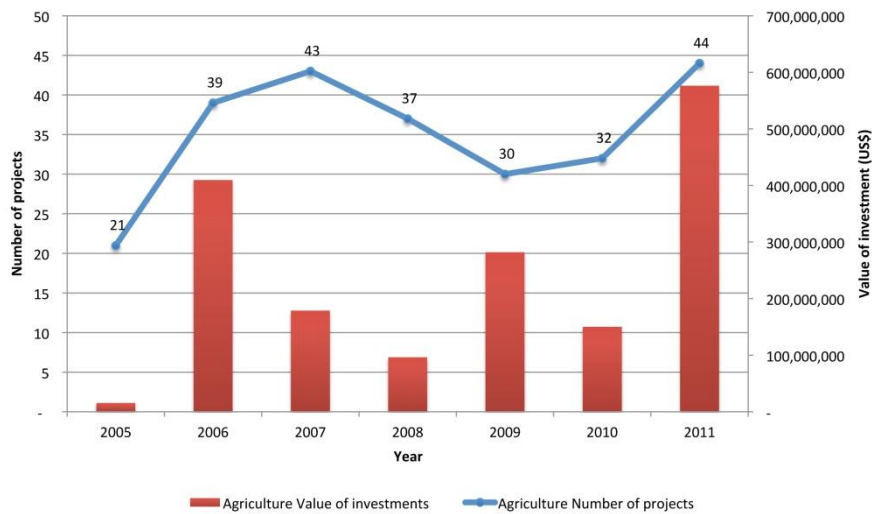
**FIGURE 3: FDI INFLOWS TO LAOS BETWEEN 2005 AND 2011, BY SECTOR (US\$ BILLIONS)**

Source: Based on data from Lao Statistics Bureau (2012).<sup>7</sup>

Foreign investment in agriculture was restricted until 2005 (FAO, 2011), but has since expanded rapidly, with nearly 250 projects approved with a combined valued of between US\$1.1 billion and US\$1.7 billion.

<sup>6</sup> The Lao Statistics Bureau data does not always include sub-totals for the foreign investment row. The lower range of the estimate (US\$10.7 billion) is based on stated foreign investment amounts for the various sectors. The upper range of the estimate (US\$12.7 billion) is based on total investment over the period.

<sup>7</sup> Some information was also provided by the Ministry of Planning and Information to confirm figures provided by the Lao Statistics Bureau.



**FIGURE 4: FDI INTO AGRICULTURE SECTOR IN LAOS (2005-2011)**

Source: Lao Statistics Bureau and Lao PDR Ministry of Planning and Investment (see appendices for data tables).<sup>8</sup>

This increase in FDI inflows has been driven by integration with Laos’ rapidly growing neighbours, Thailand, China and Vietnam. Through the 1990s and 2000s, the region has become better integrated, and demand has increased for raw materials and agricultural commodities, attracting foreign investors to the agriculture sector in Laos (Wright, 2009).

By far the dominant sources of investment in agriculture comes from China, Thailand and Vietnam, due to their proximity, strongly growing demand for agricultural products and traditional ties with Laos. Other investors include Japan, South Korea, India and Scandinavia, with a recent increase in investment from Gulf States such as Kuwait. These countries often lack arable land and water, and they are therefore attracted to Laos (FAO, 2011; Schoenweger & Ullenberg, 2009).

FDI in agriculture is focused on the Mekong Corridor and Vientiane Plains area. Investors favour areas where access to markets and infrastructure are best: “Simply, investors tend to go where there are roads. It is thus no surprise that Lowland areas are the principle target of investment, though expansion into Upland areas is increasing” (Wright, 2009, p. 30).

While FDI in agriculture in Laos covers a range of areas, models and crops, some general trends can be observed. These points are based on Baumüller and Lazarus (2011):

- In the north of the country, agricultural FDI is more focused on contract farming arrangements, while the south is more focused on large land concessions. Land in the south is better suited to large-scale agriculture and better linked to markets and processors.
- The major commodities are rubber, sugar, maize and coffee. Rubber investment is mainly by Chinese companies in the north, using contract farming and Vietnamese companies in the south through concessions. Sugar is the focus of Chinese and Thai investors, through concessions and contract farming. The dominant investors in maize production are Thai, particularly in border provinces.

<sup>8</sup> FAO (2011) reports a value in 2006 of US\$458 million. This is the total investment amount provided by the Lao Statistics Bureau. We estimate FDI at a more conservative figure of just under US\$400 million for 2006 and just over US\$100 million for 2010. The lower bound estimate of US\$1.1 billion does not include these two estimates, while the upper bound estimate of US\$1.7 billion does.

### 3.2 Role of FDI in Sector Development

The planned role of FDI is to assist in a shift from subsistence to a more commercially focused agriculture sector. It is hoped that this change will improve agricultural productivity, technical improvement and general economic development, as is made clear in the latest five-year plan:

The plan aims to modernise this sector: expanding irrigation; introducing modern technologies by strengthening extension centres; diversifying the crop and livestock regimes; developing seed farms; linking farm produce to agro-processing; introducing quality control measures; and human resource development in the sector. (Government of Lao PDR, 2010)

Infrastructure provision is central in the official perspective on FDI: “The export-oriented agriculture production (e.g. coffee, tea and rubber) must have mechanisms that can draw the attention of investors to invest in the construction of agriculture infrastructures” (Government of Lao, PDR 2006, p. 139).

### 3.3 The Extent of Land Acquired by Foreign Investors

A major problem in understanding and managing the impacts of FDI in agriculture in Laos is the lack of information. Perera (2011) estimated that 2040 concessions had been granted up until the 2009 moratorium, at an average fee of between US\$2-US\$6 per hectare.

With no official government statistics yet available, estimates for total area of land acquired by foreign investors varies. The table below provides the total area estimated by three different sources. Based on these figures, we can estimate that foreign concessions account for between 10-14 per cent of the total area of agricultural land in Laos. This is likely to be a conservative estimate of total control by foreign interests since it does not include estimates of control via contract farming.

**TABLE 2: SUMMARY OF LAND AREA OF CONCESSIONS ESTIMATED FROM DIFFERENT SOURCES**

SOURCE	DETAILS	AREA OF LAND (HECTARES)
GTZ, and MNRE*	GTZ and MNRE worked between 2009-2011 to create a database of land concessions in all provinces.	233,000
Land Matrix**	Land Matrix is a freely available online database of land deals compiled from varied sources.	210,772
GRAIN***	GRAIN is another freely available online database of land deals compiled from varied sources.	330,000

\* <http://www.giz.de/themen/en/30296.htm>

\*\* <http://landportal.info/landmatrix/get-the-detail/by-target-country/lao?mode=table&limit=0>

\*\*\* <http://www.grain.org/article/entries/4479-grain-releases-data-set-with-over-400-global-land-grabs>

To address the problem of insufficient information, a 2009-2011 project by the German development agency Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), and the Lao Ministry of Natural Resources and Environment (MNRE) attempted to create a database of land concessions in all provinces. The Division of Training, Ministry of Natural Resources and Environment and researchers from the Centre for Development and Environment (CDE) with support from the Swiss Development Agency (SDC) are continuing the work begun by GTZ and MNRE. The first comprehensive report on land use and concessions by sector, region, commodity, and socioeconomic trends is due to be published mid-2012.

## Extent of Land by Province

Preliminary findings of work to compile information about land use and concessions have been made available to compile the table below, which shows the estimated agricultural concession areas by province.

**TABLE 3: GTZ'S ESTIMATED AGRICULTURAL CONCESSION AREAS BY PROVINCE**

PROVINCE	ESTIMATED AGRICULTURAL CONCESSION AREAS (HA)*
Attapeu	17,591
Bokeo	1,896
Bolikhamxai	2,761
Champasak	41,146
Houaphan	NA
Khammouane	1,143
Luangnamtha	12,191
Luangphrabang	9,275
Oudomxai	1,399
Phongsali	2,769
Saravan	14,130
Savannakhet	45,286
Sayabouri	3,767
Sekong	495
Vientiane Capital	1,980
Vientiane Province	62,551
Xiengkhouang	14,929
Total	233,309

\* Preliminary findings of MNRE project

## Extent of Land by Agro-Ecological Zone

To give some sense of the agricultural zones to which FDI is being directed, we attributed the figures from the table above into five of the six agro-ecological zones within Laos. This analysis shows that the Vientiane Plain, Mekong Corridor, Bolvan Plateau and Central-Southern Highlands are where nearly 80 per cent of concessions are held. This compares with just over 20 per cent in the Northern Highlands and Northern Lowlands.

### 3.4 Nature of Investors

Laos only began market reforms in the late 1980s and opened up to agricultural FDI in the last decade. Consequently, many investors are first-time investors in Laos. To date, most investors have been agribusiness companies, reflecting trends in most regions of the world (GRAIN, 2012). In recent years, direct investment by governments—notably Kuwait and Mongolia—has taken place as they seek to supplement deficiencies in their own agricultural sectors.

Investors are motivated to invest in Laos by many factors: fertility of agricultural land, water, high demand in neighbouring countries, low land costs, low labour costs, investment incentives and, in the case of sugar, access to the European Union market. In most cases, investors are producing for export markets, although one livestock investor saw the domestic market as “low-hanging fruit” (see Case Study 3). Similarly, Mirza & Giroud (2003) interviewed executives of foreign companies investing in Vietnam and found the most important motivating factors to be labour costs and quality, government policies and incentives, and the size of the domestic market.

The list below is not intended to be comprehensive but includes some of the businesses investing in Laos.

