

Market assessment Market entry Market growth

Laos Agri-Business 2019

25 June 2019




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**To feed the world, we need
to bring technology and
small farms closer
together!**

Wim Hoogedeure
EY Partner



How attractive and competitive is Lao Agri-business sector ?

Potential and challenges for investors



The better the question. The better the answer.
The better the world works.

Contents/agenda slide

1. Agriculture market
2. Government strategy
3. Policy framework
4. Investment forms and types
5. Investment law and benefits
6. Agriculture licensing process
7. Challenges
8. Winning strategies

Key takeaways

Laos has widely open its Agriculture sector to foreign investors. While there is a local framework that allows market entry, understanding the fundamentals of Lao Agriculture markets and key growth strategies are essential steps.



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Market assessment

Agriculture in Laos

Development strategy

Foreign direct investment in Agriculture

Agriculture policies



The better the question. The better the answer.
The better the world works.



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Building a better
working world



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Market assessment



- ▶ Agricultural lands : surface ?
- ▶ Food security
- ▶ Production quantity
- ▶ Food imports
- ▶ Rural population
- ▶ Pollution generated by Agriculture
- ▶ Strategy for Agriculture development
- ▶ Foreign Direct Investment in Agriculture
- ▶ Agriculture policy framework
- ▶ Forms and types of investment

Source: Tiles © Esri – Source: US National Park Service, © OpenStreetMap © CartoDB

Market assessment

23680

(1000 ha)

COUNTRY AREA



23080

(1000 ha)

LAND AREA



2369

(1000 ha)

AGRICULTURAL AREA



18950

(1000 ha)

FOREST AREA



10%

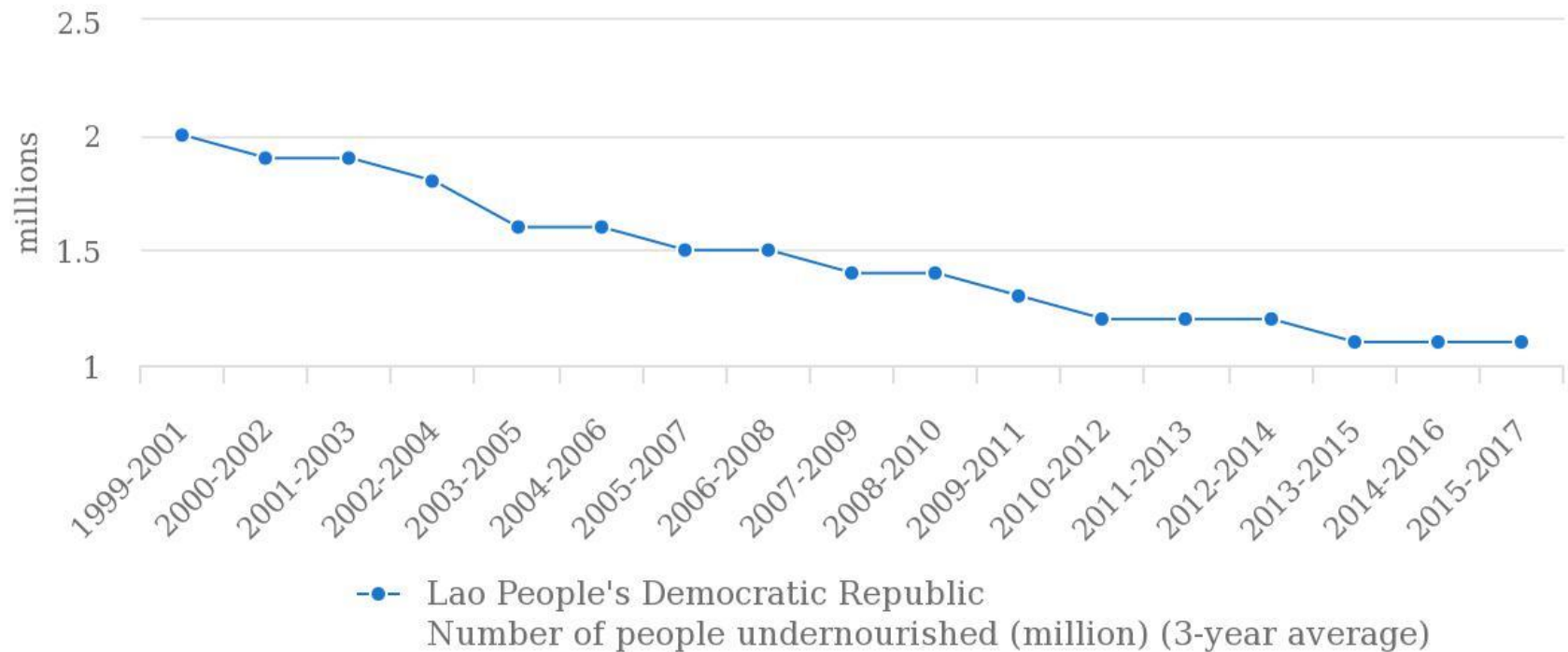


80%

Source: FAO estimate 2016

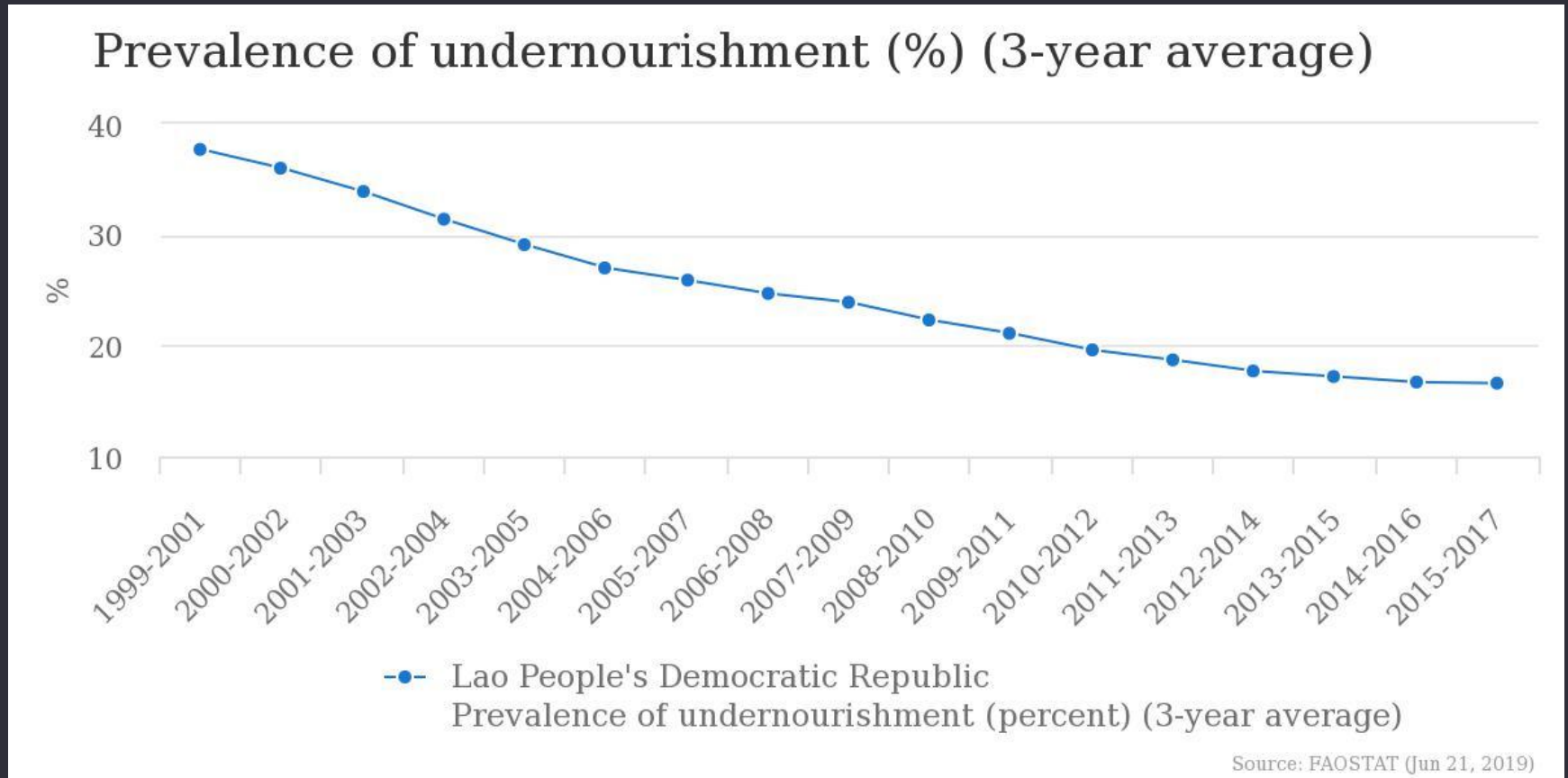
Market assessment

Number of people undernourished (millions) (3-year average)

