



ACIAR project: Advancing enhanced wood manufacturing industries in Laos and Australia.

Rethinking the role of traders, micro, small and medium enterprises in efficient plantation-wood markets: Insights from Laos

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Contents

Contents.....	2
Acknowledgements	3
Notes.....	3
Introduction.....	4
Executive Summary	5
Research Findings	5
Recommendations	8
Methods	10
Literature review.....	10
Data sources	10
Results	11
Teak in Northern Laos.....	11
Eucalyptus and Acacia in Laos	11
Rubber in Laos	11
Types of plantation value chain actors?.....	12
Plantation growers.....	18
Wood processors	20
Service Providers.....	21
Employment in the plantation-wood sector	22
The Informal Economy	23
Informal Employment	24
Gender and mSMEs	25
COVID-19 and Responses	27
Other Relevant Activities	28
Policy Context.....	29
Legislation	33
Wood Processing Enterprises.....	35
Forestry Enterprises	37
Enterprise Registration and Operational Licenses	39
Taxes	43
Tax exemptions and Incentives	46
Conclusions	47
References	48

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Introduction

This report explores the role of, and issues facing traders, micro, small and medium enterprises (mSMEs), and smallholders, in the plantation wood sector in Lao PDR. It builds on the findings from assessments of three plantation value chains for Teak, Rubber and *Eucalyptus* (see Smith et al. 2018, Smith et al. 2020 and Ling et al. 2021). These value chain assessments (VCAs) were undertaken in December 2017, March 2018, June 2019 and May-June 2020 as part of the ACIAR Project FST/2016/151, 'Advancing Enhanced Wood Manufacturing Industries in Laos and Australia' (also known as VALTIP3). The project aims to support the development of innovative wood processing industries to enhance markets for planted timber resources within Lao PDR and Australia.

This report contributes to one of the three sub-objectives within the Project - namely Objective 1, which aims to identify the key elements of the policy, governance and administrative environment that constrain the development of plantation forests and wood value chains in Lao PDR, identify other constraints to improving the value chains, and to develop strategies for engaging with this environment.

The value chains have been analysed to help address the following specific research questions:

- a) What are the principal value chains for Lao planted forest resources?
- b) What are the key elements of the policy, governance and administrative environment that constrain the development of plantation forests and value-adding to their products, and what are the most important and promising pathways for policy change?
- c) What are the barriers that prevent small and medium plantation-based enterprises in Laos from investing and developing new technologies and how can they be rectified?
- d) What are the major impediments to resource availability for domestic processing, and how might they be addressed?

This study also builds on research undertaken during previous phases of the ACIAR VALTIP projects - specifically VALTIP2, which investigated key elements of the value chain including transaction costs (Said 2016), regulatory systems for Teak plantations Laos (Smith 2014; Smith 2016; Smith et al. 2017a) and the role of grower groups and enterprises (Ling 2014, Ling 2016, Ling et al. 2018). VALTIP2 research did not explicitly investigate the role of mSMEs or traders but one finding of that project was that neglecting the important roles these actors play in connecting growers to markets potentially skewed perceptions of how these value chains function. As such consideration of the role of mSMEs and traders, and the impediments they face, was explicitly included in VALTIP3.

Executive Summary

Research Findings

The principal planted forest resources in Laos are Teak, Eucalyptus/Acacia and Rubber. Teak is mostly grown by smallholders, and the resource is dispersed across the landscape. Teak value chains are dominated by mostly Lao traders and service providers and micro-and small enterprises, fulfilling important intermediary roles connecting grower to markets. There are a few medium and large processors and wood product manufacturers – both Lao and foreign (Smith et al 2018).

Eucalyptus and *Acacia* value chains are dominated by a few medium-large foreign companies who grow their own trees for processing, and they sometimes contract with out-growers. There are few independent smallholders and limited opportunities for traders or micro-and small enterprises in these typically vertically integrated value chains (Ling et al 2020).