**TABLE 4: FOREIGN AGRIBUSINESS INVESTING IN LAOS**

COMPANY NAME	COUNTRY	CROP FOCUS
Mitr Phol Group	Thailand	Sugar/sugarcane
Olam International/ Outspan Bolovens Limited	Singapore	Coffee
Indo-China Group	China	Cassava
RTL World Trade Company	Thailand	Cassava
Thai Bev	Thailand	Coffee
Savannakhet Sugar Corp	Thailand	Sugar
Government	Kuwait	Rice
Government	Mongolia	Rice and sheep
<b>Non-food crops</b>		
Oji Lao Plantation Company	Japan	Eucalyptus and acacia
Grasim	India	Eucalyptus
Dau Tieng Viet-Laos Rubber Joint Stock Company	Vietnam	Rubber
Dak Lak Rubber Company	Vietnam	Rubber
Yunnan Rubber	China	Rubber

Source: Baumüller & Lazarus (2011); Voladet (2009)

## 4.0 Policy Framework for Agriculture

### 4.1 Policies to Liberalize FDI in Agriculture

Since the 1980s, there has been strong shift of agricultural policy towards promoting commercial agriculture and cash crops. In particular the 1986 “New Economic Mechanism” which encouraged a change from traditional slash-and-burn agriculture to more intensive cultivation and use of cash crops (Wright, 2009).

Following the Law on the Promotion of Foreign Investment (2005), policies to encourage FDI in Laos are focused on “Promoted Activities” and “Promoted Areas”, (Lao PDR National Assembly, 2004). Agricultural activities and production for export are provided as promoted activities that may be eligible for incentives. Promoted zones tend to be mountainous areas and are zoned based on the level of infrastructure in the area (Lao PDR National Assembly, 2004).

Based on the promoted activities and areas, projects may be eligible for incentives such as:

- Tax exemption for a certain number of years followed by a reduced rate of tax
- Exemption from minimum tax requirements
- Exemption from tax of profit used for expansion
- Exemption of import duties and taxes on equipment, spare parts, vehicles used directly for production and raw materials
- Exemption of export duty on exported products.

In addition, all FDI is eligible for incentives in the form of (FAO, 2011):

- The right to employ foreign workers (up to 10 per cent of the workforce)
- Personal income tax rate of 10 per cent for foreign workers

These special incentives only apply outside of any other designated special economic, industrial or trade zones.

Policies at a central and provincial level that introduce production targets can encourage FDI. For example, the Forest Strategy (2020) aims to increase tree plantation areas by 500,000 hectares, largely through FDI (Lao PDR National Assembly, 2004). Similarly, the government’s target to more than double fisheries production per capita by 2020 relies on considerable foreign investment (FAO, 2011).

### 4.2 Factors That Regulate FDI in Agriculture

#### Land Ownership in Laos

Ownership, tenure and use rights to land are often poorly defined in Laos. According to the constitution of Laos, all land is the property of the state. However, a range of use rights and tenure arrangements are allocated to land users and foreign investors, which can make claims to land in Laos complicated.

Rural land in Laos typically has six types of tenure arrangements, summarized by Schoenweger and Ullenberg (2009).

**TABLE 5: TENURE ARRANGEMENTS FOR LAND IN LAOS**

Land Title	All rights to land, to use, inherit, lease, sell, mortgage, etc. Full land title is found mainly in wealthier, usually urban areas, only rarely in rural areas.
Land Survey Certificate	Generally, the highest land possession document in rural areas, providing full use, inheritance, leasing and sale rights. Requires a survey by provincial or district authorities, generally available only on request and rarely allocated through systematic approach to land tenure.
Temporary Land Use Certificate	Issued by District Agriculture and Forestry Office. Land is still considered to be state land, so cannot be inherited or sold, but permits use rights for a permanent land use for three years. Schoenweger and Ullenberg (2009) estimate that 300,000 Temporary Land Use Certificates have expired, with holders losing the right to compensation if the state—or foreign investors—acquire their land.
Land Tax Declaration	Allows only use and inheritance of land. This document does provide for compensation if land is acquired, though estimates are based on sketches generally made by Land Tax Division officers, far less accurate than the Land Survey Certificate.
Land Tax Receipts	Most rural land holders have a Land Tax Receipt, issued by local authorities for taxation purposes. These are used by villagers as a form of title for selling or leasing land, but, under the Lao PDR Land Law, the sale is not recognized, and thus does not guarantee compensation if land is acquired. See Fullbrook (2007) for an example of where an investor withdrew from agreements to provide eucalyptus saplings to a landholder because they held only tax receipts as opposed to more secure title.
Village Heads Certificates on Land Ownership	Traditional and widely used local recognition of land title. Mainly now used in conjunction with other documents for applications of higher types of land title or for bank loan applications.

Foreign investment in agriculture through contract farming arrangements generally has little influence on a contracting farmer's ownership status, and the investor does not obtain title or rights to the land itself. There are examples, however, where landholders have been unable to participate in contract farming due to their tenure status (Fullbrook, 2007). Fullbrook described how a Thai eucalyptus venture refused to distribute saplings to a farmer whose tenure was based on tax documents. Fullbrook also discusses an example of sugar cane contract farming in southern Laos, where farmers have ended up in debt to investors and fear for their tenure security.

Schoenweger and Ullenberg (2009) point out that very few landholders have certain tenure of their land. While local disputes are adjudicated by village heads, government projects or allocations to foreign investors can leave landholders with little official claim to compensation. Under concession-type agricultural FDI arrangements, land is “transferred” to companies who take responsibility for investment and cultivation (Wright, 2009). These transfers are typically for periods of 30 or 35 years, beyond which tenure is meant to be renegotiated—see Kenney-Lazar (2010) for a well-known example of a Vietnamese investor gaining access to village and household land to grow rubber in Attapeu Province. The concession was originally for 30 years and then extended to 35 years.

Officially, different level authorities have the power to allocate concessions to foreign investors depending on the area and scale of the investment in question. Ambiguity exists between the Land Law, which allocates authority according to land area, and the Promotion of Foreign Investment Law, which allocates authority according to level of investment. Under the Land Law (Schoenweger & Ullenberg, 2009):

- Less than 3 hectares—District authorities
- 3–100 hectares—Provincial authorities
- 100–10,000 hectares—Central Government/Prime Minister
- Over 10,000 hectares—National Assembly

While under the Promotion of Foreign Investment Law:

- less than US\$3 million (US\$5 million in some provinces)—Provincial authorities
- Less than US\$20 million—Department of Domestic and Foreign Investment (DDFI)
- Greater than US\$20 million—Prime Minister.

These official regulations are often overridden by local situations. For example, land considered to be undeveloped or “forest land” can be allocated in larger areas by provincial authorities. Provincial and sometimes district authorities have considerable ability to influence and approve investment projects (Schoenweger & Ullenberg, 2009).

In practice, there is no clear process for investors to follow, with many needing to approach district authorities to find appropriate land and negotiate with various parts of district, provincial and national administration. No model contracts exist, and approval times tend to vary more according to investors’ size and lobbying abilities than the nature of their investment (Schoenweger & Ullenberg, 2009).

Many companies use this lack of clarity to their advantage. Chinese and Vietnamese agricultural companies in particular, have been known to extract approvals from district governments by presenting preliminary documents from central government, such as memoranda of understanding and claiming this represented central or provincial government approval (G. Wong, personal communication, May 2, 2012).

## Policies

The most notable policy to restrict FDI in Lao agriculture was in 2007, when the Prime Minister announced an indefinite moratorium on land concessions for industrial trees, perennial plants and mining. The moratorium was prompted by conflict over land concessions as well as concerns about environmental and social damage (Dwyer, 2007a). The moratorium lasted for two years, after which it was repealed, and a new moratorium on concessions over 1,000 hectares declared soon after. The moratorium was widely seen as being ineffective and unenforceable—a 10,000 hectare, 35-year rubber concession was granted to a well-known Vietnamese investor only two weeks into the moratorium period (Kenney-Lazar, 2010). Large-scale concessions continue to be developed with seemingly minimal restriction—see Case Study 3, where a livestock investor is negotiating for a share of a concession over tens of thousands of hectares.

## Regulations

Regulatory processes can make Laos a difficult country in which to do business. Laos currently ranks 165th out of 183 countries surveyed in the World Bank Group’s “Ease of doing business” rankings. Of particular concern for foreign investors are the low rankings relating to cross-border trading, investor protection and contract enforcement.



**TABLE 6: LAOS PDR EASE OF DOING BUSINESS RANKINGS**

EASE OF DOING BUSINESS RANK	STARTING A BUSINESS	GETTING CREDIT	PROTECTING INVESTORS	PAYING TAXES	TRADING ACROSS BORDERS	ENFORCING CONTRACTS	RESOLVING INSOLVENCY
165	89	166	182	123	168	110	183

Source: <http://www.doingbusiness.org/rankings>

Regulations across a range of areas are “vague and opaque,” change regularly and vary in content and enforcement between provinces and districts (Fullbrook, 2007, p. 50). A joint venture between local village cooperatives, Lao traders, an international NGO and a Swiss retailer to export rattan<sup>9</sup> products from Bolikhamxay province found that they required 16 different permits from different central, provincial and local departments (Campbell & Knowles, 2011). Difficulties in transporting rice from Vientiane Province across the Mekong to Thailand for milling was a key reason for the failure of the Lao Arrowny rice contract farming business—see Case Study 2.

## Corruption

Both a cause and effect of Lao’s difficult regulatory environment, corruption is widespread and deeply entrenched. Laos ranks equal 154th on Transparency International’s Corruption Perceptions Index.<sup>10</sup> Many interviewees for this report stressed that corruption was a problem in their investments and the programs with which they were associated. One respondent recalled taking an anonymous phone call while in negotiation for a bank loan. The caller suggested that for 10 per cent of the loan amount, he could advance the application to the next stage. Others said that including a “miscellaneous” expense line in business plans was a common euphemism for the bribe or facilitation payment that would be paid. One estimated that 30 per cent of the project’s capital value could be taken up by various off-book payments.

## 4.3 Processes to Protect Local Communities

Under the 2010 Decree on Environmental and Social Impact Assessment, all investment projects likely to create adverse environmental or social impacts are required to obtain and submit the following documents before any operating permit can be issued:

- Environmental Compliance Certificate or a report on Environmental and Social Impact Assessment (ESIA)
- Environmental Management and Monitoring Plan
- Social Management and Monitoring Plan

These documents are submitted to the Ministry of Natural Resource and Environment (Formerly Water Resource and Environment Administration) for consideration and approval.

The Decree is designed to ensure that all public and private investment projects, both domestic and foreign, operating in Laos have appropriate adverse environmental and social impact prevention and mitigation measures (Lao PDR, 2010).

