SECTOR ASSESSMENT (SUMMARY):
AGRICULTURE, NATURAL RESOURCES, AND RURAL DEVELOPMENT

1. Sector Performance, Problems, and Opportunities

The agriculture, natural resources, and rural development (ANR) sector has decreased as a contributor to the national economy, accounting for 32.7% of gross domestic product (GDP) in 2010 but only 27.5% of GDP by 2014. Agriculture growth is low—the sector expanded by only 2.7% in 2013 and 2.9% in 2014. This growth has been led by investments in irrigation, and cash cropping and livestock. The Lao People’s Democratic Republic (Lao PDR) remains an agrarian economy—the ANR sector still engages over 70% of the population, over 50% of all households are still mainly or partly subsistence farmers, and 61% of all hours worked nationally are in agriculture. The sector is expected to continue to contribute substantially to national economic growth, but at a declining rate, from 2017 until 2026.

2. High sector poverty and inequality. Since 1996, economic growth helped to halve the national poverty rate (from 46% to 23% by 2013). However, poverty still averages 28% in rural areas. Income inequality is increasing—while average gross household agriculture income was $1,707 per year in 2014, 50% of rural households remain subsistence farmers with incomes below $300 per year, and only about 30% of households are food secure. Moreover, economic growth has benefited people in the lowlands more than upland ethnic groups, whose average poverty rate is still 39%. Women represent 54% of the rural workforce, but have less access to credit and technology and work on average nine hours per week more than men. Women’s workload is typically heaviest in upland ethnic areas.

3. The ANR sector faces physical, economic, and capacity constraints. Physical constraints include (i) the Lao PDR’s landlocked location, which makes market access to non-neighbors difficult; (ii) predominantly mountainous terrain, which entails dispersed agriculture production areas, expensive infrastructure development, and a fragmented domestic market; (iii) limited areas of arable land, and the poor soils in many locations; and (iv) the declining quality of natural resources, such as water, land, and forest. Economic constraints include (i) the subsistence nature of agriculture practiced by most farmers, which leads to most primary production not meeting export standards; (ii) the poor condition of productive rural infrastructure (PRI), which limits access to markets and does not support trade logistics; (iii) a small domestic consumer market; (iv) production systems and value chains weakened by insecure land rights and an uncertain regulatory environment; and (v) underdeveloped financing institutions for agriculture and agribusiness at all scales of operation. Capacity constraints include (i) weak institutional management and technical capacity of public agencies to address ANR problems (including certifying food and agriculture products to international sanitary and phytosanitary (SPS) standards); (ii) a limited smallholder and agribusiness skills base for modern and sustainable agriculture production, processing, and marketing; and (iii) constrained government capital and recurrent budgets.

4. Sector challenges are shown in the problem tree. The core sector problem is low agricultural productivity, quality, diversity, and unrealized trade potential, with a rapidly eroding natural resource production base. This leads to sector impacts (e.g., low returns to agriculture and limited trade) that constrain national development by suppressing income growth, maintaining poverty and inequality, and increasing exposure to risks from unsafe food and climate instability.

---

This summary is based upon ADB. 2016. Agriculture, Natural Resources, and Rural Development Sector Assessment, Strategy and Roadmap. Manila. Available upon request.
5. ANR strengths include (i) a wide range of natural products; (ii) relative to neighboring countries, the generally good quality of agro-biodiversity; (iii) large numbers of producers that have not adopted chemical-based agricultural production practices; (iv) growing demands from domestic, regional (Association of Southeast Asian Nations and Greater Mekong Subregion [GMS]), and global markets; (v) participation in regional development, trade, and investment arrangements; (vi) significant support from development partners; and (vii) resilience of rural communities. Risks to ANR development include (i) vulnerability to climate change and natural disasters; (ii) exposure to external shocks (being a price-taker in commodity markets); (iii) poor stewardship of large-scale land concessions; and (iv) poor quality foreign investment.

6. Each of the Lao PDR’s agro-ecological regions provides opportunities for development. Smallholder producers and large-scale agricultural land concessionaires in the Northern Region can supply the People’s Republic of China, Thailand and Viet Nam, with food, agricultural products, and raw materials for agro-processing. The Annamite uplands provide opportunities for exporting primary products to Vietnamese agro-processing centers. Significant potential exists for development of commercial agriculture on the Bolovens Plateau in the Southern Region, including the expansion and diversification of horticulture crops for export. Important crops include rice, coffee, fruit, tea, and other Good Agricultural Practices (GAPs) standard products. Opportunities in the Lao PDR Mekong Corridor and Central Region include rice cultivation, periurban agriculture of horticulture crops, small livestock, fish raising, and other aquaculture. Opportunities exist to support productivity improvements, based on ecological intensification and climate-friendly practices, which will result in improved quality of GAP standard products and organic vegetables—both for urban consumers and for export.