Rubber value chains, although not currently producing wood in Laos, are mixed, with many smallholders, contract farmers or out-growers and companies growing Rubber trees. Latex value chains are dominated by medium sized foreign companies, and traders play an important role in connecting growers to them. It is likely that as rubberwood production commences, the value chains will be diverse, with opportunities for micro and small enterprises and traders, particularly in smallholder dominated areas (Smith, et al 2020).

The Government of Laos (GoL) appears uncertain about the existing, possible and preferred role of 'small actors' in the plantation-wood sector. There are strong overarching national policies for SMEs but their role and value in plantation-wood value chains is not well described nor supported with specific policy measures. Micro enterprises, traders and smallholders are less well considered in policy.

Consecutive National Socio-Economic Development Plans (NSEDPs) have included objectives with respect to the contribution of SMEs to development, although this has evolved over time, and increasingly the focus has shifted towards improving their productivity through stronger connections with "Big Business". The 9th NSEDP (2021-2025) lists as one of its directions for national economic structural reform to "actively promote and strengthen local entrepreneurs, SMEs in particular, to enable them to contribute to the regional and international supply chains, creating a conducive environment including the identification of policies and mechanisms necessary to enable domestic enterprises to access sources of capital and markets as well as to attract more local and foreign private investments". Priority activities include:

- Putting in place right policies to promote and develop quality goods and meet market demands.
- Supporting inclusive business by promoting integration between large and mSMEs in value chains.

The GoL has shown an increasing will to reform policies and address administrative hurdles faced by enterprises generally, however there is seems to be a reticence to

acknowledge the valuable role of timber traders and mSMEs in, particularly, smallholder dominated plantation value chains.

Traders and brokers (often collectively known as 'middlemen') and other service providers are important in some value chains however, they are frequently overlooked or dismissed as 'value grabbing' rather than 'value adding', and often operate in the informal sector. There are gaps in policy for intermediaries who perform the services connecting growers and processors of wood – the cost of harvesting and haulage can constitute 60% of the mill-door delivered cost. The cost of permits and licences (e.g. for chainsaws and trucks) and arbitrary roadside checks all add to the expense which is ultimately paid for through lower prices for the logs. However, as a key actor-group in the sector they cannot be treated unilaterally. Recent reforms are attempting to improve participation of these actors in the formal sector, but it is likely that they will continue to face challenges in meeting new legality requirements or participating in certified timber supply chains if they are not appropriately acknowledged or given opportunity to participate in reform processes.

Complex and costly formalities are a long-standing problem for smallholders, mSMEs and traders, recent policy changes have started to improve the ease of doing business but there are still challenges. In 2018 several reforms were aimed at making business procedures simpler and more efficient. There has been an emphasis on reforming processes for enterprise registration including requirements for sectoral operating licenses, intended to encourage participation in the formal sector and enable industry access to capital (though loans), investment and upgrading, and on tax to increase fiscal returns to government. However, not all reforms consider or benefit mSMEs and there are some important 'grey areas' that affect micro enterprises, traders and smallholder plantation owners. Several donor-funded projects are working with the GoL to address these, but the latent strength of PMO15 and the daunting number of value chain actors involved are barriers both to the development of appropriate reforms and their implementation. Significantly, at the local level, the officers of primarily MOIC and MAF, who are tasked with applying and enforcing policy and regulation have been inundated with new rules and procedures. For these 'street level bureaucrats' who must make sense of policies and apply them in the local context, this is challenging. In application to traders and mSMEs there is evidence of 'non-application', 'cherry picking' and 'local interpretation' of the rules. This is partly because the rules are changing so quickly but also because of a fear of breaching policies like PMO15, despite subsequent easing. Even centrally the 'problem of mSMEs' remains unresolved.