<sup>9</sup> A species of palm used for furniture, handicrafts and for its edible shoots.

<sup>10</sup> <http://cpi.transparency.org/cpi2011/results/>

Despite the decree, few ESIA's are rigorously conducted, particularly in the agriculture sector. According to a government official in Laos (private personal communication, 2012), most agriculture projects submit only an environmental impact assessment (EIA) and not a social impact assessment because social impact assessments are only required for more heavily populated "residential" areas. The official explained that because most agricultural projects are relatively small (with regard to investment) compared with mining or hydroelectric projects, approval for projects occurs at provincial level, and that provincial governments often approve projects without requiring ESIA/EIAs.

The official noted that where there have been issues of some FDI projects causing negative impacts to local communities, they are often those projects without an EIA/ESIA in the first place. The official commented that the central authorities are now working with provincial authorities to address those problem and at the same they are also taking measure to ensure submission of EIA/ESIA prior to project approvals in the future.

Additionally, agricultural projects tend to be of lower profile, with less finance from international banks and often in remote border regions; they consequently have a poor record of assessment and monitoring (G. Wong, personal communication, May 2, 2012). Nevertheless, this is a relatively new decree, and it does represent a positive step forward: the challenge—as always—will be training and enforcement. As the case study of the Mitr Lao Sugar Plantation and Factory shows (IUCN, 2011), environmental and social assessments provide useful information regarding projects, beyond simple headline-grabbing investment amounts. In the case of Mitr Lao, the assessment discovered that the benefits of the investment were insufficient to cover the costs. In the words of the authors:

... investments have also contributed to negative social and environmental impacts, especially damage to forest, watersheds, biodiversity, health, education, and so on. Most importantly, the investment flowing into Savannakhet Province is changing traditional livelihoods into industrial livelihoods yet without necessarily improving the people's quality of life. (IUCN, 2011, p. 28)

## Disputes and Contract Enforcement

Where communities may disagree with project approval, or contest elements of an ESIA, there is limited access to legal or administrative dispute resolution. Laos lacks many regulations common in higher-income countries and enforcement of some laws is low. Access to the legal system is difficult, particularly for farmers, for whom physically getting to courts, finding a lawyer and filing a suit all present near-impassable barriers. Many disputes are instead arbitrated by regional bureaucracies lacking the mandate, experience or expertise to handle disputes. Compounding these difficulties is a lack of understanding and awareness of contracts. There is a "near universal" attitude among farmers and investors that contracts are unenforceable, leading many investors to push for land concessions using labour hire, rather than risk contract farmers selling their produce at higher seasonal prices to traders (Fullbrook, 2007).

## 4.4 Forms and types of Investment

Under the Law on Investment Promotion (2009), there are three forms of investment:

- A wholly domestic or foreign owned investment
- A joint venture between foreign and domestic investors
- Cooperation by contract

A wholly domestic or foreign owned investment is an investment entirely owned by either domestic or foreign investors, and can be either a single investor or group of investors in the enterprise or project in Laos.

A joint venture involves the establishment of a new legal entity with ownership split between the foreign and domestic investors. The foreign investors must contribute at least 10 per cent of the total capital. This is lower than the percentage in previous legislation, which required 30 per cent of total capital comes from the foreign investor (FAO, 2011).

Business cooperation by contract is a joint business arrangement between domestic and foreign legal entities without establishing a new legal entity or a branch office in the Laos.

Investment activities that both domestic and/or foreign investors can invest in are categorized into three types:

**TABLE 7: TYPES OF INVESTMENT ACTIVITY IN LAOS**

General business	Investment in general business sector, not based on a government concession. Agricultural investments such as most contract farming arrangements fall under this category.
Concession business	Investment activities authorized by the Government to utilize ownership and other rights of the government in conformity with regulations, for the purpose of developing and conducting business operation.
Special/specific economic zones	Investments for the purpose of construction of complete infrastructure and new city development.

## 4.5 Bilateral Investment and Trade Treaties

Laos is a member of the Association of Southeast Asian Nations (ASEAN), the ASEAN Investment Area, and has bilateral investment treaties with over 20 countries (FAO, 2011). As a Least-Developed Country (LDC), Laos is also eligible for duty-free exports of sugar into the EU under the Everything But Arms (EBA) Regulation (European Commission, 2012). The EBA Regulation has been a factor in the investment decisions of at least two major Thai agribusinesses to invest in sugar production and processing in Laos.

The role of ASEAN is less clear. The reduction of tariffs and fewer restrictions on the movement of the factors of production (labour and capital) between ASEAN nations has no doubt made it easier for foreign firms to invest in agriculture; however, it is rarely cited as a reason by investors for their decision to invest in Laos. Domestic conditions discussed in Section 4.5 are more commonly given to support an investment decision. Mirza and Giroud (2003) discovered the same was true in the case of Vietnam. The ASEAN region or market was not cited as a key reason for investment into Vietnam, although Mirza and Giroud noted that this may change once the ASEAN Free Trade Area (AFTA) comes into full effect, currently slated for 2015 (ASEAN Secretariat, 2011).

## 5.0 Business Models for FDI in Agriculture

### 5.1 Business Models for FDI

Broadly speaking, a business model refers to the way in which a business is structured to make money. Business models investigated for this research nearly all aim to produce commercial commodities for the export market. The exception to this was the livestock investor who intended to focus on domestic demand and Sinouk Coffee, which also sells some domestically, although primarily to foreign tourists. This section will look primarily at how foreign investors secure rights to use the natural resources of Laos and how the different factors of production (land, labour, and capital) are divided between stakeholders. Although this paper is focused on business models used by foreign investors, the investment plan for the sector forecasts significant (nearly 50 per cent of the total) investment from ODA. Despite this, FDI is expected to contribute relatively more to commodity production and irrigated agriculture.

#### Land Investment Models

Foreign investors in Laos generally utilize one of two business models to acquire productive land: land concessions and contract farming.

##### Land Concessions

Land concessions grant the use of land and associated water resources to an investor for a period of time. Concessions are common in Lao agriculture because, under the constitution, all land is technically owned by the state and so the sale of land is not possible (see Section 4.5). While the concept is simple, Dwyer (2007a, p. 1) points out that there are many different arrangements and interpretations of “concession” and offers this working definition:

A land concession is the limited concession of a land-based right (or rights) by the state to an investor in order to lower the investor’s assumed risk to a level that will permit further action in the investment process.

Dwyer emphasizes that the land-based rights in question can be different, including;

- i) The right to use the land
- ii) The right to negotiate with villages for the use of land
- iii) The right to exclusive survey of an area of land—most relevant to mining concessions

Central or provincial governments typically grant agricultural concessions in Laos and give investors exclusive land use rights for periods of around 30 or 35 years. The extent of concessions in Laos is discussed in more detail in Section 3.3. Because the government owns all land by law, local landholders generally have no commercial ownership of the enterprise, and their involvement is limited to that of wage labourers (Wright, 2009). Sometimes, households cede their land for compensation and trade their subsistence farming entirely for wage labour, while in other cases farmers’ existing land can still be cultivated, and wage labouring forms a smaller part of their new livelihood (Wright, 2009). Many problems have been encountered with landholders not receiving adequate (or any) compensation for loss of land rights, making concession agriculture a controversial topic. See Dwyer (2007b) for a review of many studies on concession agriculture, particularly rubber plantations.

##### Contract Farming

Contract farming is a common strategy of foreign investors in Lao agriculture across a wide range of commodities and geographical areas. Contract farming involves agreements between farmers and downstream agricultural companies whereby the farmers agree to supply a certain quantity of agricultural commodities at a certain price

(Eaton & Shepherd, 2001). In addition, contract farming typically involves the agricultural company providing certain inputs to farmers including seed, fertilizer and technical advice. Contract farming is intended to reduce the risk for both buyers and sellers by providing fixed prices and so a greater certainty of a return on investment.

Given the variety of contract farming arrangements, various attempts have been made to categorize different models. In the context of Lao agricultural investment, the most commonly discussed models are the “2+3” and “1+4.”

**TABLE 8: 2+3 AND 1+4 MODELS FOR CONTRACT FARMING IN LAOS**

2+3 Model	The landholder provides labour and land (the “2”), while the investor provides capital, technology and marketing (the “3”). This is the model type promoted by the Lao government, which hopes that villagers’ access to land can be maintained, while securing more reliable income, improved technology and agricultural productivity (Manorom et al., 2011; Wright, 2009)
1+4 Model	The landholder provides the labour or the land (the “1”). The investor provides capital, technology and marketing and potentially obtains the land (the “4”). Where access to land is transferred to investors (Wright, 2009), this model comes to resemble concession farming. This has occurred in parts of Laos where investors have wanted greater control over plantations and/or where farmers have wanted to be compensated for their labour (Schoenweger & Ullenberg, 2009).

With the ambiguity of 2+3 and 1+4 models it can be helpful to refer to more formal definitions of contract farming. Eaton & Shepherd (2001) outline five broadly defined models of contract farming, all of which can be found to some degree in Laos.

**TABLE 9: OTHER MODELS FOR CONTRACT FARMING IN LAOS**

Centralized Model	Investors are involved with a processing or packing plant and buy from a large number of farmers under formal contract. Generally used with commodities that require rapid or extensive processing, such as vegetable and fruit canning. Quotas are allocated and quality control is strict. Investors’ involvement in production varies, from minimal, with only seed provision, to controlling most aspects of crop production. A local sweet corn and fruit and trader operates under this arrangement in Vientiane Province.
Nucleus Estate Model	Investors have a processing or packing plant as with the centralized model, but also have a plantation managed for their plant. Contract farming is used to guarantee adequate supply for the plant. See Case Example 4, on sugar cane farming in the south of Laos, where farmers were approached to grow sugar cane to supplement the investor’s plantation.
Multipartite Model	In addition to investors and farmers other organisations are involved in the project, often government agencies and grower cooperatives. Under this model investors may have little contact with individual farmers, instead farmers interact with their group or local government, often with very informal contracts, who in turn are responsible for delivering product to investors. See Fullbrook’s (2007) case study of corn growing in Bokeo, where the local production group manages 280 growers.
Informal model	Individual entrepreneurs or small companies commit to buying produce from individual farmers, with informal or verbal contracts. Entrepreneurs may provide seeds or some technical advice, but government extension is often required. There is a high risk that investors or growers do not honour their agreement. See Fullbrook’s (2007) case study of corn marketing in Luang Namtha as an example.
Intermediary model	Intermediaries or middlemen collect produce from farmers and sell on to investors. Investors may have little control over quality and prices and farmers can be open to exploitation. See Fullbrook’s (2007) case study on chili farming in Bokeo for a similar model.