7. In terms of investment priorities (physical and nonphysical), ANR trade expansion is a key strategic policy to reduce poverty, with its linkages (upstream) to smallholder producers and (downstream) to domestic agribusiness. Public investments in transport and trade infrastructure are required to attract quality private foreign direct investment that contributes to capital formation in (i) agriculture mechanization, technology transfer, and value-added processing; (ii) increased cross-border trade and accessing expanding regional consumer markets; and (iii) small and medium-sized enterprise development. Public and private investments in irrigation are particularly required to (i) increase rice productivity for domestic food security and for export; (ii) diversify farming systems for domestic nutritional improvements; (iii) strengthen resilience to climate instability; and (iv) foster greenhouse gas mitigation.

8. To improve rural infrastructure, investment is needed in (i) community-based irrigation systems, (ii) rural market access roads, and (iii) logistics infrastructure that facilitates trade in the GMS. The application of sanitary and phytosanitary measures needs strengthening to ensure quality control and certification of food and agricultural products for both domestic and export markets. The performance of private ANR institutions (i.e., farmer organizations, agribusinesses, trade associations, and banks) needs to be strengthened to promote farm–market linkages, underpin trade growth, develop marketing skills, and improve corporate governance. Land ownership and land-use and property rights issues need to be addressed for better land stewardship, as well as to help establish a stronger collateral base for improving access to finance.

2. Government’s Sector Strategy

9. The Lao PDR’s Five Year National Socio-Economic Development Plan (NSEDP) VIII, 2016–2020 target is to achieve annual growth of 7.5%, of which the ANR sector is expected to contribute 3.4% (to constitute about 19.0% of GDP by 2020). In addition to the NSEDP, the overall policy framework for ANR is set out in the following key documents: (i) the Agricultural
10. The NSEDPM aims to ensure sustainable and inclusive rural and human development, and expand growth in agriculture and forestry at the annual 3.4% target. An important goal is to protect and use natural resources and the environment sustainably, while reducing poverty among ethnic groups in upland areas. The NSEDPM emphasizes food and nutrition security, commercial production of agricultural commodities, and value-added processing of agro-forestry products. Cross-border logistics will be developed to facilitate regional trade. Science and modern technology will be applied to produce clean agriculture products for agro-processing industries. The management of agricultural land will be improved, and will result in completing the issuance of agricultural land titles to families in prioritized areas by 2020. Additional private investment is sought for the development of irrigated areas.

11. The ADSV includes ensuring national food security through clean, safe, and sustainable agriculture; and building agricultural production potential that contributes to national economic growth, industrialization, and modernization. Targets include (i) increasing and improving agricultural production through industrialization and modernization; (ii) improved competitiveness in terms of quality; (iii) enforcement of improved standards and regulations; and (iv) food security, safety and nutrition. Agricultural production will contribute to employment creation, income generation, decreasing disparities between urban and rural areas, and integrated rural development. New infrastructure will preserve culture, protect the environment, facilitate trade, utilize water resources efficiently, and contribute to stable ecosystems.

12. The targets of the NSEDPM and the ADSV are deemed feasible given the high level of commitment of government leadership and continuing strong support from the international community. Serious obstacles to be overcome include weak governance in the public and private sectors, and transparency and accountability in financial management.

13. Factors promoting public sector performance and ANR service delivery include: (i) the government’s recognition of its role as facilitator, coordinator, and regulator of agro-economic and natural resources management activities; (ii) the decentralization program that emphasizes government ownership and accountability in governance, socioeconomic management; and (iii) improved public service delivery. Building capacity at the grassroots level is necessary to facilitate integrated rural development. Factors limiting successful public sector performance in ANR include: (i) weak policy implementation at all levels; (ii) ineffective and inconsistent enforcement of laws and regulations; (iii) the hesitancy of agencies to manage public resources under their administrative responsibility; (iv) impulsive interventions in local markets; and (v) the lack of inter-sector coordination in policy making and implementation.

3. ADB Sector Experience and Assistance Program

14. The most critical lessons learned in relation to ANR operations include the following: (i) ADB should maintain its focus on what has worked well in the past, and concentrate on providing PRI that promotes agriculture commercialization and strengthens value chain development; (ii) ADB should replicate and scale up successful models of smallholder commercialization and natural resource management, but expand these to address finance and

---

other issues as necessary; and (iii) improving natural resource governance requires more effort to capture economic benefits from environmental stewardship, confront land-based foreign direct investment issues, and enhance smallholders’ security of tenure.

