



Food and Agriculture  
Organization of the  
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# Maximizing benefits from agricultural exports for Lao smallholder farmers

## Policy brief

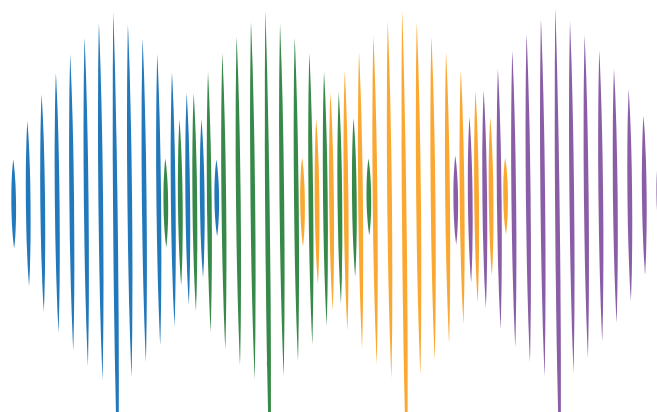
September 2022



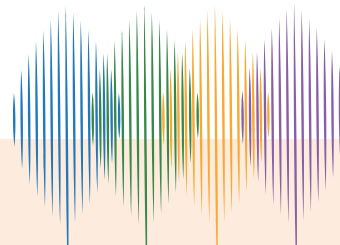
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TAP-AIS project



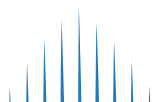
## Key Messages

- Most Lao agricultural exports are unprocessed products for which **smallholder farmers receive less economic value** than traders and processors, who produce brand name items.
- Current farming systems still cannot ensure production of consistent quality products and regular supplies for export markets; Production certification and **Sanitary and Phytosanitary (SPS)** play a critical role of agricultural export.
- Sustainable agriculture practices will help **produce more with less** with an aim to reduce post-harvest losses, labor saving technologies, low input cost, etc.
- While **attracting more investment** in the manufacturing of agriculture production inputs including fertilizer and animal feed, there is a greater need **to improve the agribusiness environment and the efficient application of regulations.**
- **Strengthening relevant capacities of smallholder farmers and their organizations** would enable them to benefit from the agrifood system transformation, commercialization and access to markets.
- **Coordination and collaboration among government departments, public and private institutions, investors and farmers are key** to addressing export issues e.g. high production cost, export procedures, and enabling all stakeholders, including farmers, to mutually benefit from partnership.
- There is **a lack of evidence-based research and studies to provide analysis and policy options** to address issues involving different actors. It is beyond the mandate of the agriculture sector to address these issues alone especially high production costs and coordination among key actors.

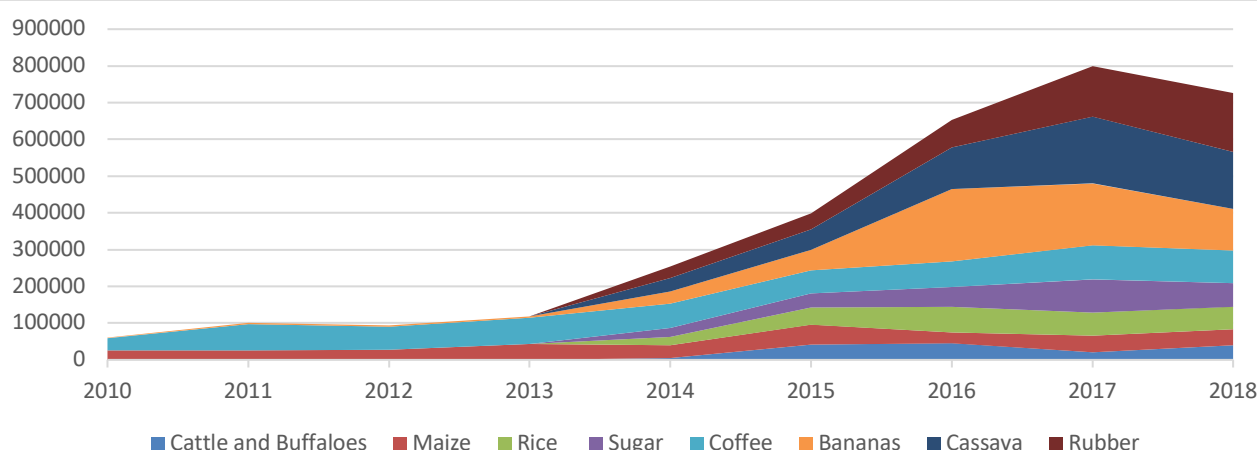
## Background

The least developed country (LDC) status of Lao People's Democratic Republic (PDR) and agreement provides Lao agricultural products tariff and quota free access to developed countries' markets. Lao PDR has been granted unilateral, duty-free, quota-free access for all exports, – except arms and ammunition from European Union countries. The export potential of agricultural products from Lao PDR had an increasing trend from 90 products in 2012 to 107 products in 2020 (Viengsavang, T. et al. 2022). The comparative advantage of Lao agriculture is its greener production. It gives Lao farmers the opportunity to grow green and capture high premiums in increasingly expanding environmentally conscious consumer markets.