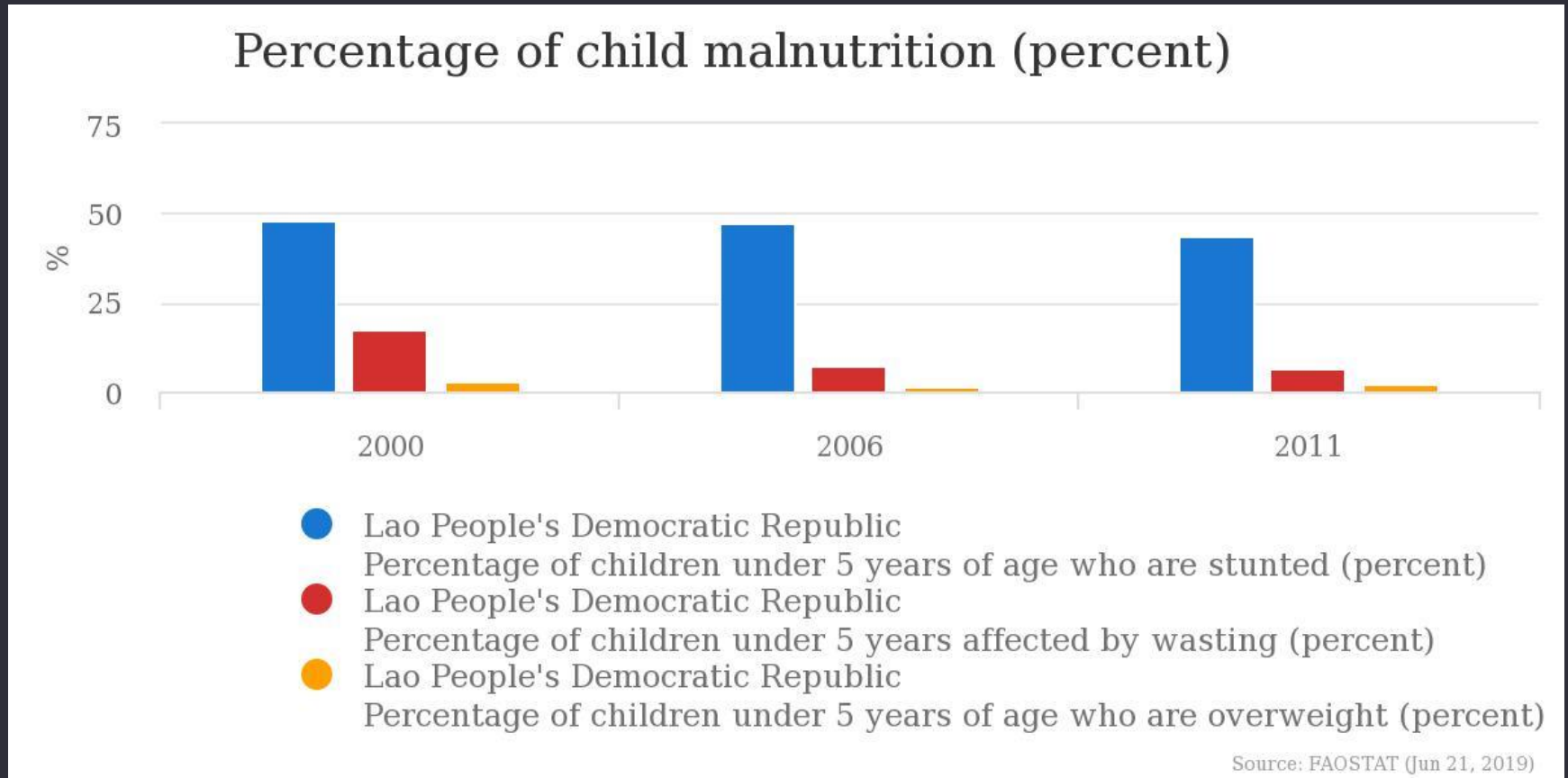


Source: FAOSTAT (Jun 21, 2019)