Few investments will conform strictly to any one of these models, but they are useful to discuss general trends. Some investments change through the course of the project. For example, Fullbrook (2007) shows an interesting example in Savannaket, where a Thai sugar company wanted to farm through a concession, but was forced into contract farming due to problems establishing the concession. The change caused a lot of problems, as farmers unfamiliar with sugarcane tried growing it in places that had not been thoroughly investigated.

### Contract Details for Land Concessions

As the land rights that concession holders acquire vary, so too do their obligations. Cotula, Shemberg, and Polack (2012) were able to review the contents of contracts relating to six land concessions granted by central and one provincial government. These contracts were Project Development Agreements or Memoranda of Understanding, rather than final concession agreements, but provide a rare glimpse of the different models of concession investment in Laos. The authors discuss how the reviewed contracts vary in terms of obligations for local engagement, contribution to local livelihoods, infrastructure provision, taxation and revenue raising.

### Local Engagement

While official policy emphasizes the role of smallholders in sustainable development (see Section 3), Cotula, Shemberg, and Polack (2012) found that there is considerable variation and ambiguity in contracts for how concession holders will engage with local people. Requirements for local involvement in feasibility studies, environmental and social impact assessment and project planning differ widely.

Several contracts included mention of outgrowers—engaging local farmers in production, in arrangements similar to contract farming (see below). However, all contracts that mentioned such arrangements contained “little specific language” (Cotula, Shemberg, & Polack 2012, p. 20). Reluctance to commit to procurement with local farmers was echoed in interviews for this report, particularly in relation to livestock and their feed and to a lesser extent coffee processing (see Case Studies 1 and 3).

The degree of processing to be conducted locally also varies between concessions. Cotula, Shemberg, and Polack (2012) believe that investment models and contracts requiring more local processing could be beneficial to local development. Few contracts, however, require such investment, with many including ambiguous terms such as factories that “may be established” (Cotula, Shemberg, & Polack, 2012, p. 22). Case examples in this report show that some investors process extensively within Laos—coffee, livestock and sugar cane in Case Studies 1, 3 and 4—while lack of local processing facilities were a constraint to the rice contract farming investment in Case Example 2.

### Contribution to Local Livelihoods

Different concession investments envisage different roles for local labour requirements. In an interview with a coffee plantation owner, we were told that the biggest constraint most growers faced was labour shortages at harvest time, prompting many to look to mechanical harvesting (Case Example 1). Cotula, Shemberg, and Polack (2012) found that the perception of local labour shortage is often used to allow use of foreign labour, and that there is evidence of rural unemployment and underemployment in many areas. While intending to use all-local labour, the livestock investor in Case Example 3 was aiming to use mainly automated production to avoid future labour cost uncertainty.

### Infrastructure Provision

Cotula, Shemberg, and Polack (2012) found that most contracts they reviewed required concession holders to build strategic local infrastructure in addition to project requirements—particularly roads and electrification and, in one case, a school. While noting the potential to contribute to local development, they emphasize that contracts are inadequate to ensure ongoing maintenance of infrastructure and that there is little requirement for concession holders and governments to investigate local needs and demand.

### Tax and Revenue Collection

Concession holders pay fees and taxes to central and provincial governments through several different channels. The main ones, according to Cotula, Shemberg, and Polack (2012), are land fees, profit tax, employee income tax, turnover tax, taxes on dividends and customs duties. They emphasize that different structures of revenue collection can lead to very different revenue streams throughout the life of any project. As considerable negotiation occurs over terms and conditions, they urge governments to consider the long-term implications of tax holidays or benefits and to consider requiring auditing of accounts.

Land fees vary depending on the agricultural activity and the area of the country. Areas with less economic infrastructure attract a lower land fee, while more developed areas, such as Vientiane Province and the Mekong corridor, attract higher fees.

**TABLE 10: LAND FEES**

	LAND FEES (US\$ PER HECTARE/PER YEAR)		
	LESS DEVELOPED	MORE DEVELOPED	MOST DEVELOPED
Annual food crops	5	10	15
Animal husbandry	5	10	20
Commercial plantation	6	10	20
Tree plantation (10 years or more)	8	15	25
Tree plantation (less than 10 years)	10	20	30
Rubber	30	40	50

Source: Presidential decree No. 02/PDR of Nov. 18, 2009, cited in Cotula, Shemberg, & Polack (2012)

Cotula, Shemberg, and Polack (2012) also note that none of the contracts they observed set the land fee at over the minimum rates: they were concerned that these minimums risk becoming the de facto standard rate.

## 5.2 Case Examples of FDI in Agriculture

The authors arranged a number of meetings with foreign investors in the agriculture sector. These meetings were intended to provide some information on the nature of the business and the investment and the reasons for choosing to invest in Laos. The case example on foreign investment in rice production is particularly interesting because it is a case of a well-studied joint venture project that is no longer operating due to the foreign partner failing to provide necessary funding. As well as rice, the case examples look at coffee, sugar and pork production.

Given the positive conclusions of these authors, we were surprised to find that the Lao Arrowny project ceased operations in 2009. The former manager discussed with us that supply from contracted farmers had increased rapidly due to the high yields and prices they were receiving. This placed continual logistical pressure on their operation, as rice needed to be milled and stored in Thailand prior to export. In 2009, flooding in Laos made production difficult and farmers were unable to pay debts to Lao Arrowny for inputs. Political turmoil in Thailand changed border policies and exporting to the mill in Thailand became difficult and expensive. The Japanese partner had run into financial difficulties around this time and was unable to deliver approximately US\$600,000 to continue financing the project. Bad timing may have played a role, given that this occurred around the time of the global financial crisis, but we were unable to confirm this with the Japanese investor.

The Lao operator is seeking funds to recommence the project and claims to have the strong support of growers and local government. He is, however, keen to raise funds from Lao government and domestic investors or ODA, rather than relying on a Japanese partner.

### Case Example 3: Livestock

<b>Name of Person:</b>	Withheld on request
<b>Position:</b>	Proprietor
<b>Name of Company:</b>	Withheld on request
<b>Name of Project:</b>	Withheld on request
<b>Region:</b> What region is the project located in?	Champasak province and Northern provinces
<b>What Country is FDI from?</b> What country is the foreign partner/company from?	EU/United States
<b>Production Focus:</b> What crop or livestock production is the project focused on?	Livestock
<b>Business Model:</b> What is the business/investment model for this project? (contract farming, leasing etc.)	Leasing and land concession
<b>Form of FDI:</b> What form of FDI did the project take? (cooperation by contract, joint-venture or 100 per cent foreign ownership)	Cooperation by contract and joint venture
<b>Entity Type:</b> Is the entity used a partnership or a company?	Company
<b>Target Market:</b> What is the target market for the projects products?	Domestic primarily. May look to export in the future.
<b>Value Chain:</b> What stage of the value chain is the project focused on?	From production through to retail
<b>Capital Value:</b> What is the capital value of the project?	Over US\$30 million
<b>Land Area:</b> How big is the area of the project?	In southern provinces area will be over 1,000 hectares including crop production. In northern provinces area is smaller, less than 10 hectares.
<b>Employees:</b>	Expects to employ 30-50 locals.
<b>Investment Source:</b> What is the contribution of different sources to the project? (FDI, ODA, PIP)	Foreign and local investment.



A representative of a U.S./EU-based livestock company agreed to speak with us about investment in an intensive livestock development they are planning under condition of anonymity, due to the commercially sensitive nature of their investment. The company is planning a major development in Champasak Province, where they are negotiating for a concession with their partners, a Lao agricultural trading company.

The foreign company is providing seed capital and extensive technical expertise to the venture, while the Lao partner negotiates with government and will eventually assist with marketing. They are also negotiating further investment from a major Lao corporation. The major backer is obtaining a concession of tens of thousands of hectares, of which the livestock joint venture will take a 1,000–2,000 hectare parcel under a sub-lease arrangement, with an option to expand in the future. Although the foreign company has its head office overseas, they plan to establish a long-term operational and management office in Laos using a mix of foreign and domestic staff.

The investors were attracted to Laos due to the availability of land and the undeveloped nature of livestock industries. Livestock raising is typically extensive (across large areas, the opposite being intensive) and high cost on a per-unit basis. Moves by the Lao government to impose price ceilings on meat to protect consumers do not concern the investors, as they believe they can produce at far lower costs per unit than existing livestock raisers. They also felt that efforts to control prices by the government will ultimately fail unless they also put price controls on feed corn, which accounts for over 50 per cent of input costs. They aim to produce higher-quality meat at lower cost and to establish branded, hygienic stands in local markets to build their brand. While regional integration will eventually allow them to focus on exports, for the short- to medium-term, the Lao domestic market is “low-hanging fruit.”

At their main development in Champasak, they are planning to employ around 40 local people, who they will train in modern, intensive livestock methods. The investor said that they plan to pay above average or “decent” wages to staff since labour costs are controlled and relatively low at the moment. They aim to “set the bar” a bit higher in terms of wages. This is possible because the project is capital intensive and will be heavily automated, aiming to use minimal labour. The investor believes many FDI investors are mistaken to invest in projects on the basis of cheap labour. While labour may be cheap now, development and rural–urban migration mean it will not stay cheap for long, even in rural Laos. He points to rising labour costs in China and the movement of some manufacturing industries away from coastal China as an example. Similarly, the investor points out that Laos has a relatively short window of opportunity to develop a competitive livestock industry. Once infrastructure such as the Kunming–Singapore railway is in place, external pressure on livestock prices is inevitable.