The policies for smallholders have not progressed. There has been an increased emphasis on developing the regulatory framework for large scale company-based investment, primarily through the granting of land concessions within Production Forest Areas. Policies for smallholders, and contract farming, which attracted policy emphasis for a period after concession moratoriums were introduced, appear to have lost favor, with new policies demanding review and reforms.

Past attempts to mobilise smallholder participation through grower groups and enterprises have not been effective. Groups work for communication and dissemination of new information but fall down when it comes to selling logs. Inter-ministerial relations obscure roles and responsibilities, benefits have not been obvious or have been captured by village elites.

The administrative processes and approvals for operating an enterprise, and the costs of these, have been clarified, and seem reasonable, but they are not yet consistently implemented within and between Government offices and jurisdictions. Some mSMEs continue to be excluded - particularly micro-enterprises and traders, and there is bureaucratic inertia preventing motivated enterprises and entrepreneurs from navigating formalities. Conversely smallholder plantation growers who have not historically been considered 'enterprises', now find themselves potentially captured in law reforms which have created a 'grey-area' that exposes them to new regulatory hurdles and increases the potential for innocent non-compliance through ignorance of the rules and limited procedural access. Institutional barriers and attitudinal obstructions seem to be key issue here. Certainly, with respect to smallholders there is some confusion about their roles and motivation for participating in plantation growing and this potentially also inhibits their opportunities to participate or be represented in policy processes including the FLEGT VPA. In many processes they are neither distinctly 'private sector' nor 'civil society'.

In the plantation-wood sector the informal economy dominates. While most medium and large enterprises are formal there are many unregistered enterprises and actors who provide necessary services in a (mainly domestic) market for wood from growers who themselves also operate informally; most plantation smallholders in Laos are part of the informal sector. There are also links between formal enterprises and the informal value chain actors, and informal practices, such as paying unofficial fees to public officials, that may be part of the day-to-day business of most enterprises.

High rates of informality suggest that many enterprises perceive the benefits of compliance with business formalities, social contributions and taxation are outweighed by the costs. Costly and complex procedures for registering, and inadequate incentives or benefits are frequently cited as barriers to registration. By staying out of sight and avoiding the time and monetary costs of complying with regulations, informal enterprises may have a competitive advantage over registered firms in their industry, but they may also be disadvantaged when trying to access institutional finance or participate in some markets. Legal timber markets are one example. In the light of the FLEGT VPA the Government is working to better regulate these actors, but there is no guarantee of compliance, particularly with limited capacity for enforcement.

Access to finance and loans, which may be necessary for building business skills or investing and developing new technologies, is often promoted as one benefit of participating in the formal economy. However other policies, such as those that are overly prescriptive in production standards and product types, may counter these benefits. In the forest sector as a whole relatively recent policies in Laos have focussed

on, and attempted to address, issues of illegality, sub-standard processing practices and in meeting the demands of export markets. Following the issuance of PMO15 in 2016 the GoL responded with a review of all wood processors, aiming to close those operating illegally (focusing on household (micro) enterprises), below standard and/or located near or within state forests, and to adjust the number of facilities to match the wood supply in each local area. PMO15 was forcefully implemented, and while some operators upgraded or relocated, the number of wood processing facilities declined - particularly mSMEs. Other policy changes in the sector have seen a renewed interest in promoting timber plantations and significant regulatory reforms have been made.

Capacity in the Government sector to govern the plantation-wood, sector and enforce regulations remains constrained by human and financial resources, and knowledge of the industry. The need for improved knowledge of the sector to support correct application and enforcement of rules and improved collaboration between sectors has been acknowledged.

A legacy of past policy responses to resolving unsustainable forest management and illegal activities in the natural forest timber industry has created a tension between promoting and supporting small plantation-wood entrepreneurs and rationalising and modernizing the industry as a whole.

All firms face a range of technical issues related to timber supply, wood quality, equipment, and workforce skills. The lack of core business skills, particularly in stock inventory management, appears limited amongst mSMEs. MOIC with donor support are attempting to address this.