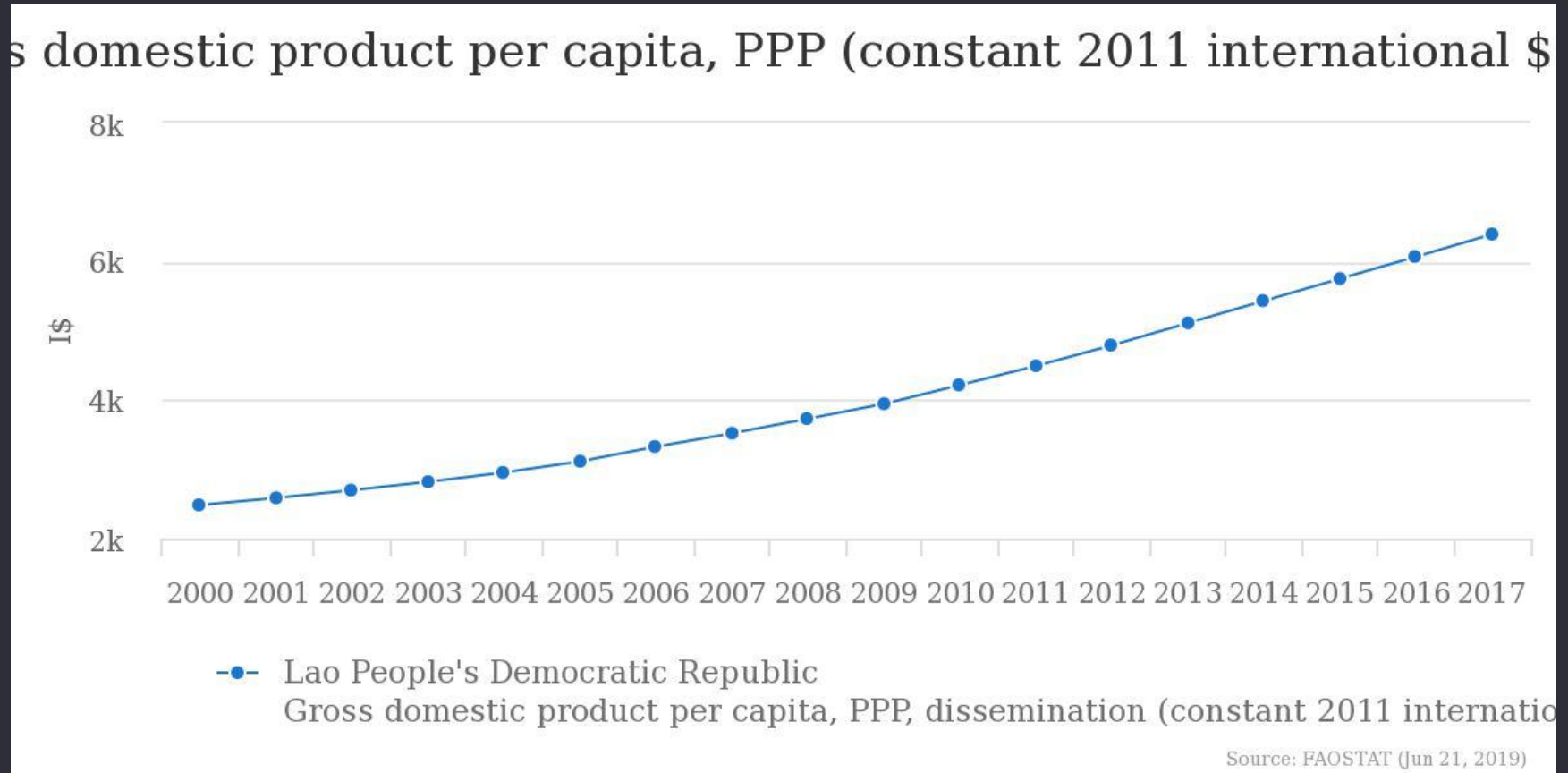
Market assessment



Market assessment



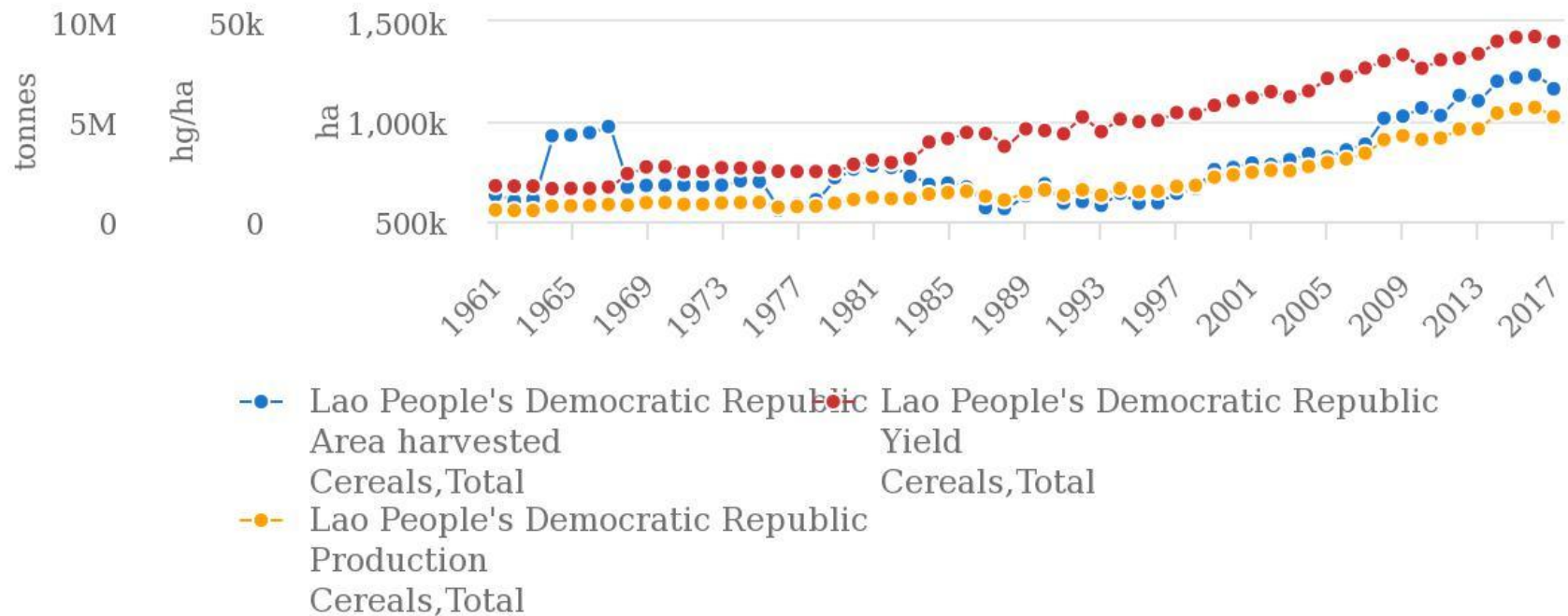
Market assessment



Market assessment

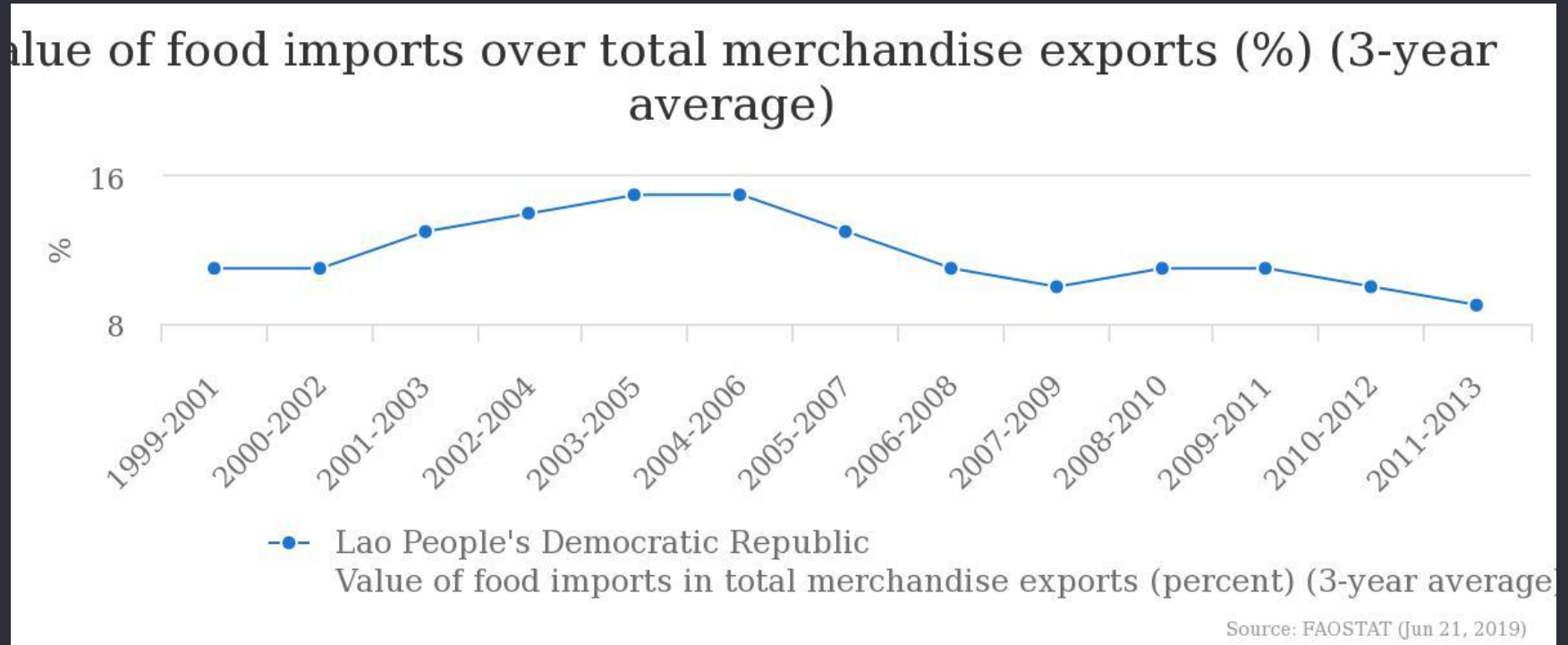
Cereals, total production

1961 - 2017

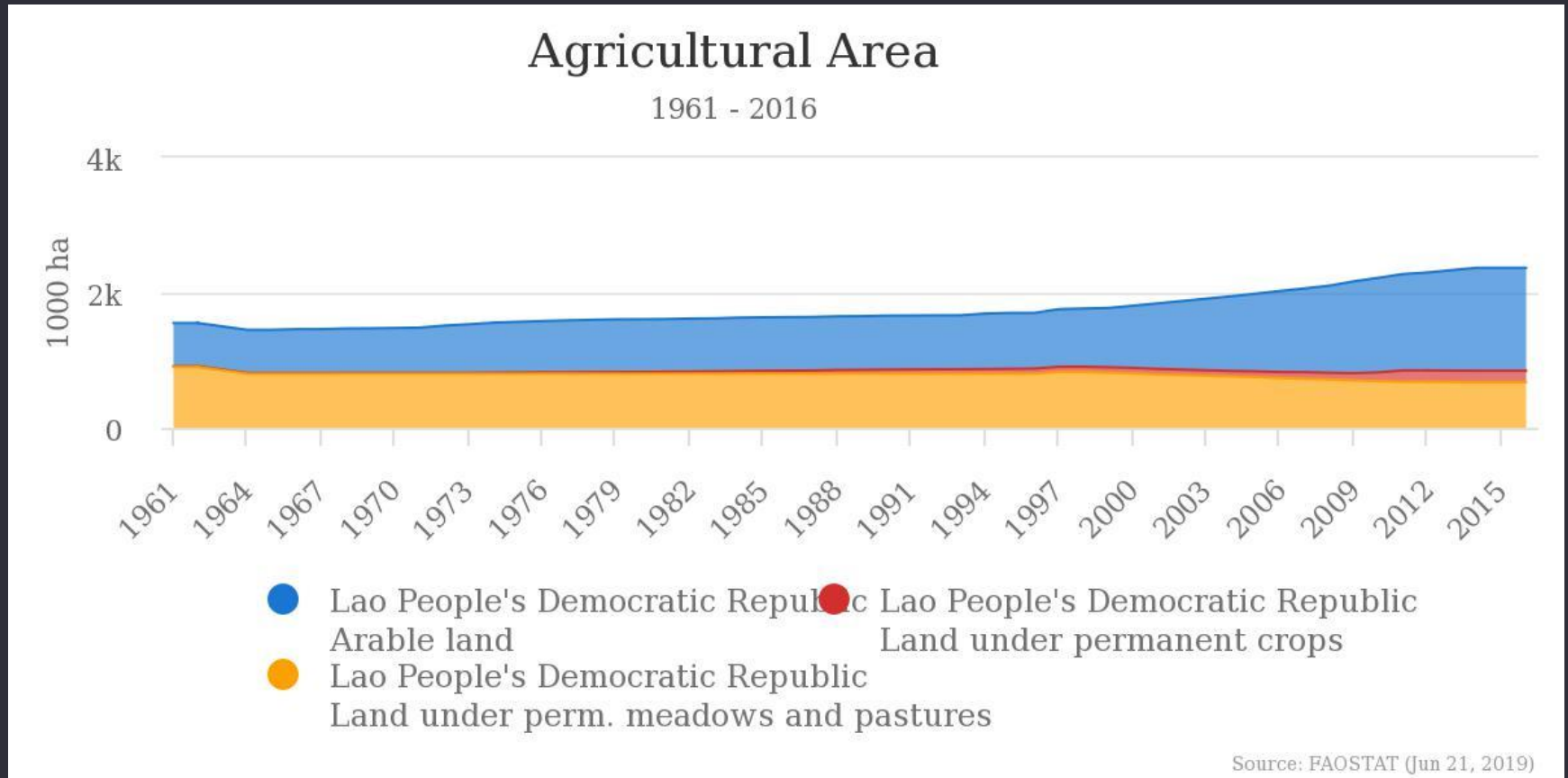


Source: FAOSTAT (Jun 21, 2019)