The main export markets for Lao products include Thailand, China, Viet Nam, Australia, Singapore and European Union countries, which together constitute a share of 89.50 percent of the total export market. Agricultural commodities (e.g. Cassava, banana, coffee, cattle & buffalo, fruits, rubber, rice, maize) accounted for 16.23 percent of total exports. 90 percent of Lao PDR's agricultural exports go to China, Thailand and Viet Nam. All three countries have a growing middle-class population, representing a strong and increasing demand for quality agricultural products. Most Lao agricultural products are exported unprocessed or semi processed (MOIC, 2022, pp. 5). Agriculture exports earned US\$1 200 in which US\$997 million from crops and agriculture products (MAF, 2022, pp.4). The following figure shows how the government strategy and efforts have boosted agricultural exports.



**Main agricultural and livestock export products (US\$1 000)**



Source: FAO. 2021a. FAOSTAT Food Balances Database. <http://www.fao.org/faostat/en/#data>

Most of Lao PDR's agricultural products are not primarily produced for export. Despite its recent rapid growth and policy support, development of the export sector is constrained by many challenges. The Sanitary and Phytosanitary Standard (SPS) system is generally not fully understood by organizations promoting agriculture production. In particular, accreditation and certification<sup>1</sup> are frequently not properly differentiated, and regulations covering organic imports are not well understood even among farmers or agricultural producers. The long negotiation period for certification of agricultural exports from Lao PDR stipulated by Chinese officials acts as a barrier to export participation since it generates major compliance costs for farmers who have little or no support during the transition period prior to receiving certification. There has also been relatively little progress in the areas of agronomy and crop protection for agriculture production systems, with the result that exiting farming systems still cannot ensure consistent production and regular supplies of fresh produce of guaranteed quality which meet all the export markets' rigid requirements.

The Lao Government, private sector, small and medium enterprises (SMEs) and international partner countries all need to work together to carefully identify and focus on eliminating the weaknesses and reduce the threats to further facilitate agricultural exports. Lao Government national level agencies need to improve both hard and soft infrastructure, especially warehouse systems (both cooling and bonded warehouses), logistics and transportation infrastructure, SPS system, and support to the certification process. The Lao Government will need to negotiate with import countries to establish a clean product equivalency arrangement, namely to simplify supporting documents. The formation and support of local producers' cooperatives are essential if farmers are to improve quality, brand their products, and access international markets to obtain a fair price.

The Lao Government aims to transform the agrifood system to be more sustainable and modernized in connection with rural development contributing to the national economic base with a strong focus on support for smallholder farmers. Agriculture production in Lao PDR is dominated by smallholder farmers engaged in subsistence agriculture. The latest agriculture census nationwide in 2019-2020 indicates that smallholder farmers accounted for 52 percent of total agricultural households, the majority of whom are poor and face a wide range of supply-side challenges that affect farm-level productivity and market participation. Smallholder farmers participate in agricultural export supply

<sup>1</sup> Certification is the third-party confirmation via audit of an organization's systems or products, whilst accreditation is independent third-party recognition that an organization has the competence and impartiality to perform specific technical activities such as certification, testing and inspection.



chains on both household hired labor and off-farm labor supply. More efforts are required to strengthen the capacity of production groups, organize cooperatives and farmers to increase their production (both quantity and quality), and to reduce the cost of production to access export markets.

### **Policy support**

The Government of Lao PDR has encouraged both local and foreign actors to invest in Lao agriculture and food sector by permitting land concessions to plant industrial trees, for livestock production and agricultural cash crops. The Ninth National Social and Economic Development Plan (9th NSEDP) emphasizes improving the efficiency of agricultural production with the use of mechanization, new techniques, science-based innovations, new varieties of crops and it promotes the transformation of traditional and fragmented farming practices into production groups or the new cooperative production model using modern technology (e.g., smart farming, precision agriculture). To increase trade and economic growth, the government has been participating in trade negotiations through multilateral and bilateral negotiations to address trade barriers e.g. through lowering import barriers especially import tariffs and SPS requirements. As a result, the government has signed various bilateral agreements with Viet Nam<sup>2</sup>, China<sup>3</sup>, and more.

