

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

1. Sector Performance, Problems, and Opportunities

1. The agriculture, natural resources, and rural development (ANR) sector of the Lao People's Democratic Republic (Lao PDR) contributed on average 37% to the national gross domestic product between 1986 and 2000, but only 17% from 2000 to 2016. Led by investments in irrigation, cash cropping, and livestock, ANR growth expanded by 2.8% in 2016.¹ As of 2015, the sector engaged over 65% of the population and accounted for 61% of all hours worked. The Lao PDR remains an agrarian economy, and ANR is expected to continue to contribute significantly to national economic growth until 2026, albeit at a declining rate.

2. **High sector poverty and inequality.** Poverty still averages 28% in rural areas and is nearly three times higher for those dependent on agriculture than for those working in other sectors. Income inequality is increasing—the average gross household income from agriculture was \$1,707 per year in 2014, but 50% of rural households have incomes below \$300 per year. 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. Constraints on ANR productivity and profitability are **(i) physical and environmental**—(a) landlocked location hampering market access to non-neighbors; (b) predominantly mountainous terrain, dispersed agricultural production areas, rising cost of infrastructure development, and a fragmented domestic market; (c) limited arable land, and poor soils in many locations; (d) declining quality of natural resources such as water, land, and forests; (e) vulnerability to climate change impacts; **(ii) socioeconomic**—(a) subsistence agriculture practiced by most farmers, and inability to meet export standards; (b) inadequate productive rural infrastructure (PRI) limiting access to markets and hampering trade logistics; (c) small domestic consumer market; (d) production systems and value chains weakened by insecure land rights and an uncertain regulatory environment; and (e) underdeveloped financing for commercial agribusiness, especially for farmers; **(iii) capacity-related**—(a) weak institutional management and technical capacity of public agencies to manage ANR problems, including certifying food and agriculture products to international sanitary and phytosanitary (SPS) standards; (b) limited agribusiness skills for modern and sustainable agricultural production, processing, and marketing; and (c) constrained government capital and recurrent budgets.

4. ANR challenges are presented in the problem tree (p. 5). The core sector problem is unrealized agricultural commercial potential with a rapidly eroding natural resource production base. This leads to sector impacts (e.g., low productivity and 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.

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 demand from domestic, regional (Association of Southeast Asian Nations and Greater Mekong Subregion [GMS]), and global markets; (v) participation in regional development, trade, and investment

¹ ADB. 2017. *Lao PDR Accelerating Structural Transformation for Inclusive Growth: Country Diagnostic Study*. Manila.

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 the development of commercial agriculture on the Bolovens Plateau in the Southern Region, including the expansion and diversification of horticulture crops for export. Important crops are rice, coffee, fruit, tea, and other products that meet good agricultural practice (GAP) standards. Opportunities in the Lao PDR Mekong Corridor and Central Region include rice cultivation, peri-urban 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 improve the 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 links (upstream) to smallholder producers and (downstream) to domestic agribusinesses. 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 access to 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 PRI, 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 SPS 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 links, underpin trade growth, develop marketing skills, and improve corporate governance. Land ownership, and land use and property right issues need to be tackled to achieve better land stewardship, and to help establish a stronger collateral base for better access to finance.

2. Government's Sector Strategy

9. The Lao PDR's Five Year National Socio-Economic Development Plan (NSED) VIII, 2016–2020 aims to achieve annual growth of 7.5%, to which the ANR sector is expected to contribute 3.4% (to constitute about 19.0% of gross domestic product by 2020). In addition to the NSED, the overall policy framework for ANR is set out in the following key documents: Agricultural Development Strategy to 2025 and Vision to 2030 (ADSV), and Natural Resources and Environment Strategy, 2016–2025.²

² Government of the Lao PDR, Ministry of Planning and Investment. 2015. *Five Year National Socio-Economic Development Plan VIII (2016–2020)*. Vientiane; Government of the Lao PDR, Ministry of Agriculture and Forestry.

10. The NSEDP aims to ensure sustainable and inclusive rural and human development and expand growth in agriculture and forestry to 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 NSEDP 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. Improvements to the management of agricultural land will help complete 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. The targets are: (i) more and better agricultural production through industrialization and modernization; (ii) improved competitiveness in terms of quality; (iii) enforcement of stricter standards and regulations; and (iv) food security, safety, and nutrition. Agricultural production will contribute to employment creation, income generation, a reduction in 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 NSEDP and the ADSV are deemed feasible given the high level of commitment from government leaders 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 resource management activities; (ii) a decentralization program that emphasizes government ownership and accountability in governance and socioeconomic management, and recognizes the need to build capacity at the grassroots to facilitate integrated rural development; and (iii) improved public service delivery. Factors hampering successful public sector performance in ANR are (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 Asian Development Bank (ADB) country partnership strategy's first strategic priority—Infrastructure and Private Sector Development to Support Employment and Income Generation—defines ADB's ANR objectives in the Lao PDR as improving agricultural productivity and promoting commercialization to create jobs for the poor, women, and ethnic groups in rural areas.³ Moreover, 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,

2015. *Agriculture Development Strategy to 2025 and Vision to the Year 2030*. Vientiane; and Government of the Lao PDR, Ministry of Natural Resources and Environment. 2016. *Natural Resources and Environment Strategy, 2016–2025*. Vientiane.