15. Ongoing ADB-supported projects, and those for which additional funding is being sought, reflect the NSEDP’s emphases on increasing productivity and modernization in the ANR sector for national food security and diversified commodity production for nutrition security, as well as promoting value-added processing of clean and safe agricultural raw materials for export. Institutional and human capacity strengthening focuses on increased inter-sector coordination and convergence for more effective policy implementation. ADB supports a range of projects that cover agriculture and environmental concerns.

16. The ADB assistance program will support (i) sustainable agricultural and rural production, diversification, and market-oriented value chains; and (ii) sustainable use and conservation of natural resources, agriculture biodiversity, and climate resilience. ADB will apply principles and adopt approaches consistent with its Strategy 2020: Operational Plan for Agriculture and Natural Resources, 2015–2020; and Water Operational Plan, 2011–2020. ADB will maximize the use of scarce public resources in areas in which it has comparative advantages with respect to the private sector and development partners, and apply lessons learned from past projects to areas where its contribution to the sector can be most effective. Leading areas where ADB’s support is most likely to have impacts include (i) improving PRI, cross-border trade logistics, and community-managed irrigation; (ii) promoting sustainable economic development in areas with high potential for commercial agricultural expansion linked to value-added agro-processing and regional trade; (iii) promoting an enabling environment for domestic agribusiness development, especially related to regulatory reform and facilitating access to commercial financing for micro, small, and medium-sized enterprises; and (iv) incorporating cross-cutting and thematic issues (including environment, climate change, gender mainstreaming, governance, capacity development, and regional integration and cooperation) in all operations.

17. ADB will consolidate its program into fewer, larger, and better focused projects during the country partnership strategy period (2017–2021). It will continue to implement investment projects, targeting areas with higher levels of poverty in the northern and southern regions. Investment projects in each region will target (i) productive rural infrastructure for diversified agriculture, and (ii) market-oriented value chain development. Climate change concerns, environmental sustainability imperatives, and agricultural finance needs will be integrated into all these projects, as appropriate. This strategy will enhance the efficiency and responsiveness of ADB’s project administration, with the Lao Resident Mission having increasing responsibilities.

18. In addition to the GMS Program in the Lao PDR, ADB plans to support climate change mitigation, adaptation, and resiliency programs. ADB support will include (i) improved resilient agricultural farming system practices and technologies; (ii) improved crop and livestock diversification to promote resilience, especially in flood and drought risk areas; and (iii) strengthened capacity in integrated land use planning and watershed management, to increase the resilience of forests to cope with climate change.

---

Problem Tree for Agriculture, Natural Resources, and Rural Development

**National impacts**

- Suppressed national income and economic development, high rural poverty and income inequality, risk to public health, and increased exposure to climate instability risks

**Sector impacts**

- Low farming returns
- Widespread unsustainable practices
- Limited official cross-border trade
- Reduced agro-biodiversity
- Increased risk of unsafe food
- Under-developed input-output value chains

**Core sector problem**

- Low agricultural productivity, quality, diversity, and unrealized trade potential, with a rapidly eroding natural resource production base

**Main causes**

- Weak institutional capacities
- Weak regulatory enforcement
- Inadequate policy implementation
- Weak institutional coordination
- Constrained government investment budgets
- Conservative risk-taking culture

**Sector constraints**

**Economic and Trade**

- Agriculture practices are mostly subsistence-oriented
- Small domestic market
- Uncertain regulatory environment
- Poor condition of productive rural infrastructure
- Limited access to business financing
- Vulnerability to external shocks
- Market distortions caused by presence of short-term oriented foreign investors
- Inefficient trade, transit, and customs procedures
- Cumbersome tax and licensing systems
- Inability to meet sanitary and phytosanitary export standards

**Capacity**

- Insufficient skills and knowledge to support modern sustainable agriculture
- Limited technical and financial support to value chain development
- Poor environment, land and concession management, and enforcement of regulations
- Incomplete and unclear land rights
- Risky commercial and business environment, especially for small and medium-sized enterprises
- Weak capacity to monitor and control food quality
- Limited entrepreneurial tradition
- Weak inter-sector coordination and convergence
- Limited knowledge base for decision making
- Weak extension services delivery mechanisms

**Physical and environmental constraints**

- Landlocked
- Mountainous terrain, limited arable areas, poor soils in many locations
- Declining quality of natural resources, especially water, forests, and land
- Vulnerability to climate change and natural disasters