With a commitment to timber legality, addressing legal barriers to smallholders, traders and micro-small enterprises is essential to enable participation in emerging markets. Finding appropriate ways for these actors to participate and be heard in policy discussions remains a challenge. The backlog of unregistered plantations is daunting, and unclear requirements to enterprise registration could possibly compound this.

Recommendations

Policy changes are needed. Accepting that traders, other service providers and mSMEs, who are mostly rural entrepreneurs, play a legitimate and important role in rural economies and the wood sector, is an important first step. Finding ways to engage them in policy and regulatory development is the second.

Recent research provides evidence of the current roles of traders and mSMEs, further analysis and conversations are needed to better understand their possible and preferred roles, as well as those of tree growing households, smallholders and mediumholders so that inclusive policies can be developed that do not deliver adverse or unexpected consequences along value chains.

Formalisation processes need to be fair and appropriate. It is reasonable to strive for increased formal participation, but a policy or legal framework that does not

adequately consider the equity outcomes for smallholders, traders and mSMEs could create economic and institutional barriers to compliance and contribute to perverse livelihood outcomes, reducing competitiveness and disabling access to markets requiring legality standards.

- The requirements for enterprise registration for plantation growers, traders, service providers, micro and small enterprises and other value chain actors needs to be clarified, communicated broadly, and applied consistently.
- MOIC and MAF need to reach agreement on the operational and enterprise licenses required for traders, mSMEs and plantation growers and communicate these to provincial and district offices for consistent application.
- Simple checklists for different types of enterprises including fees and exemptions should be developed and the widely disseminated.

Partnerships for implementation of capacity development programs can better utilise funding. The GoL and its partners are already working on important tasks that could enhance participation by traders, mSMEs and plantation growers.

- The newly developed chain of custody regulations should be communicated in a range of formats appropriate to the scale of operations to inform mSMEs.
- Training options for mSMEs on the new rules need to be developed and delivered. This could include demonstration activities at the National University of Laos' wood processing training facility and in provincial centres.
- Training of MOIC and MAF staff on wood processing standards and chain of custody is needed and could also be undertaken through the NUoL Faculty of Forestry and other training centres.
- A concerted partnership between donors and GoL Ministries is needed to develop and fund delivery and participation of training activities.

Administration barriers need to be identified, acknowledged and addressed. For traders and mSMEs, the current effort on regulatory reforms should be sustained and MOIC and MAF should resolve issues associated with issuing operational approval and enterprise registration. If there are policy barriers (e.g. PMO15) a briefing should be made to the PMO to provide the evidence needed to address this. Plantation registration could be further simplified. New, simpler and clearer procedures are needed for grower groups.

- MOIC and MAF should negotiate an agreement supporting and promoting the operating licenses and enterprise registration of small enterprise groups.
- The Ministry of Finance should consider tax exemptions for registered groups. A benefit to GoL would be easier communication on regulatory reform and greater participation in formal legal value chains. Membership to of groups, or other associations should be encouraged through access to free basic training on chain of custody.

Methods

Literature review

A review of literature, policies and regulations was undertaken to set the context to this analysis and frame recommendations. The review draws on outputs from other ACIAR projects activities (Smith 2014, Smith 2016, Smith et al. 2017a; Smith et al. 2017b, Smith et al. 2018, Smith, Ling and Boer 2017, Ling et al. 2018, Ling et al. 2020, Ling et al. 2021). Other sources included Lu's work on Rubber in Laos (Lu 2017, Lu and Schönweger 2019), the Forestry Legality Compendium (Smith and Alounsavath 2015 compiled for Pro-FLEGT), Pro-FLEGT Timber Legality Definitions, EFI Laos Diagnoses and regulatory assessment of SmEs in the Mekong, and literature generally.