The Agricultural Development Strategy (ADS) provides the framework, vision and long-term development goal for ensuring national food security and sustainable development of the agriculture, forestry and natural resources sector. The Ministry of Agriculture and Forestry (MAF) has issued thirteen policies to support crop production for food security and eight policies to support livestock production for commercialization. The Agricultural Development Plan (ADP) for 2021–2025 focuses on improving food security and encourage commercial agriculture for domestic and export purposes; increasing agricultural productivity; providing employment opportunities in rural areas; and improving production systems and practices. The ADP indicates a key output to increase in total agricultural and forestry exports and in production of existing and potential export crop, livestock, fisheries and forestry products. This requires producing products that are competitive in the market based on the international standards. The government urges private companies to invest in the manufacturing of agriculture production inputs including fertilizer and animal feed in response to global supply chain problems. This policy serves to strengthen the government's attempts to limit imports and strengthen domestic production for markets.

### **Opportunities for Lao agriculture exports**

A national multi-stakeholder platform is needed to bring together key actors from different sectors for convergence: to discuss and identify strategies and measures to strengthen coordination for promoting agricultural exports. Building on its initial export experience and achievements in producing agricultural commodities for export, Lao PDR could realize its untapped export potential in agricultural products by defining and implementing policies to improve the agribusiness environment and quality and safety standards. Lao PDR can use existing networks to access the Chinese market by strengthening and expanding cross-sectoral co-operation. Once Lao PDR achieves accepted standards and can increase export volumes a national brand/logo that promotes 'Made in Lao PDR' should be established to support marketing initiatives in international markets and trade fairs.

The Lao-Chinese Development Cooperation Committee and Department of Investment Promotion, Ministry of Planning and Investment and Department of Trade Promotion and Ministry of Industry and Commerce ensure that a political will exists to facilitate vertical networking between Chinese importers and Laotian exporters, thus encouraging agriculture investment in clean food sectors in Lao PDR.

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<sup>2</sup> List of export products from Lao PDR to Viet Nam (16 crops): maize, cassava, rice, carrot, onion, Nepean grass, dragon fruit, passion fruit, green orange, pomelo, mango, small orange, pomelo, jack fruit, Napa cabbage, lettuce

<sup>3</sup> List of export products from Lao PDR to China (13 crops): rice, maize, dried potatoes, bananas, watermelons, sweet potatoes, long beans, soybeans, green beans, passion fruit, pomelo, peaches, lemons

This mechanism should facilitate networking between agriculture co-operatives, producer associations and exporting companies with Chinese import logistics, supply chain, and distribution companies. Through bilateral trade agreements, each concerned sector could facilitate cooperation between Chinese government agencies and importers and Lao Government agencies and exporters to pursue quality standards and product certification, support more in-depth study of the Chinese market for selected products and to design a targeted product marketing strategy in Chinese markets. Through improvements in infrastructure to foster trade integration, facilitated by the newly operational 414 km Lao-China Railway, Lao PDR has an opportunity to transform the country from a landlocked country to a land-linked country. Hopefully, the Laos-China railway will speed up the export of agricultural products after the Chinese Government eases COVID-19 restrictions, which will help to boost trade between Lao PDR and China, as well as provide opportunities for increased tourism and trade with neighboring countries.

Farmers are considered the most vulnerable and most food insecure actors who are willing and able to innovate through adopting and adapting improved practices, using facilities and changing the way they organize. Farmers are central to the agricultural innovation system (AIS), followed by private entrepreneurs, and District and Provincial Agriculture and Forestry Offices (DAFO and PAFO), but they tend to have low organizational capacity (FAO, 2021). Different practical approaches could be applied to strengthen the capacity of farmers and their organization in key areas. Farmer Field Schools (FFS) are one practical approach to strengthening the knowledge of local producers to apply improved rice production techniques such as Save & Grow (S&G) improved management practices, for example. The willingness of producers to absorb and adapt knowledge and ability to innovate are a key factor in transitioning farmers from being producers of raw materials to becoming family entrepreneurs.

### **Agriculture export challenges**

There are general institutional and procedural weaknesses in the economy that can work as obstacles to export growth. Inadequate logistic infrastructure, complex supporting document requirements, high transportation costs, certification and storage infrastructure, costly energy, limited access to finance, weak quality and standard control are the major weaknesses. There is already significant regional and international competition for aromatic rice, vegetables, coffee, tea, and fruit products. Market influences can increase the use of pesticide and herbicides and reduce the comparative advantage of green growth. The sector lacks proper insurance or risk management mechanisms, and is vulnerable to external shocks, disasters outbreaks, climate change, and climate instability. Strong market competition from experienced traders or exporters of other countries also is a major threat to the sector. The sector requires significant improvements to be ready for competitive export markets, including exports to China and other developed countries. Smallholder farmers lack education, market information, and marketing capacities, they depend on traders or government institutions to market their products.