The foreign proprietor claimed the land had “no people on it,” but conceded that it was difficult for foreign investors to gain a true understanding of the background of the concession. He is concerned that concessions to foreign firms for non-food crops are placing the future food security of Laos at risk, but felt that the problem is more about the nature of concessions than the practice itself. Concessions to food producers, particularly those with Lao ownership and a commitment to Lao markets, could increase food production and modernize Lao agriculture, whereas rubber, teak and eucalypt concessions reduced food production and were often speculative in nature. There is no doubt that there is a rush to secure concessions; he has instructed his Lao partners to gain access to “as much good land as possible.”

## Case Example 4: Sugarcane

Note: This case study is based on work conducted by the National Economic Research Institute (NERI) of Laos and other secondary sources.

<b>Company:</b>	Mitr Lao Sugar, a division of Mitr Phol Group
<b>Region:</b> What region is the project located in?	Savannakhet Province
<b>Production Focus:</b> What crop or livestock production is the project focused on?	Sugar, Sugar Cane
<b>Business Model:</b> What is the business/investment model for this project? (contract farming, leasing etc.)	Contract farming and land concession
<b>Form of FDI:</b> What form of FDI did the project take? (cooperation by contract, joint-venture or 100 per cent foreign ownership)	100 per cent foreign ownership
<b>Investor:</b> Where is the investor from?	Thailand
<b>Entity Type:</b> Is the entity used a partnership or a company?	Company
<b>Target Market:</b> What is the target market for the projects products?	Domestic and European Union
<b>Value Chain:</b> What stage of the value chain is the project focused on?	Small volume of refined sugar sold to domestic market. Large volume of semi-processed sugar shipped to Thailand for further processing and export to EU.
<b>Land Area:</b> How big is the area of the project?	10,000 hectares granted, with 7,790 hectares cultivated as of 2010, and 2,210 hectares deemed unfit for production. Company wishes to expand to a further 11,700 hectares.
<b>Cost of Concession:</b> What did the company pay for its concession?	N/A
<b>Size of Production:</b> What volume of output will the project produce?	Crushing volume in 2009/10 of 366,000 tons for raw sugar output of 37,000 tons and refined sugar output of 1,500 tons
<b>Value of Production:</b> What is the value of production based on the output?	Raw sugar: Approx. US\$16 million Refined sugar: Approx. US\$0.86 million Total: US\$16.9 million  NOTE: The figures above are an estimate based on market prices in 2012. This is to provide a ballpark figure only.
<b>Investment Source:</b> What is the contribution of different sources to the project?	FDI: ~100 per cent
<b>Capital Value:</b> What is the total capital value of the project?	Initially approximately US\$60 million. Eventually planning to invest approximately US\$250 million.

<p><b>Value of Employment:</b> What is the total value of the jobs provided?</p>	<p>The labour force in the area is approximately 1,300 people—62.3 per cent of the total population of 2,065.</p> <p>Approximately 30 people, or 2.3 per cent of the workforce, are employed full time in the plantation in the study area. Total employment is unclear.</p> <p>During the harvest season, most people in the village will get some form of work in the plantation, usually for one or two weeks. This could take employment to as high as 2,000 people.</p> <p>This differs sharply with what the company reported. The company reported employment of 7,000 people during harvest season and 4,200 outside harvest season. Although the case study area doesn't include the entire area, it covers nearly 4,000 hectares, or over 50 per cent of the total area.</p> <p>The discrepancy may also be explained by the use of outside labour.</p>
<p><b>Employment:</b> How many jobs does the plant create?</p>	<p>Overall contribution of the plantation to incomes is estimated at 8.5 per cent at a household level. Household incomes were not available, so it is unclear how much this came to in aggregate.</p> <p>The 30 full-time employees of the plantation—based in the case study area—would earn approximately US\$420 per year. No statistics on median incomes were available for comparison although this is less than half of the estimated GDP per capita for the region of US\$885.</p> <p>In addition to the 30 local full-time workers, an additional 103 foreign workers are employed by the company.</p>
<p><b>Tax Revenue:</b> How much tax revenue does the government earn from the project?</p>	<p>Between 2007 and 2009, the project contributed approximately US\$1.6 million in tax revenues to the government.</p> <p>The case study does not report on any export tariffs payable by Mitr Lao Sugar.</p>

Source: IUCN (2011); Saengpassa (2009)

The Mitr Lao Sugar project is a well-studied example of FDI in the agriculture sector in Laos (Baumüller & Lazarus, 2011; Fullbrook, 2007). Mitr Lao Sugar is a subsidiary of the Thai company Mitr Phol Group. The company has invested in a sugar mill and sugar cane plantations (concession and contract farming) in Savannakhet Province in southern Laos.

A comprehensive case study was conducted on the project, entitled “Assessment of Economic, Social and Environmental Costs and Benefits of Mitr Lao Sugar Plantation and Factory: Case Study in Savannakhet Province” (IUCN, 2011). The case study concluded that it was not possible to say that the benefits of the project outweighed the costs. Although the project provided benefits in the form of tax revenue and employment, the project was also associated with negative impacts such as:

- Reduction in livestock population, possibly due to use of pesticides.
- Loss of forest cover for NTFP gathering and resulting increased household expenditure for food.
- Indebtedness of contract farmers.
- Health issues from use of pesticides and herbicides without proper training.
- Pollution of local waterways from use of pesticides and herbicides.
- Increased incidents of land conflicts.
- Potentially decreased water flow in surrounding rivers due to irrigation extraction.

Overall, the project did not significantly change the lives of the local population who remained largely dependent on agricultural subsistence for their livelihoods. To increase the benefits to the local populations from the project, the following recommendations were made:

- Increase wages in the factory and plantations.
- Reduce or stop the use of pesticides that are dangerous to human and livestock health.
- Expand technical and financial assistance to contract farmers.

### 5.3 Challenges and Opportunities of Different Business Models

This section explores some of the positive and negative aspects of FDI in Lao agriculture. It is based on a literature review as well as the findings from the case examples above. It is not intended to be as comprehensive as Polack (2012), who looked more broadly at the pros and cons of agricultural investment in Southeast Asia and land acquisitions in particular.

#### Land Concessions

Land concessions are used most commonly for hydroelectric, mining and tree plantation (including rubber) projects (Dwyer, 2007b). Annual food crops and livestock are less likely to use a land concession approach to acquiring land. The literature on land concessions is extensive, and, because in Laos they have predominantly focused on non-food crops, we will discuss only briefly some of the positive and negative aspects of concessions.

#### Positives

Concessions are popular with investors due to the greater level of control they gain over land and associated water. The resulting inflow of foreign capital and technology can assist with modernization of the sector, a stated goal of the Lao Government, which aims to “[s]ystematically develop all aspects of agriculture and forestry for them to be conducive to industrialisation and modernisation priorities” (MPI, 2010, p. 33).

The commercial orientation of concession agriculture has contributed to growth in agricultural output of 4.1 per cent over the last five years (MPI, 2010). This can contribute to increased opportunities for wage employment. At the same time, smallholders may choose a concession-like “1+4 model” if they have little faith in the investors, little knowledge of agricultural production and are not prepared to take the risk of waiting for a return (see Wright, 2009). In such cases, local people may opt for the apparent certainty of rent payments and wage labour (Wright, 2009).

#### Negatives

Negative aspects of concessions can arise because the interests of investors and government bodies are not always aligned with landholders, who often have little bargaining power to negotiate the terms of concessions on their land. Such deals are often seen as “land grabs” by voracious investors in collusion with corrupt officials. Numerous examples are well documented—and certainly there are many that are not—of landholders being forced to concede rights to their land for minimal compensation (for example Kenney-Lazar [2010]). In the hurry to increase investment, concessions have often been granted at rates very favourable to investors, but that return little revenue to governments (see Dwyer [2007a & 2007b] and Kenney-Lazar [2010]).

While concessions can provide opportunities for wage earning, limitations are often imposed on labour, such as minimum or maximum age limits, which can affect households with older members, or female-headed households. As the case of the Mittr Lao Sugar project demonstrated, formal employment in rural areas often serves to displace traditional livelihoods based around natural resource collection and livestock ownership. The reduction in diversity of livelihood strategies for poor households has led to decreased food security in some areas (Wright, 2009).

## Contract Farming

Fullbrook (2007) looked extensively at issues surrounding contract farming in Laos. Fullbrook looked at case studies of contract farming for corn, chillies, corn, watermelon, pulpwood, sugar, coffee and cabbage. He explores a number of questions related to contract farming looking at the business model itself, the business environment, the legal system, market information and the role of government and concludes that “In Laos contract farming has been beneficial in some cases and costly in others” (p. 48). Fullbrook suggests that contract farming can work under certain circumstances, for example:

a farmer who has secure access to land of good quantity and quality, in close proximity to sealed roads that connect with thriving markets or a factory, is better placed to benefit from contracts, especially those for higher value, more intense, niche or specialists crops. (Fullbrook, 2007, p. 49)

## Positives

Because landholders maintain use rights to their land, contract farming allows investors to be involved with agricultural development, without the impression—or reality—of a “land grab”. Investors can secure reliable supplies and quality while farmers can benefit from technology, capital and credit supplied by investors. New marketing opportunities can benefit farmers who may not otherwise have access to foreign markets with higher prices (Setboonsarng, Leung, & Stefan, 2008; Eaton & Shepherd, 2001).

Fullbrook (2007) found, through many case studies, that contract farming “is more appropriate for high-value, niche products for which markets are erratic, rather than high volume staples and livestock.” However, both Fullbrook and others found cases where contract farming has been beneficial for producers of staple commodities (see (Setboonsarng, Leung, & Stefan, 2008).

## Negatives

Because contract farming often involves methods or commodities that are new to participants, farmers can have difficulty gauging the risks of production or the market. Similarly, education and skill levels in agriculture are often low. As a result, buyers often act as de facto extension services, placing additional costs on them for something they are not necessarily good at.

Also, because enforcing contracts is difficult in Laos, there is a risk to farmers that investors may not buy the full quota, or change quality standards and prices. Similarly for investors, examples abound of farmers selling their contracted crops to passing traders at higher prices than in the contract (Wright, 2009; Fullbrook, 2007). With little recourse in such situations, often the only option is to get a government official to speak to the villagers (Fullbrook, 2007).