³ ADB. 2017. *Country Partnership Strategy: Lao People's Democratic Republic, 2017–2020 — More Inclusive and Sustainable Economic Growth*. Manila.

2011–2020.⁴ 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 from past projects to areas where its contribution to the sector can be most effective.

15. 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 crosscutting and thematic issues (including environment, climate change, gender mainstreaming, governance, capacity development, and regional integration and cooperation) in all operations.

16. 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 diversifying 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.

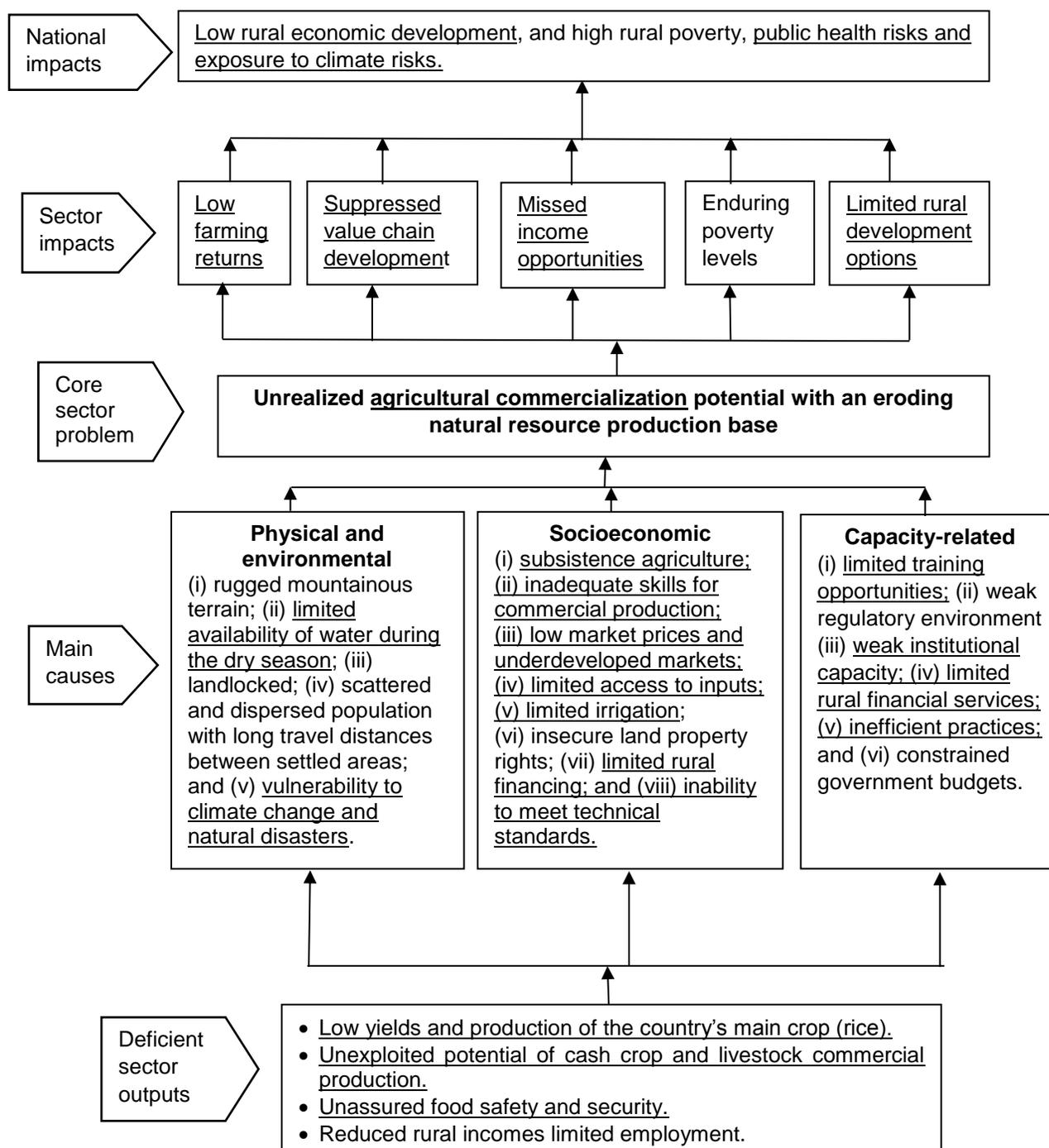
17. ADB supports a range of projects that cover agricultural and environmental concerns. Projects in the poor northern provinces and along the GMS East–West Economic Corridor will enhance farmers' access to PRI, increase the supply of nutritious food for domestic consumption, boost organic product exports, and promote employment led by women throughout the agriculture and food value chains. A regional project to improve SPS standards will facilitate agriculture exports.

18. ADB will consolidate its program into fewer, larger, and better-focused projects and will continue to implement investment projects, targeting areas with higher levels of poverty in the northern and southern regions. 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.

19. In addition to the GMS Program in the Lao PDR, ADB plans to support climate change mitigation, adaptation, and resilience programs. ADB support is designed to lead to (i) more resilient agricultural farming practices and technologies; (ii) greater crop and livestock diversification to promote resilience, especially in areas with flood and drought risks; and (iii) stronger capacity in integrated land use planning and watershed management, to increase the resilience of forests to cope with climate change.

⁴ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila; and ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.

Problem Tree for Agriculture, Natural Resources, and Rural Development



Note: Parts related to the project are underlined.
 Source: Asian Development Bank.