Lao agriculture certification and guarantee system is generally not recognized, and importing countries have their own strict quality standards and control systems. This presents barriers to participation in export markets, especially for smallholder farmers due to the difficulties they face in complying with international food safety standards, traceability and market quality certifications including sanitary and phytosanitary (SPS) and good agricultural practices (GAP) requirements. Dr. Khamphout Vongxay, Director of the Regulatory Division of the Department of Livestock and Fisheries, indicated that there are more than 200 questions to be answered in order to export livestock products to China. China imposes a strict SPS standard requiring comprehensive traceability and inspection system from production to export, including close farm inspection of registration, farm, harvesting and packing process management, pre-departure quarantine and entry quarantine procedures.



Another factor limiting the ability of Lao smallholders to benefit from export markets is high production costs which weaken the ability of Lao agricultural products to compete in a strongly competitive market. The cost of agriculture inputs has increased significantly, while the increase in the cost of agricultural products has been much lower e.g. prices of fertilizer more than doubled in July 2022 compared with 2021 level (FAO, 2022). A rise in the cost of labor and raw materials (e.g., oil, energy, fertilizer, seed, feeds) resulted in an increase in the cost of agriculture products. Since production areas in Lao agriculture are fragmented and scattered, high logistic costs are incurred, especially high transportation and transaction costs. The transport costs limit smallholder farmers' access to farm inputs and to markets, which constrains their integration into export markets. Transportation cost is a key issue because of Lao PDR's geographical location which means that all products must be shipped through other countries or ports. Support in organizing smallholder producers in a collective action to access market, share cost of transportation and logistics would increase opportunities to benefit from growing market domestically as well as internationally.

*"I face difficulties for rice export e.g. high production cost, high logistic cost. High inputs and high labor cost lead to high production cost so that Lao agriculture products cannot compete with other countries. We have to import most of production inputs and packaging materials from neighboring countries. In addition, we have to compliance with import countries' stringency SPS. My company is lucky that MAF introduced Belgium buyer who takes care of all required certification documents. However, it takes years to compliance with the buyer's standard requirement" - Ms. Bounheing Phommixay, Campahom Company (Rice export company)*

Evidence is needed to support informed decision making at the policy and investment level. However, evidence-based research and studies on the export of agricultural commodities, especially studies related to cross-cutting issues involving different actors are limited. In fact, addressing many cross-cutting issues is beyond the agriculture sector to address alone, including issues within export supply chain such as lengthy export procedures, high production costs, high logistic costs, and weak coordination among key actors. Government has limited investment in research and development (R&D), and research uptake results remain low. R&D investment is spent on agricultural production related research and very little or none spent on export market and economic analysis, which are critical for supporting policy and investment decisions for maximizing return from exports. Like other Southeast Asian countries, funding volatility occurred in Laos, where the agricultural R&D system is the most dependent on donor funding. The initiation or completion of large donor-funded projects has had a considerable impact on the country's annual levels of agricultural R&D spending (IFPRI, 2020, pp. 23)

## Policy recommendations and proposed actions

The Department of Agriculture Extension and Cooperatives (DAEC) with support from FAO's TAP-AIS Project, organized a multi-stakeholder dialogue on 22 June 2022 to identify and prioritize the main areas for multi-stakeholder collaboration to maximize the benefits of agricultural exports (crop and livestock products). As a follow up, two technical discussions were organized to unpack the issues and provide policy recommendations and proposed actions for the items below that were derived from discussions concerning various ways in which policies can be formulated and implemented to support smallholder farmers to enhance their capacity to innovate in order to maximize the benefits from agriculture exports. On 06 September 2022, a final policy dialogue on maximizing benefits from agriculture export for small holder farmers in Lao PDR was conducted by the Department of Planning and Cooperation (DOPC) as a secretariat of the Sector Working Group on Agriculture and Rural Development, also with support from FAO's TAP-AIS project.

Therefore, recommendations under this policy brief represent the outcome of a series of multi-stakeholder discussions and technical consultations between stakeholders in government, the private sector, academia, smallholder farmers, and other concerned actors.