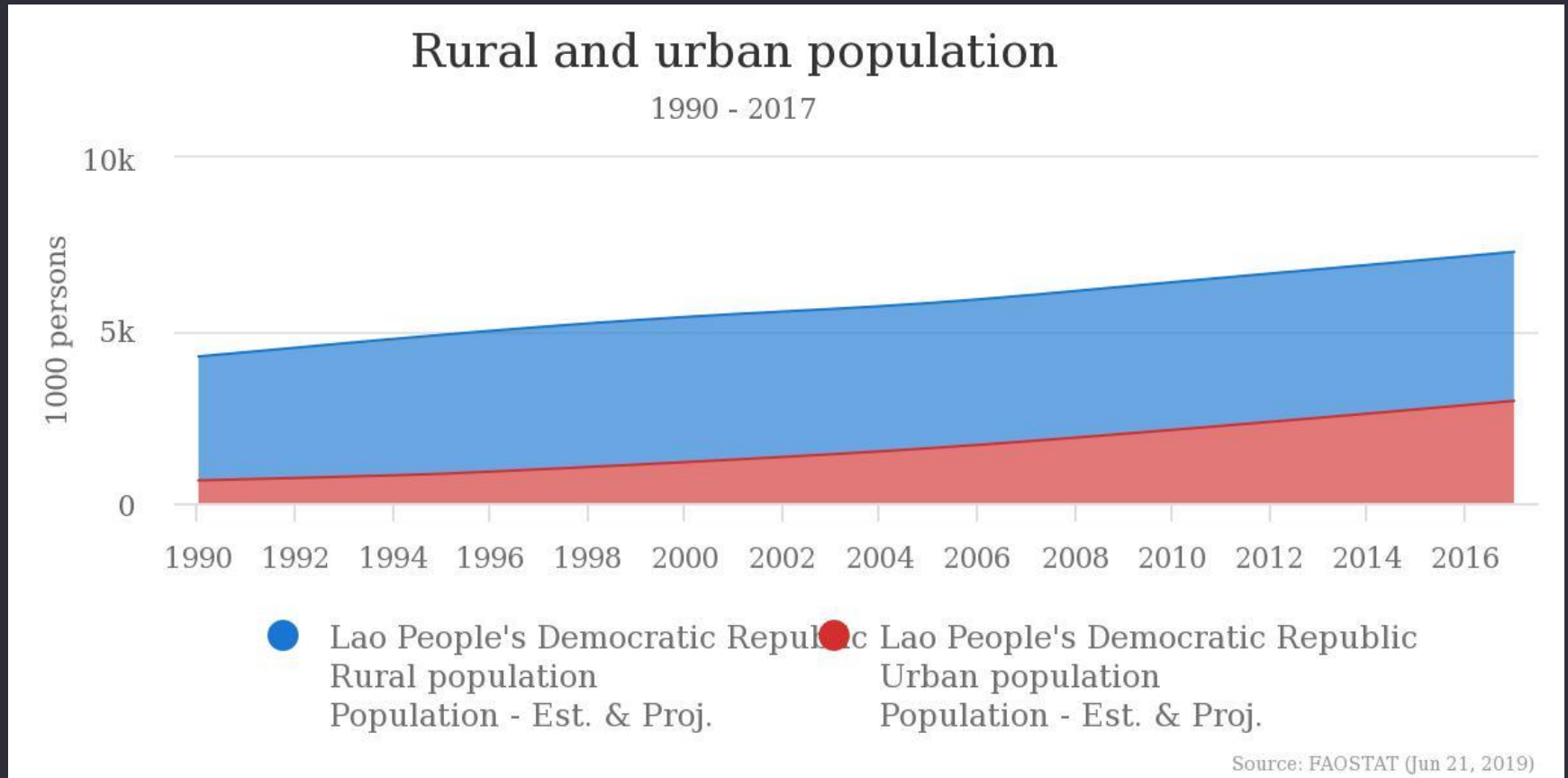
Market assessment



Market assessment

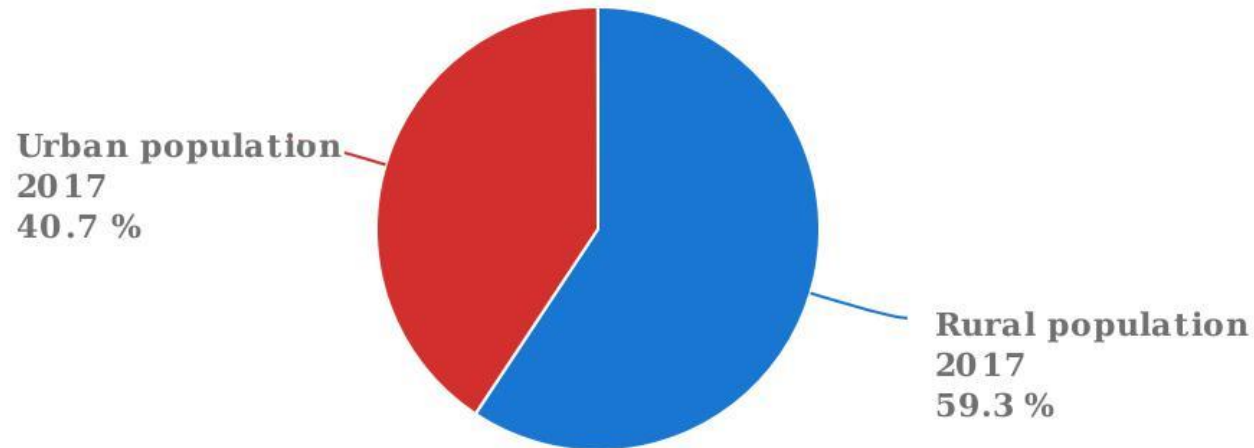


Market assessment



Rural and urban population

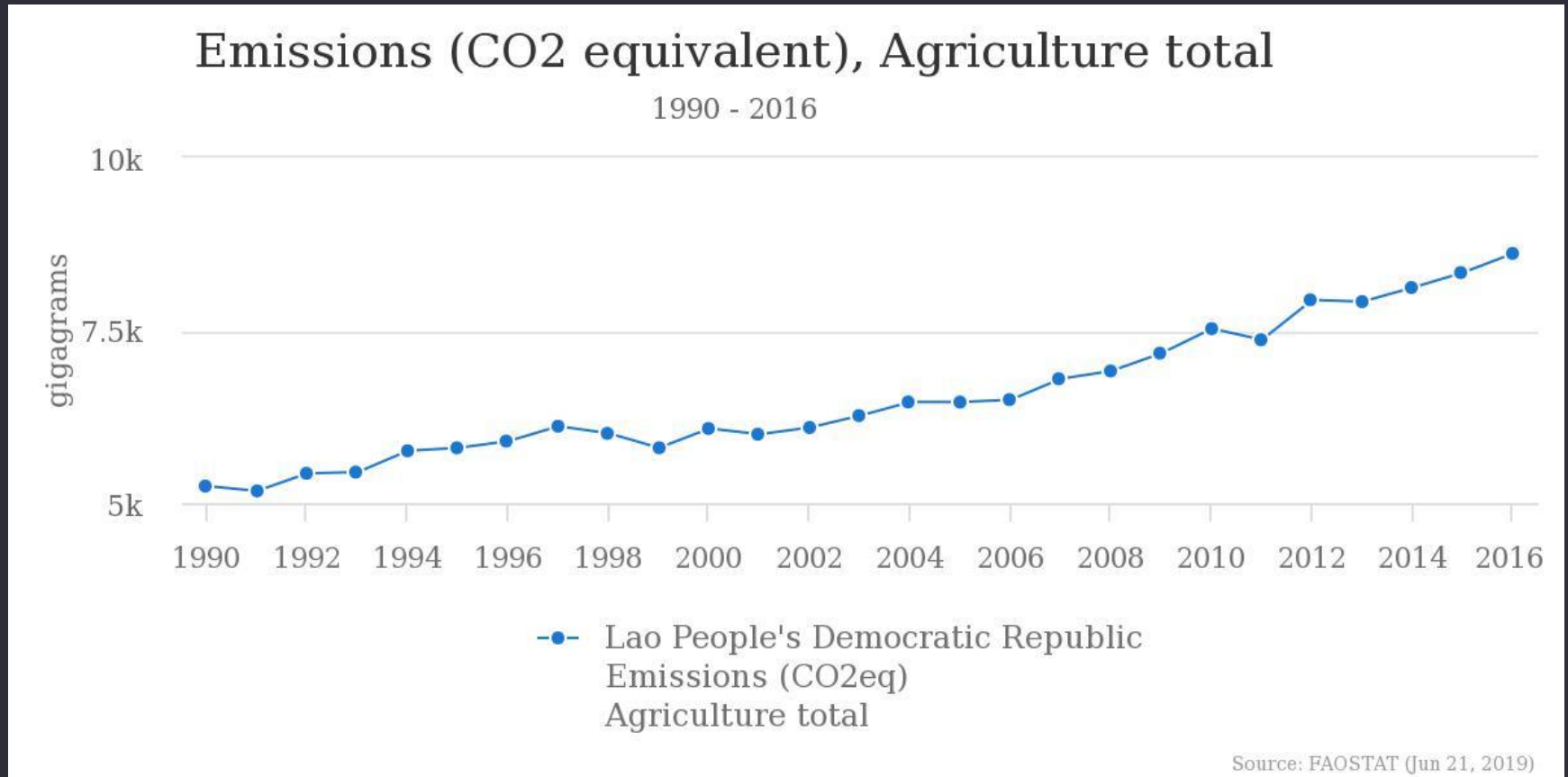
2017



● Rural population 2017 ● Urban population 2017

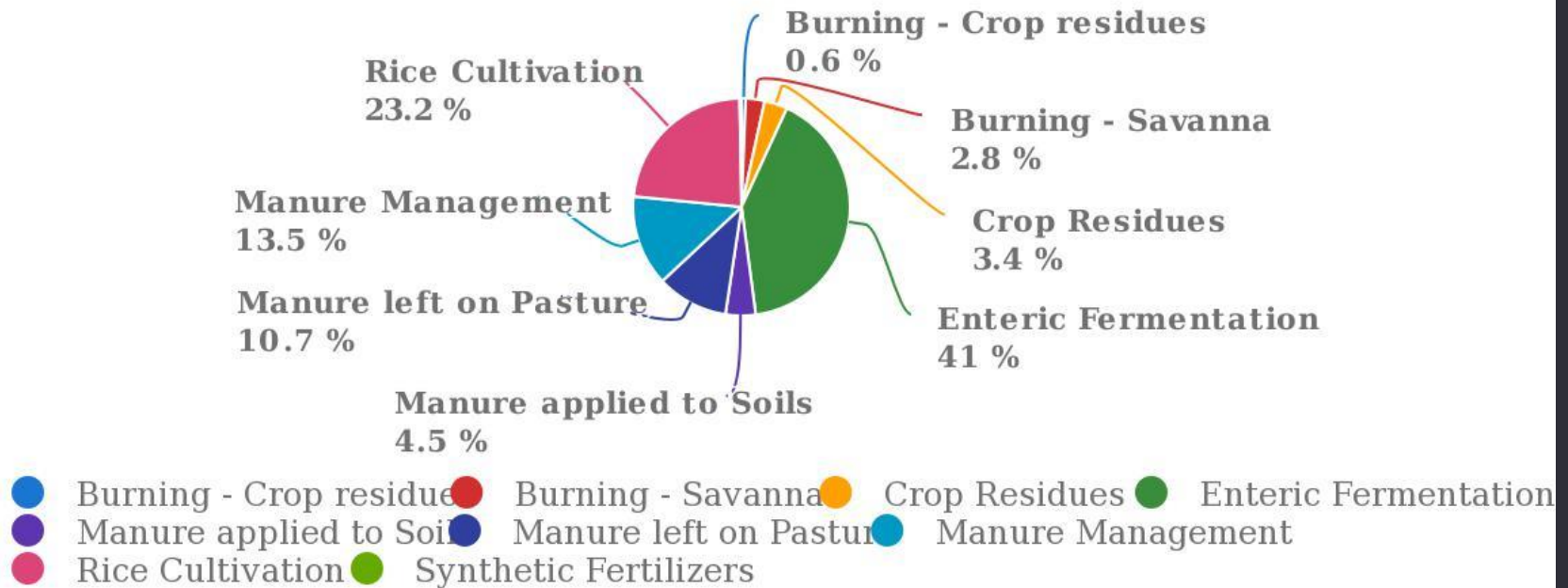
Source: FAOSTAT (Jun 21, 2019)

Market assessment



Emissions by sector (CO2 equivalent)

Average 1990 - 2016



Source: FAOSTAT (Jun 21, 2019)