Data sources

Information presented in this report draws on data collected through three plantation-based value chain studies undertaken by the project:

- Teak (*Tectona grandis*) in Northern Laos undertaken in 2017 and 2018 (Smith et al. 2018, Ling et al. 2018).
- Eucalyptus in Laos, undertaken in 2019 and 2020 (Redman et al. 2019, Ling et al. 2020).
- Rubber (*Hevea brasiliensis*) in Laos undertaken in 2019 (Smith et al. 2020).

Methods used in those studies broadly followed that of Collins et al. 2015. Approaches used included:

- Identifying, mapping (from inputs to market) and analysing the major value chains for the Lao plantation resources.
- Analysis of the costs, benefits, risks and constraints along the value chains.
- Network mapping and analysis of mSMEs, timber traders and brokers, and their role in the value chains, including regulatory processes and transaction costs.

For each value chain several primary stakeholders were identified and targeted for interviews. The study used a combination of structured mapping, semi-structured interviews and field observations including photographs and short videos to gather the data for analysis. A non-discriminative snowball sampling approach was used to identify interviewees: each respondent was asked from whom they bought wood and to whom they sold wood. Intermediate service providers were also identified during interviews or opportunistically.

Value chain actors were asked:

- details of their own role in the value chain
- scale of their operation
- purchase conditions
- where they source their input products from and who they sell to
- institutional actors and processes affecting their operations.

Interviews were undertaken in Lao and translated into English.

Results

Teak in Northern Laos

Research on Teak value chains in Northern Laos took place in 2017 focussing on Luang Prabang value chains extending into Oudomxay and Luang Namtha (Smith et al. 2018) and in 2018 focussing on Xayaboury value chains (Ling et al. 2018). A total of 80 interviews (99 people) were conducted with of actors or enterprises (Table 1). Thirty-one (31) percent of interviewees were female and 69% were male. Enterprises were dominantly micro (49%) or small (42%), with independent traders and growers classified as micro-enterprises.

Table 1: Number of value chain Interviews of each actor/firm type and enterprise size

Actor/Firm	Large	Medium	Small	Micro	Unknown	NA	Total
Consumer						1	1
Contract harvester				1			1
Finder/ trader /Level I processor			1				1
Finder/broker			1	4			5
Government						17	17
Grower				5			5
Grower Group			1	3			4
Industry Organisation						2	2
Level II processor		2	3	2	2		9
NGO						1	1
Level I processor		1	5	3			9
Level I/II processor & transporter			1				1
Level I/II processor (manufacturer)	2		10		1		13
Retailer				1	2		3
Trader & processor				1			1
Trader				4			4
Transporter							1
Wood retailer				2			2
Total	2	3	22	26	6	20	80

Eucalyptus and Acacia in Laos

An initial assessment of *Eucalyptus* supply chains in Southern Laos was undertaken in 2019. Fourteen enterprises or actors were interviewed (Redman et al 2019). A subsequent study was undertaken in 2020 (Ling et al 2021 forthcoming), which focussed on the four main plantation growing companies but emphasising the smallholder perspective. Some of the companies interviewed also include *Acacia* in their plantation investments.

Rubber in Laos

A study on Rubber in Laos was undertaken in 2019, covering value chains associated largely with Chinese company contracts and smallholder Rubber investments in Northern Laos, and Vietnamese Company investments in Central and Southern Laos. The researched adopted methods similar to those used in the Teak value chain

research. Interviews were undertaken with ten Rubber producing companies and four Rubber growing villages in Laos (Smith et al. 2020).

Types of plantation value chain actors?

The research revealed many connected actors and types of enterprises.