Contracts can leave poorer farmers at a disadvantage or greater risk. Where farmer’s lands have poor soils, small plots, marginal/sloping land, or are far from roads, they are often excluded completely by investors, or put at a disadvantage in negotiations. Where farmer’s own tenure arrangements are not secure, investors may be reluctant to invest.

## 5.4 Is FDI Contributing to Development Objectives?

In addition to interviews with investors, other stakeholders were also contacted and asked whether they thought the high-level development objectives for Laos were being met on the ground by foreign investment in agriculture. Those responding included managers and professionals at international non-government organisations, independent and academic researchers, and a private sector investor not yet active in Laos.

Their feedback highlighted the fact that, although quantitative economic development objectives are being met at a macroeconomic level, things are less positive at a local level for a variety of reasons including: lack of clear baseline data, ambiguous qualitative goals, failing to account for non-market or informal economic values, failure to consider income and food security impacts, institutional and education limitations with regard to farmer organisation and capacity within government departments.

The Strategy and master plan are quite comprehensive and have clear vision—the main issue is in implementation. Farmers are often used simply as labour for hire rather than being more engaged in the development of the agriculture sector. Three to four main agricultural commodities are taking the big share of the cake which puts farmers at risk with issues of relying on monoculture (diseases and loss of crops) and price fluctuation (income insecurity)

—Manager at International NGO based in Vientiane (Personal communication, June 6, 2012)

The so-called transition from subsistence to commercial production, which has been a goal of the Lao government and foreign advisors for decades now, belies the fact that a great deal of what is produced in upland landscapes has long been sold—and much of it over some distance. The literature on Non-Timber Forest Products (NTFPs) is extensive, and points out that NTFPs not only provide important sources of subsistence (foods, medicines, etc.) for many rural households (especially poor ones), but also key sources of cash from things like broom grass, resin, honey, and so on, that are sold to traders in high volumes at particular times of year. Given this baseline (and one can, in some areas, say the same thing about upland rice), the transition that is taking place now is less from subsistence- to market-based production, than from certain types of subsistence-and-market combinations to others. This makes the “success” of the transition difficult to evaluate: the baseline is largely assumed.

—M. Dwyer, Doctoral candidate in the Energy and Resources Group at University of California Berkley (Personal communication, June 5, 2012)

While there is undoubtedly increased production of cash crops—the lack of cohesive and functioning smallholder farmer organisations throughout the country meant that the involvement of smallholder farmers in commercial agriculture is through largely unbalanced contract farming arrangements (or as plantation labour). This increased production of cash crops has often come at the cost of food security as farmers have either moved their lands into producing cash crops or worse, resettled away from their farming lands. Whether farmer livelihoods have actually improved is also in question—cash income may be higher, but also higher levels of indebtedness, worsening environmental conditions with increased use of chemicals, and loss of a more resilient and diversified farming system.

You could also ask the question if private investments in agriculture has met the broader goals of the NSEDP, then the answer is quite different. A quick look at the review of the 6th NSEDP (2006–2010) provides a more rosy picture.

—Wong, former worker at international NGO based in Vientiane (Personal communication, June 4, 2012)

This depends mostly on the capacity, skills and honesty of district level government officials. Sometimes central level lower staff can also put their foot down and stop illegal activities together with local staff. I haven't heard of senior staff stopping other senior staff, due to the culture of face saving, respect for high positions, etc. Some district governors speak openly against their colleagues and blame them of complacency, while other district governors support or don't enforce the law related to illegal activities. In short, what is lacking is an independent body who would monitor and evaluate the performance of districts, and enforce sanctions for malpractice. What is also needed is awareness of local people on their rights.

—Advisor with major international NGO based in Vientiane (Personal communication, June 28, 2012)

### The Contribution of FDI to Economic Growth

Much of the feedback focused on the difference between macroeconomic indicators at a national level and economic welfare at a local level. On the surface, this disparity is not surprising, since national accounts are simply methods of accounting for production and, being broad, will mask any sub-national welfare impacts. Similarly, because much economic activity in rural Laos would be informal, it may fail to be counted in national statistics. Research by (Gaiha and Annim 2010) supports this.

Gaiha and Annim created an aggregate production function for agriculture in Laos and found that FDI actually had a minor negative impact on the value of crops. The authors suggested that this minor negative impact could be due to "substitutability between public investment and FDI and/or land concessions for, say, rubber plantations that encroach on areas used for growing crops" (p. 38). By contrast, the authors found that FDI had a minor positive impact on the value of livestock and fisheries. Although interesting, these findings are somewhat outdated because they are based on data between 1985–2001. Because significant inflows of FDI into the agriculture sector have occurred since 2005, further work in this area would assist policy-makers. Nonetheless, these findings suggest that where one form of production simply replaces another, FDI would only increase economic growth to the extent that the new activity created more value than the previous activity. If there is no data to quantify previous activities, then the addition of an FDI-financed project may appear to contribute relatively more than it actually did.

An improved awareness of the nuances of FDI's contribution to economic growth is important for policy-makers and other stakeholders in Laos. The contribution is often assumed, even though the government itself acknowledges the work of Gaiha and Annim (2010) in the Strategy for Agricultural Development 2011 to 2020 (MAF, 2010a). Nunnenkamp (2001) and (Nunnenkamp 2011) provide a good overview of issues relating to FDI and growth, suggesting that the relationship between the two is more complex than is often portrayed by governments and investors alike.

Given this ambiguity with regard to the benefits of FDI, it is worth noting the findings of Thongmanivong et al. (2009). They looked at rubber investment in Laos and concluded that all stakeholders need to look beyond assessments of particular investments and business models to the "larger context of development options" (p. 41). Our research supports this conclusion. It is particularly relevant given the equally large contributions FDI and ODA will make to the agriculture sector in Laos in the coming years.



## 6.0 Conclusions and Recommendations

As a small, low-income country, striving to shake off Least Developed Country status, agricultural development is vital to Laos. With agriculture accounting for around 33 per cent of GDP and contributing to the livelihoods of approximately 75 per cent of the population, most of whom are smallholder farmers producing rice for domestic consumption, agriculture has a central role in the country's development.

The long-term goals for the sector are to modernize lowland farming with a focus on market-orientated production for smallholders and to better conserve upland ecosystems to ensure food security and improve the livelihoods of rural populations. Foreign investment in agriculture is expected to play a large role in these changes in particular with relation to market-orientated production and irrigated agriculture.

Agricultural investment, largely from Vietnam, China and Thailand, has grown enormously as investment regulations have been loosened since 2005. Between 2005 and 2011, FDI of between US\$1.1 billion and US\$1.7 billion has been approved for projects in the agriculture sector. Understanding, managing and planning for this investment is difficult due to a lack of information and low institutional capacity. Information on the size, location, nature and value of agricultural investments is only beginning to emerge now, through the work of government ministries, provincial authorities, German and Swiss development agencies and the UNDP poverty alleviation initiative.

With better information, better policies can be developed to encourage foreign investment where beneficial and restrict it where benefits are less certain. Requirements for, and scrutiny of, environmental and social impact assessment should be strengthened to protect the environment, local communities and ultimately Laos' national interest. Such moves will be difficult to implement and enforce given Laos' regulatory environment and prevailing climate of corruption. Although a promising initiative, the ineffectiveness of the 2007 moratorium on land concessions shows how difficult development in this area can be. Nevertheless, improved integration between departments—and in particular the Ministry of Planning and the Ministry of Agriculture and Forestry—and increased policy coordination between central, provincial and district governments are important steps toward improving this situation.

Policies to improve the quality of FDI in agriculture must take into account the different business models used by investors, the mainly land concessions and contract farming. Central government policy favours "2+3" style contract farming—where farmers provide land and labour while investors provide capital, technology and marketing. Such models provide the best opportunities for Lao farmers to benefit from investment and improve practices, although potential problems exist: as case examples for this report and many others have shown, considerable risks remain for both farmers and investors. Investor insolvency, contract breaches, farmer's unfamiliarity with new crops and methods, risky credit and debt arrangements and many other factors can lead to problems in contract farming. These challenges exist regardless of the business model used.

Land concessions are sure to continue, particularly for perennial tree crops that may take many years to provide a yield. More efforts must be made to ensure that the rights and obligations of concession holders are well defined and adhered to. Governments and investors must ensure that revenue collection, local procurement, employment and infrastructure provisions work to enhance the agricultural development of the area and local communities, rather than serve to reinforce the common perception of a "land grab." Ongoing efforts by the Lao government and NGOs to improve the situation with land titles are promising in this regard.



Another promising initiative of the government is the requirement for environmental and social impact assessments for projects. These are now officially required where a project might impact significantly on the environment or communities. In practice, however, agricultural projects have tended to avoid such assessments for a number of reasons. Ongoing work to create a database of agricultural investments is another positive initiative, and a report will be published in 2012 based on work done to compile this database.

There is great interest in continued investment in Lao agriculture through various business models. While there are indeed great opportunities to expand agricultural production and modernize practices, enormous challenges remain to ensure investments contribute to broader economic development objectives.

Although business models do have a role to play, they alone will not be a panacea to developing the agriculture sector in Laos. Our research suggests that aligning FDI directly with development objectives has so far been unsuccessful. ODA has a potential role to play here and can contribute to the development potential of foreign-owned agriculture projects. The Lao government should therefore encourage greater collaboration between FDI and ODA. Similarly, the government of Laos should be careful not to over-incentivize foreign investment to the point that the government fails to receive any benefits by way of taxes and duties.

It is not surprising that foreign capital is the first thing to arrive in a country undergoing market reforms, since it is highly mobile. But attracting capital is the easy part. Attracting quality capital, building strong economic institutions and developing skills and education will be the real challenges for Laos in the coming decade. Having proven it can attract FDI, Laos now needs to ensure that FDI into agriculture is contributing not just to economic growth but to economic development.