Market assessment

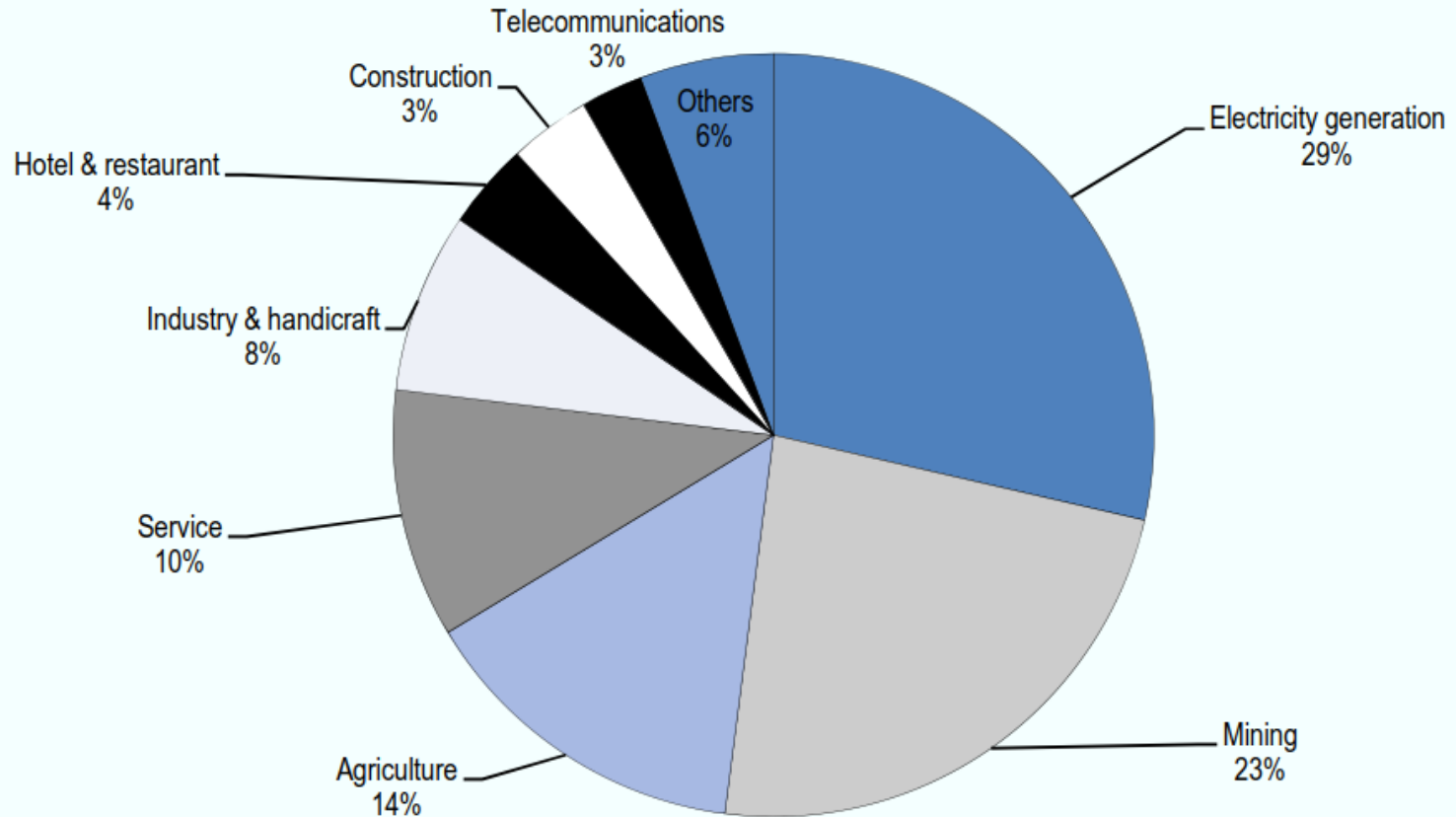
► Strategy for Agriculture Development

- 8th National Socio-Economic Development Strategy (NSEDP) for 2016-2020 :
 - achieve sustainable economic growth while reducing poverty and inequality.
 - Graduate from LDC status.
 - Aiming a GDP growth of 6-7% year.
 - Broaden economic base. Improve human capital and labor productivity. Promote inclusion of marginalized groups such as women, ethnic minorities and remote communities.
- Government targets for Agriculture sector:
 - Food security contributor.
 - Employment creation.
 - Poverty reduction.
 - From a net importer of agricultural products to a net exporter (positive trade balance).
- Foreign Direct investment:
 - At least 50% of investment need are expected to come from FDI.
 - ODA and Government budget balance the remaining.
 - FDI is perceived as key accelerator of Agricultural development.
- Two implementation plants : Agriculture Master Plan (AMP) and Agriculture Investment Plan (AIP)
 - AMP = 8 programs of Ministry of Agriculture and Forestry to cover food production, commodity production and farmer organization, sustainable production patterns, land allocation, etc.
 - AIP = scenarios for investment in agriculture programs run by MAF.



Market assessment

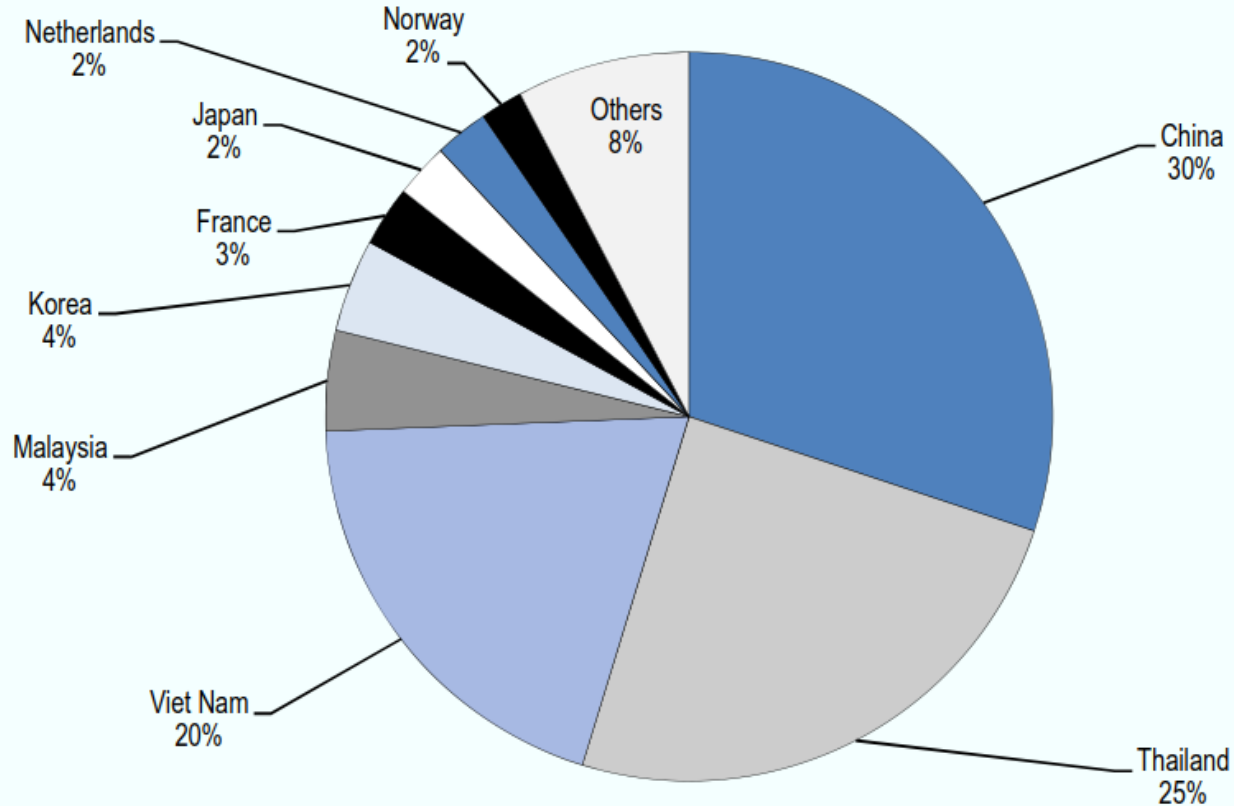
Figure 1.4. Approved FDI projects in Lao PDR by sector, 1989-2015



Source: OECD INVESTMENT POLICY REVIEWS: LAO PDR

Market assessment

Figure 1.5. Approved FDI projects in Lao PDR by country of origin, 1989-2015



Source: OECD INVESTMENT POLICY REVIEWS: LAO PDR

Market assessment

► Examples of medium and large size agriculture projects approved by MPI :

Date	Enterprise name	Activities	Approved area	Country	Province
			Total area		
03/-10/-2006	OG Lao Planting Co.,Ltd	Eucalyptus Planting	50,000	Japan	Khammuan
2/25/2011	Houang Anh Attapue Agriculture Development Co.,Ltd	Rubber planting and processing factory	23,673	Vietnam	Attapue
7/7/2009	Kolao Farm Company	Jatropha Planting	12,291	Republic of Korea	Vientiane province
19/11/2004	Duklux Rubber Co., Ltd	Rubber planting	10,450	Vietnam	Champasak
18/1/2005	Lao-Viet Joystoy Co.,Ltd	Rubber planting	10,277	Vietnam	Champasak
14/3/2006	Mitr Lao Sugar Co.,Ltd	Sugarcane Planting	10,000	Thailand	Savannakhet
16/2/2006	Savanakhet Sugar Company	Sugarcane Planting	10,000	Laos-Thailand	Savannakhet
22/6/2009	Lui Pong Lao-China Rubber Company	Rubber planting and processing factory	10,000	China	Luangnamtha
26/4/2010	Guacha-Shirugo Partnership Lao Co.,Ltd	Rubber planting	8,650	Vietnam	Savannakhet
27/08/2008	Xayya AA Lao Co.,Ltd	Eucalyptus Planting	8,650	Thailand	Savannakhet
12/26/2006	Libena Co.,Ltd	Rubber planting	8,000	Vietnam	Xekong
6/3/2007	Gaozhu LVF Co.,Ltd	Rubber planting	8,000	Vietnam	Xekong
23/4/2010	Sunpaper Holding Co.,Ltd	Industrial crops Planting	7,328	China	Savannakhet
22/10/2004	Gaozhu Duklux Rubber Co.,Ltd	Rubber planting	7,070	Vietnam	Xekong
6/10/2011	Houang Anh Attapue Sugar-Sugarcane Company	Sugarcane Planting	6,000	Vietnam	Attapue

Market assessment

▶ Agriculture policy framework

▶ Investment policy > Investment Law 2016

- ▶ Profit tax exemption
- ▶ Import VAT and Customs duties exemption
- ▶ VAT exemptions on sales and purchases
- ▶ Right to employ foreign workers

▶ Land ownership

- ▶ General principle : land is property of the state
- ▶ Various tenure and use rights to land. Poorly defined in Laos. Claims relating to land are complicated.
- ▶ In rural areas, farmers are likely to hold Land Survey Certificate (providing full use, inheritance, leasing and sales rights), Land Tax Declaration (only for use and inheritance of lands, does not guarantee compensation if land is acquired), Land Tax receipts (cannot support land sales and does not guarantee compensation if land is acquired), Village Heads Certificates on Land Ownership (accepted by banks for loans).