- *Nurseries* breeding and growing seeds, seedlings and plants for sale to plantation growers, and buying seeds from growers. These may be 'household', 'private/commercial' or 'state run' nurseries.
- *Plantation owners* planting, managing, and selling trees and plantations. They may also sell seeds or planting material to nurseries.
- *Grower Groups* representing their members and facilitating the sale of trees/logs and providing other administrative services (e.g. plantation registration).
- *Wood finders/brokers* locating and purchasing standing trees or logs on behalf of another by commission or under contract. These actors never own the trees or logs themselves.
- *Traders* buying and selling standing trees, round logs and wood (typically square logs). The buying and selling may occur at various physical locations - the farm/forest, the roadside, riverside, log yards or sawmill gate.
- *Timber harvesting contractors* cutting trees, carrying and hauling logs from the plantation to roadside/log yard.
- *Transporters* moving or shipping wood or finished products, typically under contract as a service provider.
- *Processors* buying standing trees, round and square logs and processing them into square logs or sawn boards. Processors may be different types:
 - *Household and micro-processors* - small timber processor or small furniture manufacturers producing square log, rough sawn wood, semi-finished products such as boards, or finished products such as tables, chairs, shelves, beds, decorative woods, wooden sculpts, wooden jewellery, picture frames, household and handicraft products to supply for bigger sawmills or for export and domestic purposes.

These types of enterprises are often perceived of as 'artisans', although based on product quality few could be considered as such.

They may also be 'grower enterprises' connected to grower groups.

- *Small and medium processors* – sawmills producing rough sawn or semi-finished products typically supplying larger processors or manufacturers to be processed into finished products or for added value.
- *Manufacturers* producing finished timber products and furniture for export and domestic consumption.
- *Wholesalers* – typically selling wood products to the building industry.
- *Retailers* selling finished products to end users/consumer.

- *Government* officers administering, regulating, promoting and controlling various value chain elements; developing policy and providing extension services and research.
- *Industry Associations* representing members in accessing markets and, for example, policy discussions, and provide information/advice.
- *Development Partners* funding and supporting research, extension and investment in various value chain elements.
- *Consumers* including *local consumers* in the village/district; *domestic consumers* in Laos; and *export consumers* in the final export destination.

Network mapping and analysis revealed the diversity and complexity of the value chains. Smith et al 2018 found Teak value chains range from relatively short and simple, for example log exports directly to China (Figure 1), localised wood processing (Figure 2) or vertically integrated export-oriented production (Figure 3), to more complex chains in which service providers, such as traders, harvesting contractors and transporters (sometimes working in teams) play a significant role in facilitating the movement of wood (Figure 4). These teams may service more than one client processor (Figure 5). Micro-enterprises may interact with farmers via grower groups or buying directly from non-member farmers. They may supply several markets such as semi-processed or simple finished products for the local and domestic markets via mill gate sales and semi-processed products to secondary processors for manufacturing into finished products that are then sold domestically via orders (at mill gate), to domestic retailers or are exported. Export may be directly to consumers, based on orders or to retailers (Figure 6).

More complex chains are based around larger processors that are directly connected to manufacturers and export markets. They may buy wood from many sources, including at the mill gate, directly from farmers or via traders, and through several channels (Figure 7). In Xayaboury, traders were found to play important roles in facilitating market access and regulatory compliance. Mienmany (2021 forthcoming) found that traders played an important role in connecting grower to markets, but monopolies were disadvantageous to smallholders.