### Key recommendations

- Improve information collection and collation regarding investments.
- Improve data collection of trade and production statistics, with a focus on separating food crop production from non-food crop production. Currently, it is often difficult to disaggregate broad agricultural statistics between food crops, tree crops and forestry, livestock and fisheries.
- Better align economic development (as opposed to economic growth) objectives with approvals process for agriculture investments. This will require increased cooperation between foreign investors, the government and overseas development agencies.
- Improve coordination and communication between Ministry of Planning and Ministry of Agriculture and Forestry.
- Improve clarity of land tenure that remains an ongoing source of uncertainty for rural populations and investors.
- Take a broader perspective of food and livelihood security when assessing project impacts on rural communities—consider ecosystem services and non-market/informal economy values.
- Conduct further reviews of the effectiveness of specific agriculture projects in achieving stated development goals. This will require improved measurement of baseline indicators prior to a project and continual assessment over the project's lifespan.

## Bibliography

- Association of Southeast Asian Nations (ASEAN) Secretariat. (2011). *ASEAN in the global community: Annual report 2010–11*. Jakarta. Retrieved from <http://www.aseansec.org/publications/AR1011.pdf>
- Baumüller, H., and Lazarus, K. (2011). *Agribusiness investments in Laos: Risks and opportunities for poverty alleviation*. In Oxfam Hong Kong workshop presentation.
- Campbell, R., & Knowles, T. (2011). *Livestock in the green economy*. Unpublished. Available upon request from Economists at Large.
- Campbell, R., & Knowles, T. (2011). *Project evaluation of WWF Sustainable Rattan Project in Lao PDR*. Report prepared for the WWF Greater Mekong Lao Country Programme by Economists at Large.
- Cotula, L., Shenberg, A., & Polack, E. (2012). *A sustainable development analysis of agricultural investment contracts in Lao PDR*. A report prepared by IIED for the UNDP–UNEP Poverty Environment Initiative.
- Dwyer, M. (2007a). *Turning land into capital: A review of recent research on land concessions for investment in Lao PDR Part 2*. Energy. Vol. 856. A report commissioned by the INGO Network in Lao PDR.
- Dwyer, M. (2007b). *Turning land into capital: A review of recent research on land concessions for investment in Lao PDR Part 1*. Network. A report commissioned by the Working Group on Land Issues.
- Eaton, C., & Shepherd, A. (2001). *Contract farming partnerships for growth*. FAO Agricultural Services Bulletin, 145.
- European Commission. (2012). *Generalised system of preferences: Everything But Arms*. Retrieved from <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/everything-but-arms>
- Food and Agriculture Organization of the United Nations (FAO). (1996). *Rome Declaration on World Food Security*. Declaration made at the World Food Summit, November 13–17, 1996, Rome, Italy. Retrieved from <http://www.fao.org/docrep/003/w3613e/w3613e00.htm>
- FAO. (2011). *Foreign agricultural investment country profile: Lao People's Democratic Republic*. World Development. Retrieved from [http://www.fao.org/fileadmin/user\\_upload/tcsp/docs/LAOS\\_Country\\_Profile\\_Final.pdf](http://www.fao.org/fileadmin/user_upload/tcsp/docs/LAOS_Country_Profile_Final.pdf)
- FAO. (2012a). *FAO country profiles: The Lao People's Democratic Republic*. Retrieved from <http://www.fao.org/countryprofiles/index.asp?lang=en&ISO3=LAO>
- FAO. (2012b). *FAO Stat Trade Statistics*. Food and Agriculture Organization of the United Nations, available online at: <http://faostat.fao.org/site/342/default.aspx>
- FAO & World Food Programme (WFP). (2011). *FAO/WFP Crop and Food Security Assessment Mission to Lao People's Democratic Republic*. Retrieved from <http://documents.wfp.org/stellent/groups/public/documents/ena/wfp233484.pdf>
- Foppes, J., & Samontri, D. (2010). *Technical report : Assessment of the values of non-timber forest products (NTFP) in Lao PDR*. supported by the Sustainable Forestry through Rural Development (SUFORD) project, Department of Forestry, Ministry of Agriculture and Forestry.
- Fullbrook, D. (2007, October). *Contract farming in Lao PDR : Cases and questions*. Produced by the Laos Extension for Agriculture Project (LEAP) for the Government–Donor Sub Working Group on Farmers and Agribusiness.
- Gaiha, R., & Annim, S. (2010). *Economics Discussion Paper Series: Agriculture. GDP and Prospects of MDG 1 in Lao PDR*. Retrieved from <http://www.socialsciences.manchester.ac.uk/disciplines/economics/research/discussionpapers/pdf/EDP-1012.pdf>.

GRAIN. (2012). *GRAIN releases data set with over 400 global land grabs*. Retrieved from <http://www.grain.org/article/entries/4479-grain-releases-data-set-with-over-400-global-land-grabs>

Government of Lao PDR. (2006). *National Socio-Economic Development Plan*. Development. Committee for Planning and Investment, Vientiane. Retrieved from [http://siteresources.worldbank.org/INTPRS1/Resources/LAO\\_PRSP2\(Oct2008\).pdf](http://siteresources.worldbank.org/INTPRS1/Resources/LAO_PRSP2(Oct2008).pdf)

Government of Lao PDR. (2010, October). *7th National Socio-Economic Development Plan (2011–2015)*. Ministry of Planning and Investment, Vientiane Capital.

International Monetary Fund (IMF). (2009). *Lao People's Democratic Republic: Statistical appendix*. Development. <http://www.imf.org/external/pubs/ft/scr/2009/cr09285.pdf>

International Union for Conservation of Nature (IUCN). (2011). *Assessment of economic, social and environmental costs and benefits of Mitr Lao Sugar Plantation and Factory : Case study in Savannakhet Province*. [http://www.unpei.org/component/docman/doc\\_download/133-pei-lao-sugarcane-report-2011.html?Itemid=](http://www.unpei.org/component/docman/doc_download/133-pei-lao-sugarcane-report-2011.html?Itemid=)

Kenney-Lazar, M. (2010). *Land concessions, land tenure, and livelihood change: Plantation development in Attapeu Province, Southern Laos*. Report for Fullbright scholarship and Faculty of Forestry, National University of Laos. Retrieved from <http://www.commercialpressuresonland.org/sites/default/files/KenneyLazar Land ConcessionsAttapeu.pdf>

Lao People's Democratic Republic (PDR). (2010). Decree on Environmental Impact Assessment. Water Resources and Environment Administration. Retrieved from [http://www.wrea.gov.la/esia/images/download/eia\\_decree\\_unofficial\\_english\\_version.pdf](http://www.wrea.gov.la/esia/images/download/eia_decree_unofficial_english_version.pdf)

Lao PDR National Assembly. (2004, October). *Law on the Promotion of Foreign Investment*. Retrieved from <http://www.invest.laopdr.org/investlaw04.pdf>

Lao Statistics Bureau. 2012. *Lao Year Book—Investment*. Retrieved from [http://www.nsc.gov.la/index2.php?option=com\\_content&view=article&id=34&Itemid=35](http://www.nsc.gov.la/index2.php?option=com_content&view=article&id=34&Itemid=35).

Manorom, K., Hall, D. Lu, X., Katima, S., Medialdia, M. T., Siharath, S., & Srisuphan, P. (2011). *Cross-border contract farming arrangement: Variations and implications in the Lao People's Democratic Republic. Greater Mekong Subregion-Phnom Penh Plan for Development Management, Research Report Series Vol No. 1 Issue No. 2, Asian Development Bank*.

Ministry of Agriculture and Forestry (MAF). (2006). *Diagnostic study of the agricultural and agribusiness sectors*. National Agriculture and Forestry Extension Service Central Unit, Lao PDR.

MAF. (2010a). *Ministry of Agriculture and Forestry Strategy for Agricultural Development 2011 to 2020—Draft*. Vientiane.

MAF. (2010b). *Agricultural Investment Plan 2011 to 2015*. Vientiane.

Ministry of Planning and Investment. 2010. *Draft 7th National Socio-Economic Development Plan (2011–2015)—Abridged Version*. Vientiane.

Mirza, H., & Giroud, A. (2003, November). *Regionalisation, foreign direct investment and poverty reduction: The case of ASEAN*.

Nunnenkamp, P. (2001). *Foreign direct investment in developing countries: What policymakers should not do and what economists don't know*. Kieler Diskussionsbeiträge, No. 380, <http://hdl.handle.net/10419/2616>

Nunnenkamp, P. (2011). *Foreign direct investment in a globalized world: It works; It doesn't; It can, but that depends . . .*. Unpublished paper, prepared for the Bertelsmann Foundation.

Organisation for Economic Co-operation and Development (OECD). (2012). *Aid effectiveness 2005–10: Progress in implementing the Paris Declaration–Volume 2 (Country Chapters) Lao PDR*. Retrieved from <http://www.oecd.org/dataoecd/21/50/49720448.pdf>

PEI Lao PDR. (2011, May 18). *Presenting the new National Investment Strategy for quality Foreign Direct Investments in Lao PDR*. Press Release. Retrieved from <http://www.unpei.org/what-we-do/pei-countries/lao-pdr.html>

Perera, O. (2011). *Investment incentives for sustainable development: The case of Lao PDR*. Report for the International Institute for Sustainable Development (IISD).

Polack, E. (2012). *Agricultural land acquisitions: A lens on Southeast Asia*. London: International Institute for Environment and Development.

Saengpassa, C. (2009, March). Mitr Lao invests more in Laos. *The Nation*.

Schoenweger, O., & Ullenberg A. (2009). "Foreign direct investment (FDI)." Chapter in *Land in the Lao PDR*. Imprint. Report by German Development Agency GTZ, Vientiane.

Setboonsarng, S., Leung, P-S, & Stefan, A. (2008). *Rice contract farming in Lao PDR: Moving from subsistence to commercial agriculture*. Contract. ADB Institute Discussion Paper No. 90.

Thongmanivong, S., Phengsopha, K., Chantavong, H., & Dwyer, M. (2009). Concession or cooperation? Impacts of recent rubber investment on land tenure and livelihoods: A case study from Oudomxai Province, Lao PDR. Training. Bangkok. Retrieved from <http://www.laofab.org/document/view/477>

Tong, P.S.. (2009). *Lao People's Democratic Republic Forestry Outlook Study*. Office. Asia-Pacific Forestry Sector Outlook Study II: Working Paper Series No. APFSOS II/WP/2009/17, Food and Agriculture Organization of the United Nations Regional Office for Asia and the Pacific, Bangkok.