▶ Dispute and contract enforcement

- ▶ Limited access to legal and administrative dispute resolution, in particular for farmers
- ▶ Many disputes settled locally by local officials
- ▶ Lack of understanding and awareness of contracts

Market assessment

▶ Forms of FDI in Agriculture

- ▶ Wholly domestic or foreign owned investment
- ▶ Joint-venture between foreign and domestic investors
- ▶ Cooperation by contract

▶ Forms of FDI in Agriculture

- ▶ General business: contract farming
- ▶ Concession business: direct exploitation
- ▶ Special Economic Zone: construction of complete infrastructure and new city development

▶ Business models for FDI in Agriculture

- ▶ Land Concessions = grant the use of land and associated water resources to an investor for a period of time. Common formula for Agriculture.
 - ▶ Model review: investors like concessions as they have a greater control over land and water. They tend accordingly to bring more capital and technology. Local communities tend to not like concessions, frequently qualified as “land grabs” and not aligned with their development.
- ▶ Contract farming = involves agreements between farmers and downstream agricultural companies whereby farmers agree to supply a certain quantity of agricultural commodities at a certain price. Investor provides inputs to farmers such as seed, fertilizer and technical advice.
 - ▶ Model review: more appropriate for high-value and niche products. Not adequate for high volume staples and livestock. Farmers keep controls of their lands but face difficulties in delivering the full production required. Investors face risk to not buy the full quota or have to change quality standards or prices.



Market-entry

Application for land investment

Application for land concession in agricultural activities

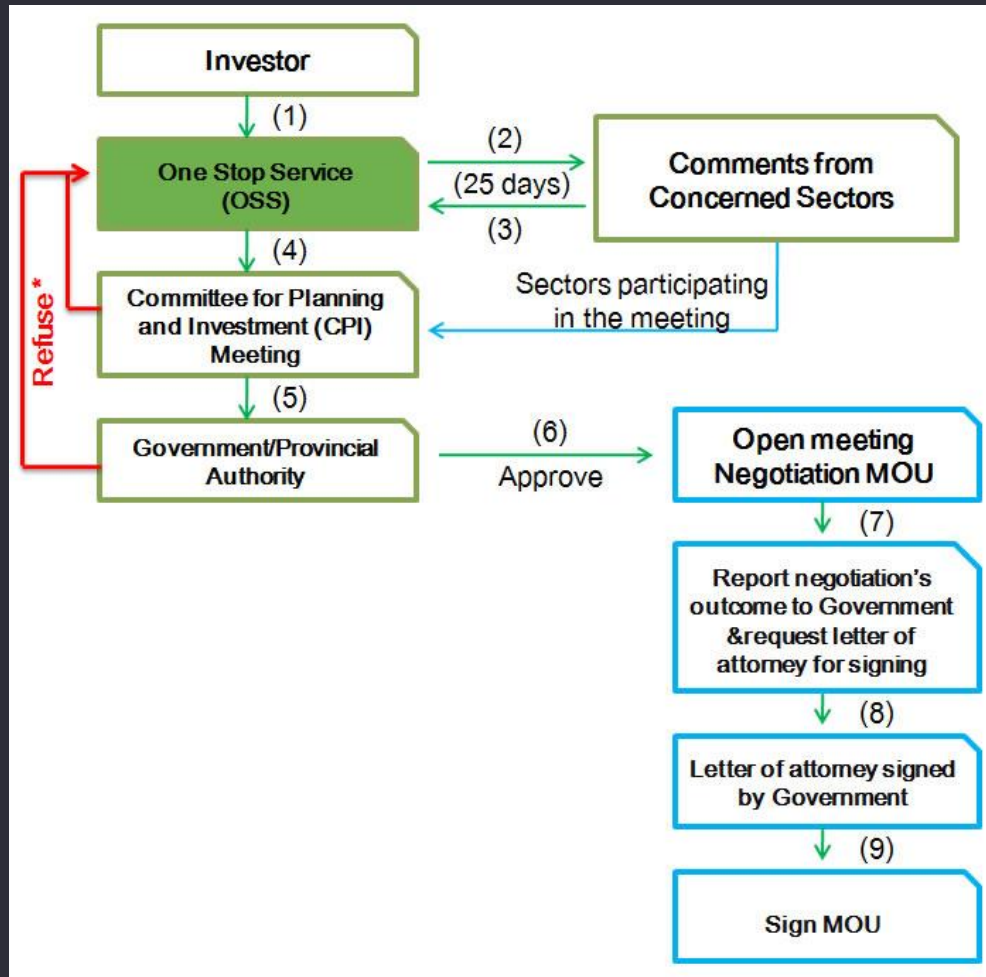


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Market entry

- ▶ **Step 1: Request the approval for primary data collection from agriculture sector or Planning and Investment (PI) sector (will coordinate with concerned sectors at local levels)**
 - ▶ **primary data on land area** and project location.
- ▶ **Step 2: Apply for signing a Memorandum of Understanding (MoU) with the Government**
 - ▶ **Applications for investment** in printed form of general concession projects (agriculture sector).
 - ▶ **Brief proposal** about the project development, certified by the President or Director-General of the company (or attorney).
 - ▶ **History-experiences** of company, **license** or **business registration certificate** of company.
 - ▶ General business agreement (in case there are two or more companies).
 - ▶ Power of Attorney for the representative of stockholders or company, in case the person is not in the top position of the company.
 - ▶ **Map of project location**;
 - ▶ **Supporting letter from financial institutes or banks** (if any).
 - ▶ Other related documents (if any).

Market entry



Source: Ministry of Planning and Investment

Market entry

How much lands can an investor expect from the Government ?

Surface attributable by Government	Application at local level	Application at Central level
Degraded forestland	Limited to 150 hectares per project and 30 years - period extensible	Limited to 150-15,000 hectares per project and 30 years - period extensible up to 40 years
Barren forestland	Limited to 500 hectares per project and 30 years - period extensible	Limited to 500-30,000 hectares per project and 30 years - period extensible up to 60 years

Source : Decree No. 135/PM, dated 25/05/2009 on the lease or concession of Government lands

Market entry

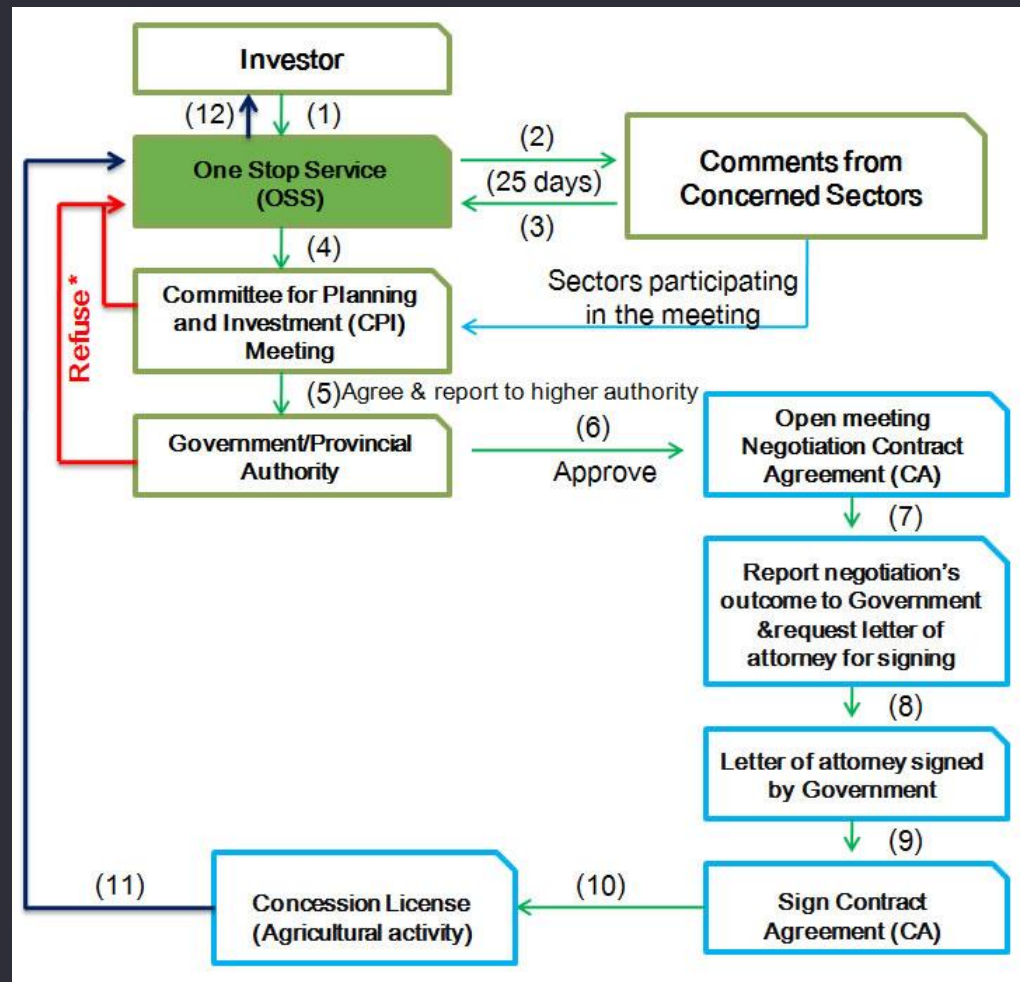
MoU implementation	Guidance
study of social-economic data, natural suitability	soil, climate, altitude, rainfall, water source, land use rights, local labour, exploration of forest conditions and forest resources and others as necessary
Feasibility Study	Create an economic-technical analysis (Feasibility Study) and request for legalization from - at central level - Planning Department (will coordinate with Forestry Department, Agriculture Department, Land Department to get their comments before legalizing) or - at local level - the Provincial or Municipal Agriculture and Forestry Section
Environment and Social Impact Assessment "ESIA" or Initial Environment Examination "IEE"	Create an ESIA or IEE including solution standards, then request the legalization from National Resource and Environment Sector
Environment Management and Monitoring Plan "EMMP" or Social Management and Monitoring Plan "SMMP"	Create an EMMP or SMMP in the operational plan, focusing on the protection of water sources and environment, area exploration, village development, people's involving promotion in the production, technology utilization and others through benefit sharing
Deposit of MoU warranties	<ul style="list-style-type: none"> • USD 30,000 for land concession of 2 - 150 hectares • USD 50,000 for land concession of 151 - 1,000 hectares • USD 70,000 for land concession of 1,000 hectares and more

Source: Ministry of Planning and Investment

Market entry

- ▶ **Step 3: Signing the Project Development Agreement / Concession with Government**
 - ▶ PDA/CA are prepared by **Promotion Investment Department**
 - ▶ **Concession Registration Certificate** is issued by same department
 - ▶ Domestic or foreign investors must establish the **Project Company**
 - ▶ **As soon as they receive their Concession Agreement**, investors can organize and operate the project in line with the project economic-technical analysis and regulations of Lao PDR

Market entry



Source: Ministry of Planning and Investment

Market entry

Review of Investment Law No.14/NA dated 17 November 2016

▶ **Sector covered by investment incentives :**

- ▶ Clean agriculture, toxic-free agriculture, seed production, animal breeding, industrial crops and plants plantation, forestry development, environment and biodiversity protection, activities promoting rural development and poverty reduction;
- ▶ An investment in any business sector entitled to incentives under this Article shall have a minimum investment capital of 1,200,000,000 (one billion and two hundred million) kips; or shall employ at least 30 (thirty) Lao technical staffs or use 50 (fifty) or more Lao workers with an employment contract of at least 1 year.