Figure 1: Round and Square Log export value chain

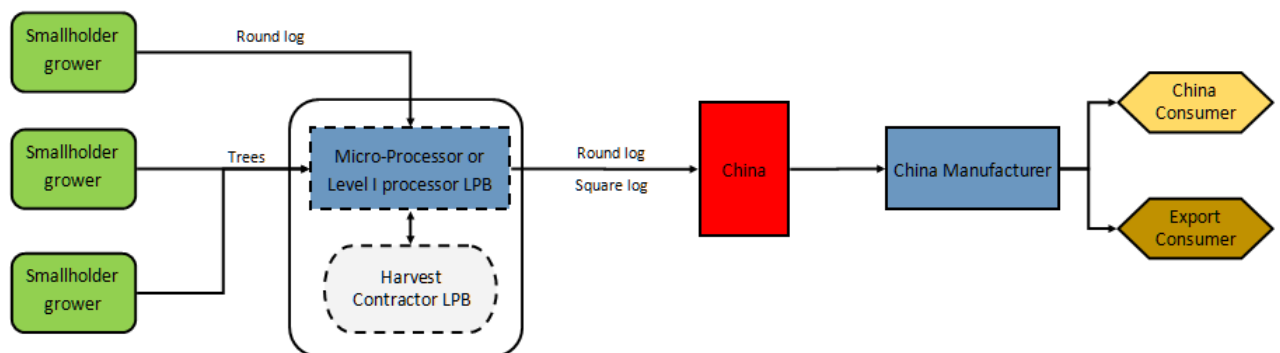


Figure 2: Simple local value chains - a limited number of independent actors

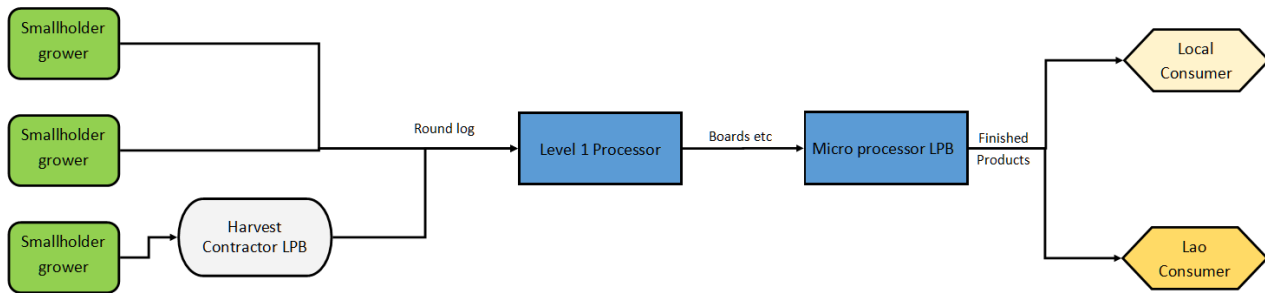


Figure 3: Simple integrated export value chain

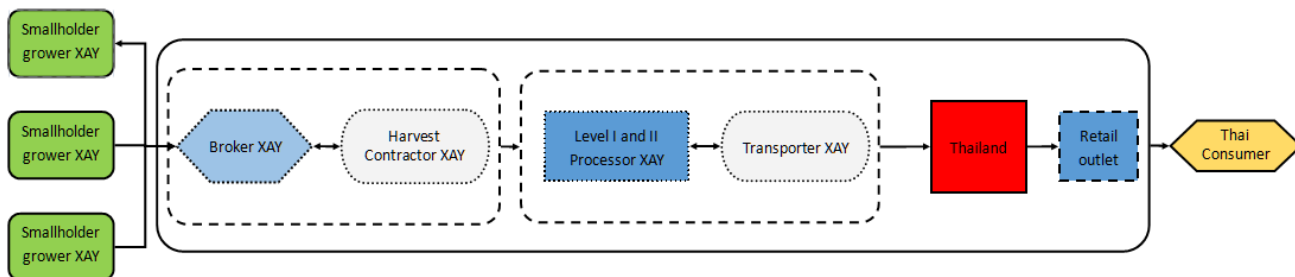


Figure 4: Service providers working in teams.

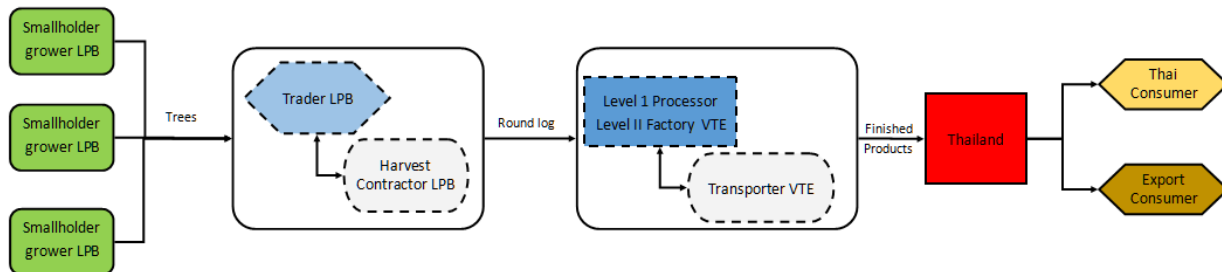


Figure 5: Service provider working in teams with many client processors.