### *Promote and attract investment in the domestic manufacturing of production inputs*

Production cost plays a major part in positioning agriculture products in a competitive market – in this regard Lao agriculture products have been facing challenges with the high-cost of inputs. The main high-cost inputs are labor, fertilizers, seed and feed. This could be addressed through an introduction of sustainable agriculture practices that will help produce more with less with an aim to reduce post-harvest losses, labor saving technologies, low input cost, etc. Innovation and technologies transformation along the production value chain could lead to cost reduction or yields increase. Thus, investment policy should focus on the key input factors of agriculture production, from the promotion and attraction of more investments in infrastructure to policies stimulating the domestic manufacturing of fertilizers, seed and animal feed to minimize import dependency in agricultural inputs.

### *Adding value to agricultural products*

Farmers receive less economic value than do traders and processors, especially processors who produce brand name items. Currently, most Lao agriculture exports are raw materials and unprocessed products. A steppingstone approach is needed to foster primary-processing for the production of semi-processed products. There is an opportunity to strengthen the phytosanitary certification process administered by the Department of Agriculture of the Ministry of Agriculture and Forestry, including certifying products treated for quarantine pests for export consignments. Although a Lao certification and brand might not be trusted or acknowledged by most import markets at present, efforts should be made to create value addition through the promotion of Lao brand and/or processing. Lao producers could gain tariff benefit from the Rules of Origin (ROO)<sup>4</sup> under the Regional Comprehensive Economic Partnership (RCEP).

### *Strengthen organizational and commercialization skills of smallholder farmers*

Smallholder farmers are fundamental agents of creating innovation. It is critical for smallholder farmers as well as the staff at DAFO and PAFO to understand commercial production and market demands because value chains should provide benefits to farmers as well as other innovation actors with a particular focus on youth and women by creating opportunities. Improved capacity enables them to benefit from the agricultural transition to commercialization and access to markets. The focus should be on developing capacity for farmers, traders, and export companies to meet the quality standards and controls of important export markets. In parallel, information hubs should be created and advisory services expanded to help farmers or producers to comply with quality standards and certification requirements imposed by importing countries as well as organize themselves to collective

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<sup>4</sup> [www.laotradeportal.gov.la](http://www.laotradeportal.gov.la) Rules of Origin (ROO) sets out the criteria needed to determine the “country of origin” of a product and therefore, establish the product’s eligibility for preferential tariff treatment under a Trade Agreement/Arrangement. To qualify as an originating, a good must either be: (a) Wholly-obtained or produced in a Party; (b) Produced in a Party exclusively from originating materials from one or more of the Parties (produced Entirely?); (c) must have undergone a substantial transformation (value addition, change in tariff classification, process rule)



actions to increase their competitiveness.

### *Support the formation and organization of responsible trading companies or traders*

Trading companies or middlemen play a key role in price setting and quality control. Most import countries rely on trading companies for logistical arrangements and import requirements. A mechanism should be developed to select qualified, responsible and well-organized trading companies to ensure a fair deal for smallholder farmers. Traders tend to set up additional requirements which might not necessary the requirement by import countries. Those additional requirements lower the price or benefits of farmers.

### *Improve coordination mechanism among actors in agriculture export*

The importance of multi-stakeholder coordination and collaboration among government departments, public and private institutions/organizations, investors, farmers and their organizations needs to be emphasized to ensure mutually beneficial partnerships that benefit all stakeholders, including smallholder farmers. Establishment of a coordination mechanism is needed to further develop and implement policies that foster sustainable agriculture innovation and that address constraints/obstacles and ease access to markets. It can be a practical coordination mechanism e.g. MAF and MOIC to establish a formal unit that brings concerned and responsible officials together on a routine basis. This coordination mechanism should play a critical role in bi-lateral negotiations and should address issues with the importing country. Nevertheless, a greater involvement of farmer organizations, cooperatives, and other groups will improve the ability of farmers to obtain equitable terms from key market actors.



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## CONTACT

Mr. Alounxay Aonta  
 Department of Planning and Cooperation (DOPC)  
**Ministry of Agriculture and Forestry (MAF), Lao PDR**  
 Email: alounxayonta@gmail.com  
 Tel: +856 021-415358  
 Office: P.O. Box: 811

Mr. Viengxay Photakuon  
 Department of Agriculture Extension and Cooperative (DAEC),  
**Ministry of Agriculture and Forestry (MAF), Lao PDR**  
 Email: ptkoun@yahoo.com  
 Tel: +856 21 732072  
 Office: P.O. Box: 1888

Office of Innovation (OIN)  
 OIN-Director@fao.org  
**Food and Agriculture Organization of the United Nations**  
 Rome, Italy

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