▶ **Zones offering investment incentives :**

- ▶ Zone 1: Poor and remote areas with socio-economic infrastructure unfavorable to investment;
- ▶ Zone 2: Areas with socio-economic infrastructure favorable to investment;
- ▶ Zone 3: Special economic zones.

▶ **Tax incentives for Agriculture activities:**

- ▶ Zone 1 : 10 years of Profit Tax exemption + 5 additional years
- ▶ Zone 2 ; 4 years of Profit Tax exemption + 3 additional years
- ▶ Exemption of VAT and customs duties for import of materials and equipments
- ▶ Exemption of rental and concession royalty (state land)

Market entry

Review of Investment Law No.14/NA dated 17 November 2016


▶ Compliance with Enterprise Law:

- ▶ Registered capital shall be not less than 30% of total capital of the project
- ▶ 30% of registered capital shall be imported within 90 days following the investment license
- ▶ Minimum registered capital requirements (3, 2, 1.5%, 1%) depending on the size of the project (less than 10, less than 500, less than 1 billion, more than 1 billion USD)
- ▶ Minimum registered capital shall be imported within 90 days following the investment license. Remaining shall be imported within 2 years

▶ Other compliance requirements:

- ▶ Payment of taxes
- ▶ Implementation of accounting practices as per Accounting Law. IFRS and foreign accounting software can be used upon approval of Ministry of Finance
- ▶ Implementation of SSO regimes
- ▶ Financial contribution to social development
- ▶ Be environment compliant

▶ Breach of agreement, violation of law, non-compliance: investment suspension



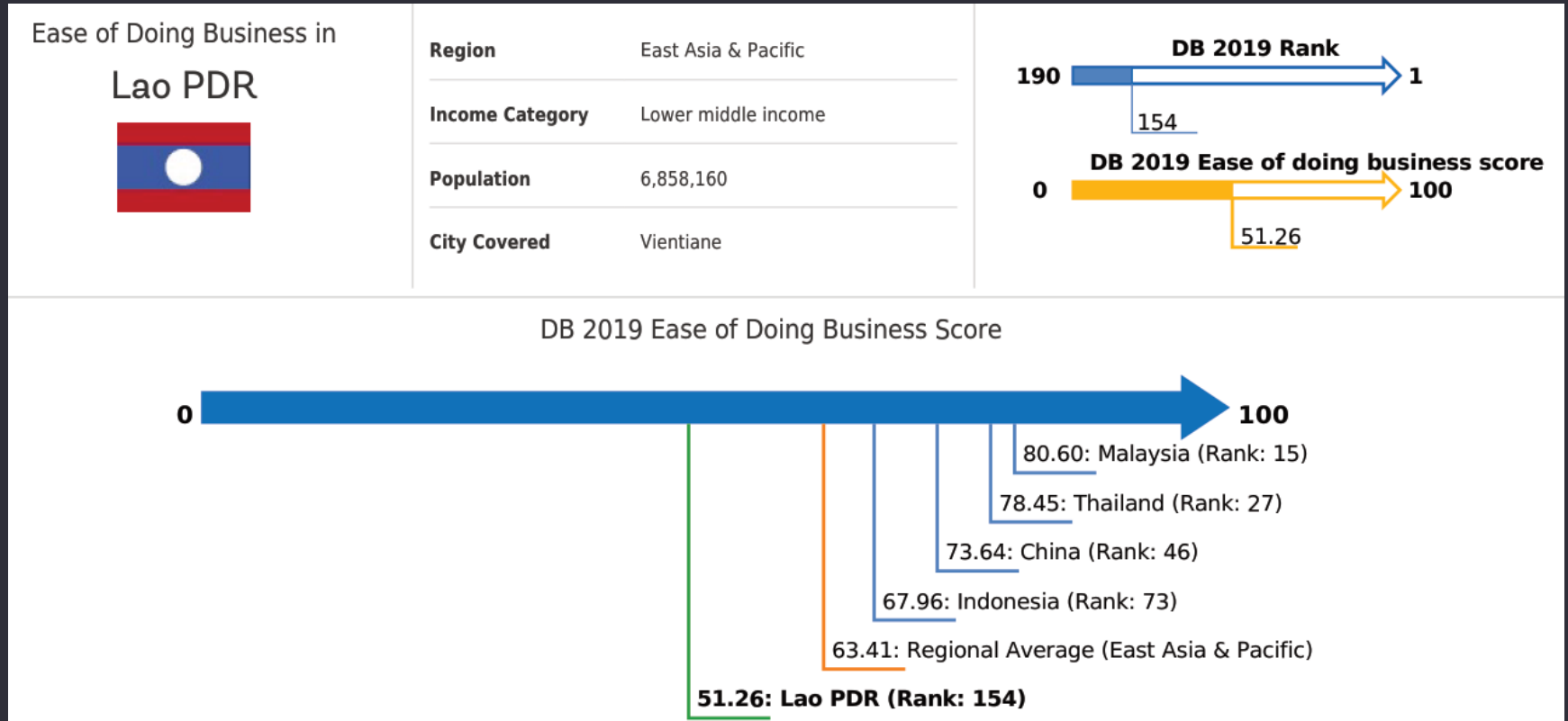
Market-growth

Current challenges for Agriculture development
Agriculture potential and required investments
Winning strategy for Agriculture market



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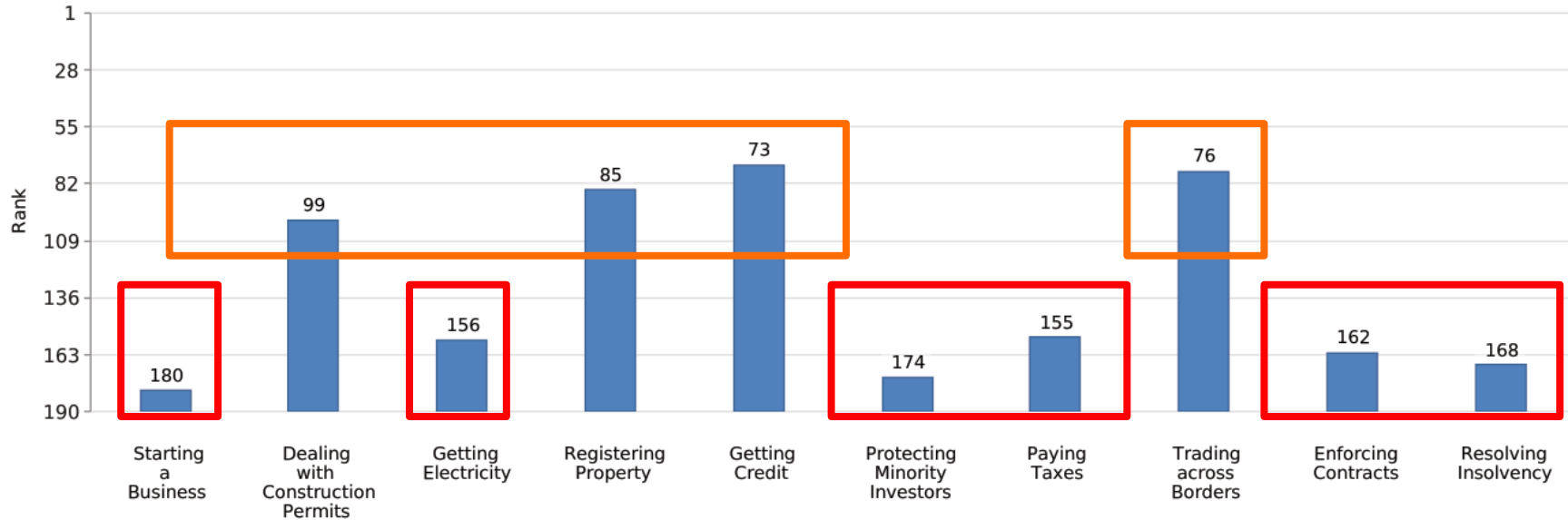
Market growth