United Nations Conference on Trade and Development (UNCTAD). (2010). *An investment guide to the Lao People's Democratic Republic: Opportunities and conditions*. New York. Retrieved from [http://www.unctad.org/en/Docs/diaepcb201002\\_en.pdf](http://www.unctad.org/en/Docs/diaepcb201002_en.pdf)

United Nations Development Programme (UNDP). (2008). *Lao PDR Donor & Development Partner Profiles*. Compiled by the Office of the UN Resident Coordinator, Vientiane.

Voladet, S. (2009). *Sustainable development in the plantation industry in Laos: An examination of the role of the Ministry of Planning and Investment*. National Economic Research Institute. Vientiane.

World Bank. (2006). *Lao PDR : Rural and Agriculture Sector Issues Paper*. <http://documents.worldbank.org/curated/en/2006/05/7107239/lao-pdr-rural-agriculture-sector-issues-paper>

World Bank. (2012). *World development indicators*. Retrieved from <http://data.worldbank.org/indicator/>

World Food Programme (WFP). (2007). *Lao PDR—Comprehensive food security & vulnerability analysis*. October. United Nations World Food Programme, Vulnerability Analysis and Mapping Branch, Rome, Italy.

Wright, S. (2009). *Agriculture in transition: The impact of agricultural commercialization on livelihoods and food access in the Lao PDR*. UN World Food Programme Laos, Vulnerability and Mapping Unit.

## Appendices

### Investment Application Procedures

This section will explore the requirements for investment in general or concession business, being the most relevant to this research.

#### Investment in General Business

Investors who wish to invest in general business must submit their application to the one-stop-service of Ministry of Industry and Commerce in order to register the enterprise in conformity with Enterprise Law enacted in 2005.

Foreign investors using a company structure are also required to have at least LAK1 billion (approx. US\$125,000) of total capital. This is lower than required in previous legislation. Previously, foreign investors were required to have at least US\$500,000 of capital (FAO, 2011).

The required documents include:

- Application form, which can be obtained from one-stop-service of Ministry of Planning and Investment or Ministry of Industry and Commerce
- Contracts (Memorandum of understanding for joint venture and contracts for cooperation by contract)
- Biography of investors
- Proof of financial situation and experience of investors
- A photocopy of an Identification Card (domestic investors) and a photocopy of a passport (foreign investors)

#### Investment in Concession Business

Investors wishing to invest in concession are required to submit their application to the one-stop-service of Ministry of Planning and Investment.

The required documents include:

- Application form
- Project plan including economic and technical details
- Contracts (Memorandum of understanding for joint venture and contracts for cooperation by contract)
- Biography of investors
- Proof of financial situation and experience of investors
- A photocopy of an Identification Card (for domestic investors) and a photocopy of a Passport (For foreign investors)

## Laws and Regulations Related to FDI

The main laws and decrees governing the investment and concession activities are presented below. In the Lao PDR, a law typically precedes a decree and has less detail.

- *Prime Ministerial Decree on Implementation of Law on Investment Promotion (2011)*
- *Environmental and Social Impact Assessment Regulation (2010)*  
Requires assessment and monitoring of projects' environmental and social impacts.
- *Law on Investment Promotion (2009)*  
Creates a level playing field for domestic and foreign investors, with a common set of rules on business entry and investment, for example a business license is no longer required for foreign investors.
- *Decree on Land Concessions (2009)*
- *Enterprise Law (2005)*
- *Land Law (2003)*
- *Environmental Protection Law (1999)*

## Addition Legislation for Agricultural Investment

- *Law on Forestry (2007)*
- *Agriculture Law (1998)*
- *Management of Fertilizer Regulation (1503/MAF 2000)*
- *Regulation on the Use of Insecticides (1578/MAF 2000)*
- *Water and Water Resources Law (1996)*

## Key Authorities

### National Level

- Ministry of Planning and Investment
- Ministry of Industry and Commerce
- Ministry of Agriculture and Forestry
- National Land Management Authority (LNMA)

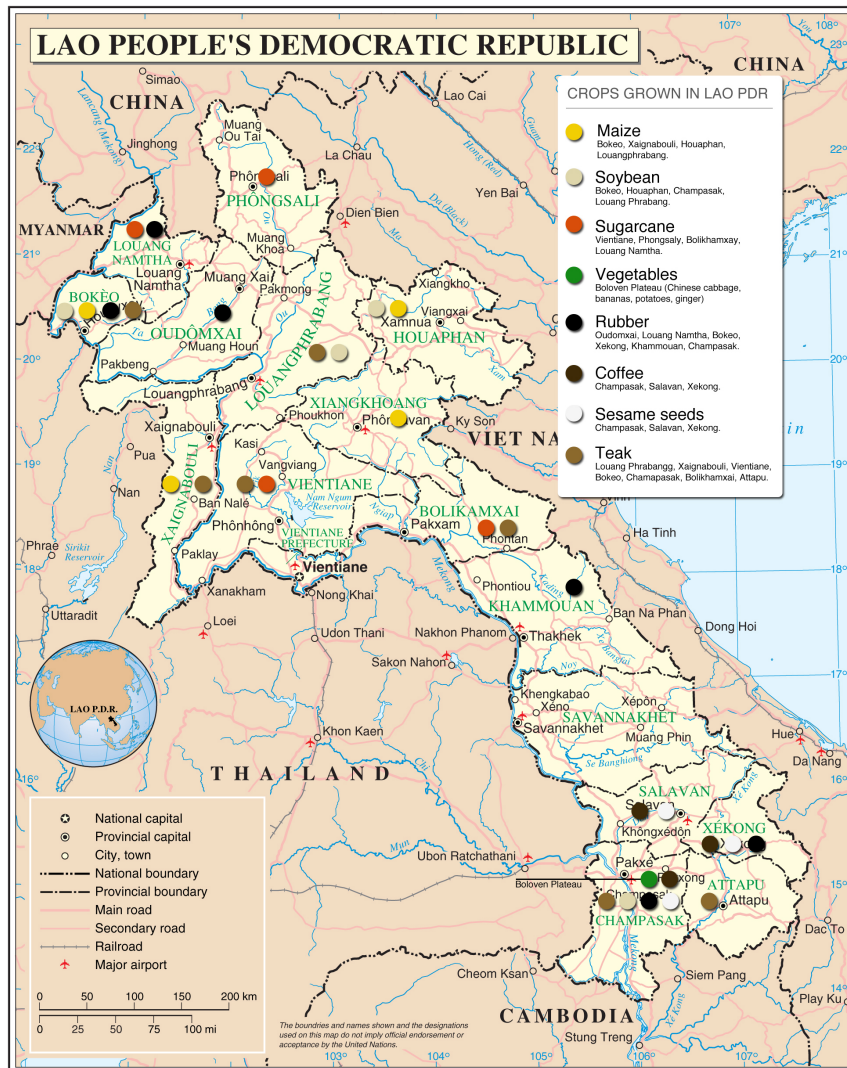
### Provincial level

- Provincial Department of Planning and Investment
- Provincial Department of Industry and Commerce
- Provincial Department of Agriculture and Forestry
- Provincial Land Management Authority (LNMA)



Location of Key Crops in Laos

FIGURE A1: COMMODITY (CASH) CROPS GROWN IN LAOS



Source: Derived from map no. 3959 rev. 2. United Nations (2004) with crop information from UNCTAD (2010). Reprinted with permission.

**TABLE A1: FDI INTO AGRICULTURE SECTOR IN LAOS (2005-11)**

	AGRICULTURE INCL. FORESTRY (US\$)	
	NUMBER OF PROJECTS	VALUE OF INVESTMENTS
2005	21	15,499,000
2006	39	409,554,287*
2007	43	178,723,000
2008	37	96,294,000
2009	30	281,913,000
2010	32	150,198,815*
2011	44	576,223,415
TOTAL 2005-11	246	(Low) 1,148,652,415 (High) 1,708,405,517

Source: Based on data from MPI and Lao Statistics Bureau Year Book

\*The high estimate in the table above uses estimates of 2006 and 2010 investment, based on figures available for total investment in those years, since figures for foreign investment are not provided. Other sources such as FAO (2011) equate the total investment to foreign investment. We have taken a more conservative approach and estimate foreign investment at 89 per cent of total investment based on the lowest percentage of foreign investment to total investment for data provided for 2005, 2007, 2008, 2009 and 2011.

**TABLE A2: TOTAL FDI INTO LAOS—ALL SECTORS (2005-11)**

TOTAL BETWEEN 2005 AND 2011 (US\$)	TOTAL BETWEEN 2005 AND 2011 (US\$ BILLION)	TOTAL BETWEEN 2005 AND 2011 (% OF TOTAL)	SECTOR
3,399,314,357	3.4	32%	Mining
2,987,407,000	3.0	28%	Hydropower
1,314,211,667	1.3	12%	Services
1,148,652,415	1.1	11%	Agriculture incl. forestry
626,590,613	0.6	6%	Industry & Handicraft
316,525,000	0.3	3%	Construction
276,925,946	0.3	3%	Hotel & Restaurant
251,356,275	0.3	2%	Banking
74,653,809	0.1	1%	Trading
82,318,600	0.1	1%	Wood Industry
92,600,744	0.1	1%	Telecom
17,655,000	0.02	0%	Garment
35,595,888	0.04	0%	Consultancies
1,120,000	0.00	0%	Education
49,689,000	0.05	0%	Public Health
	10.7	100%	TOTAL

Source: Based on data from MPI and Lao Statistics Bureau Year Book

Note: This doesn't include estimated figures for agriculture for 2006 and 2010. If we include these, agricultural would potentially get to third position, ahead of services.



## *Further details and contact information*

**For further information contact Damon Vis-Dunbar at: [dvis-dunbar@iisd.org](mailto:dvis-dunbar@iisd.org) or +41 22 917 8630.**

---

International Institute for Sustainable Development  
Trade Knowledge Network  
International Environment House 2, 9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland  
Tel: +41 22 917-8373 | Fax: +41 22 917-8054

---