Source: World Bank Doing Business 2019

Market growth

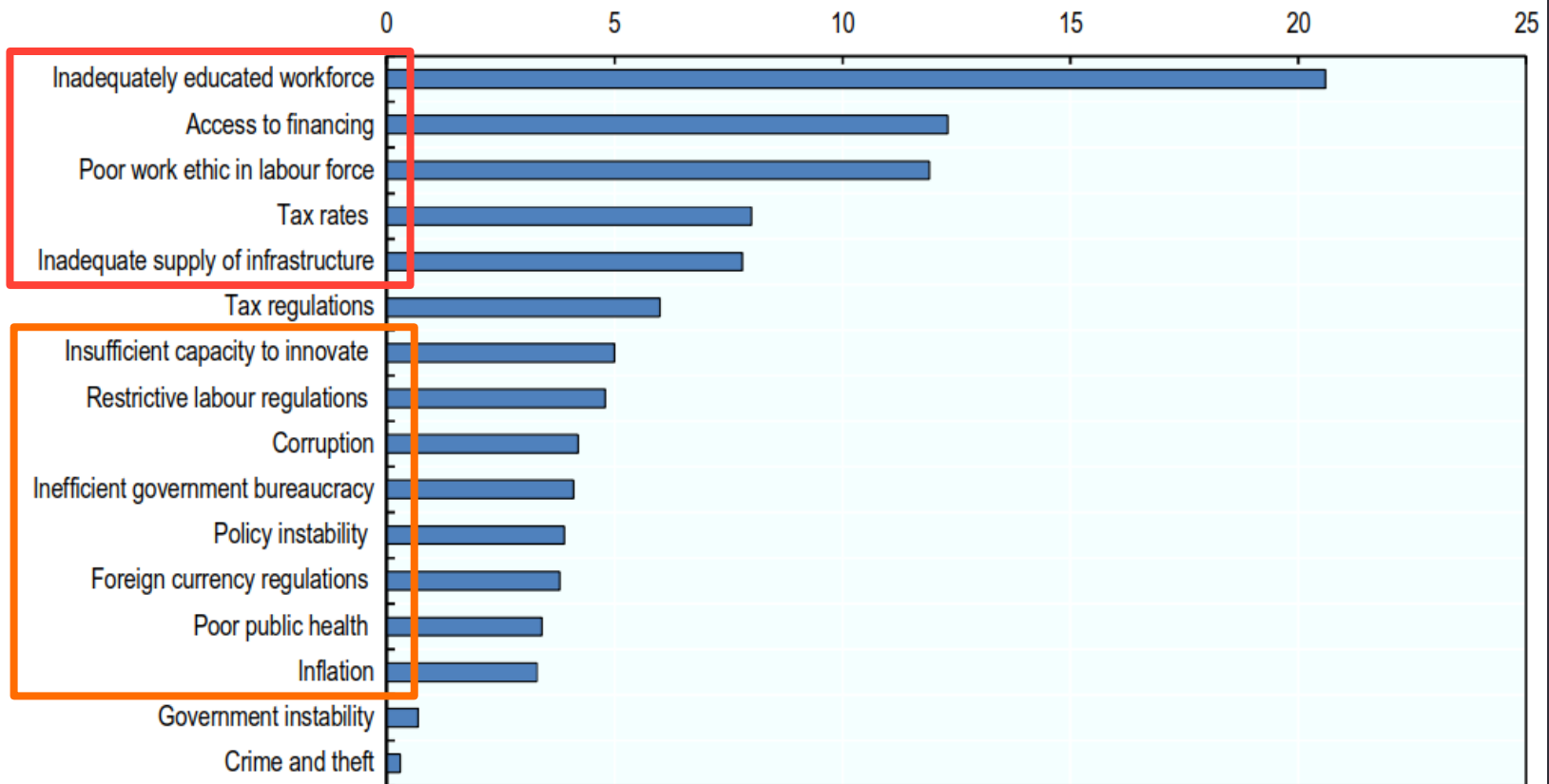
Rankings on Doing Business topics - Lao PDR



Source: World Bank Doing Business 2019

Market growth

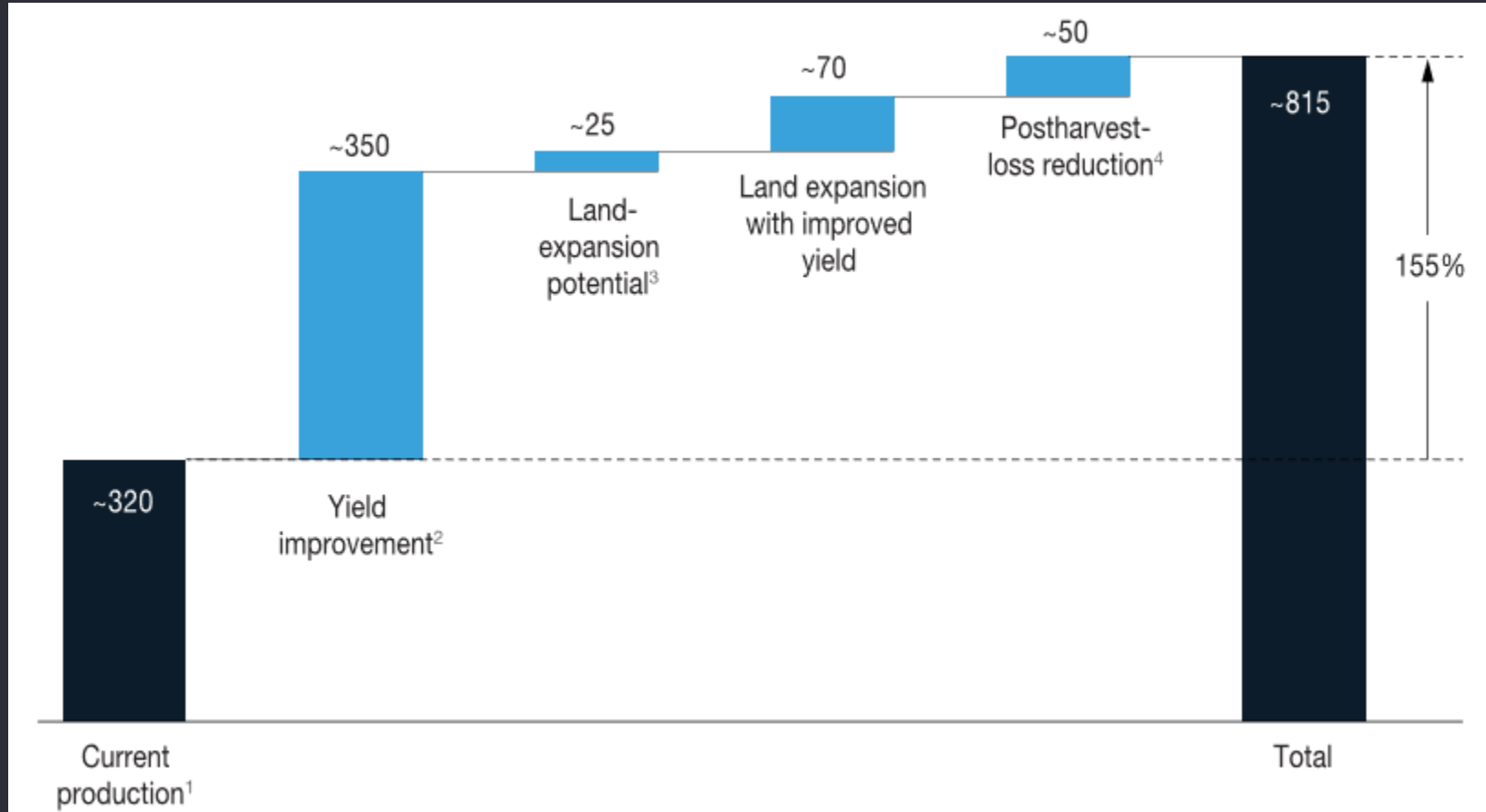
Figure 1.2. The most problematic factors for doing business in Lao PDR



Source: OECD Investment Policy Reviews: Lao PDR

Market growth

Cereal production potential modelled



Source: FAO; Global Yield Gap Atlas; McKinsey

Market growth

Investments required

Inputs + Infrastructure + Markets

Fertilizer



Increase of main nutrients

Hybrid seed



Increase of hybridization rate

Irrigation



Increase irrigation in suitable areas

Storage



Increase number of local warehouses

Infrastructures



Reduce the distance-to-frontier score

Trade



Improve trade flows and policies

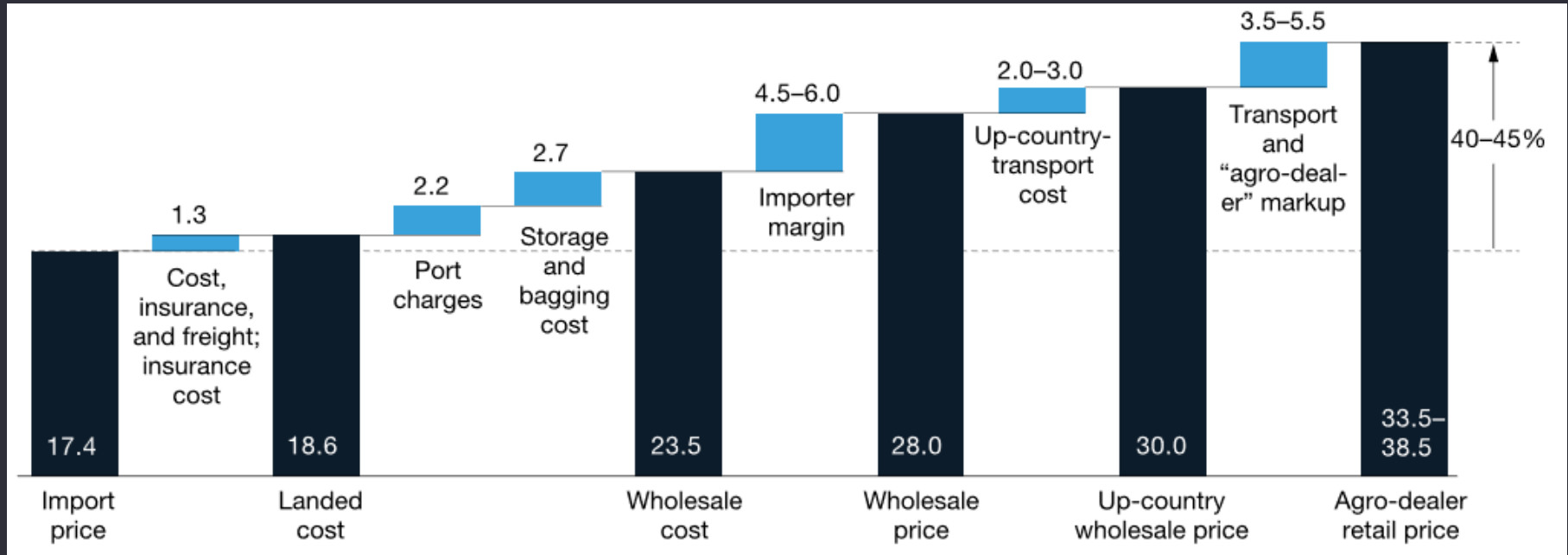
Source:

Market growth



Market growth

Import and distribution markups can add nearly 40 to 35 percent to fertilizer price



Source: IFDC ; McKinsey

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