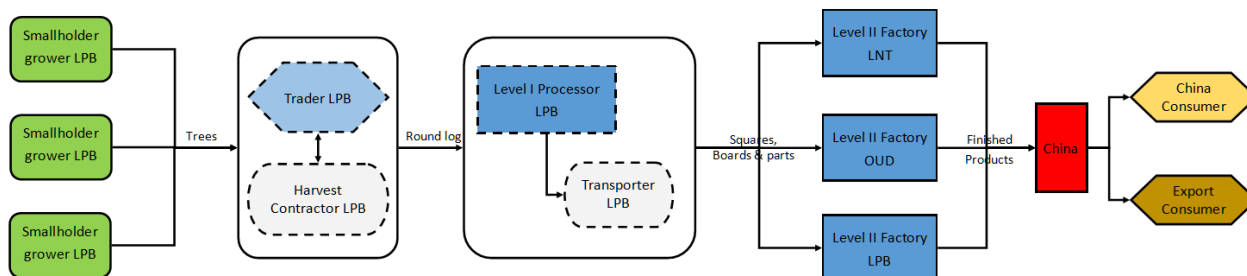


Figure 6: Grower Groups and Enterprises

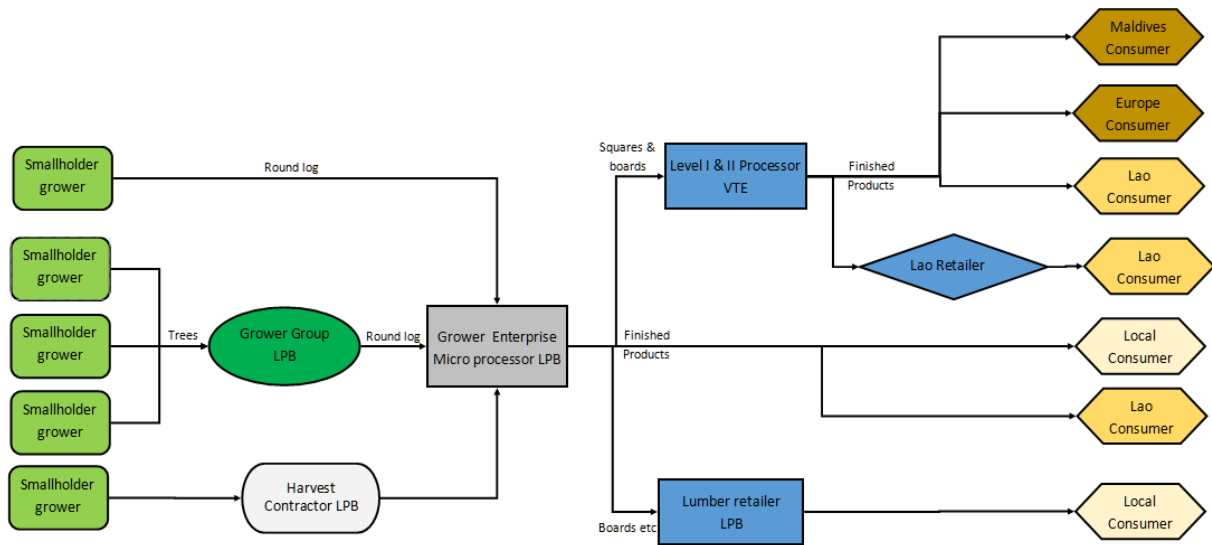
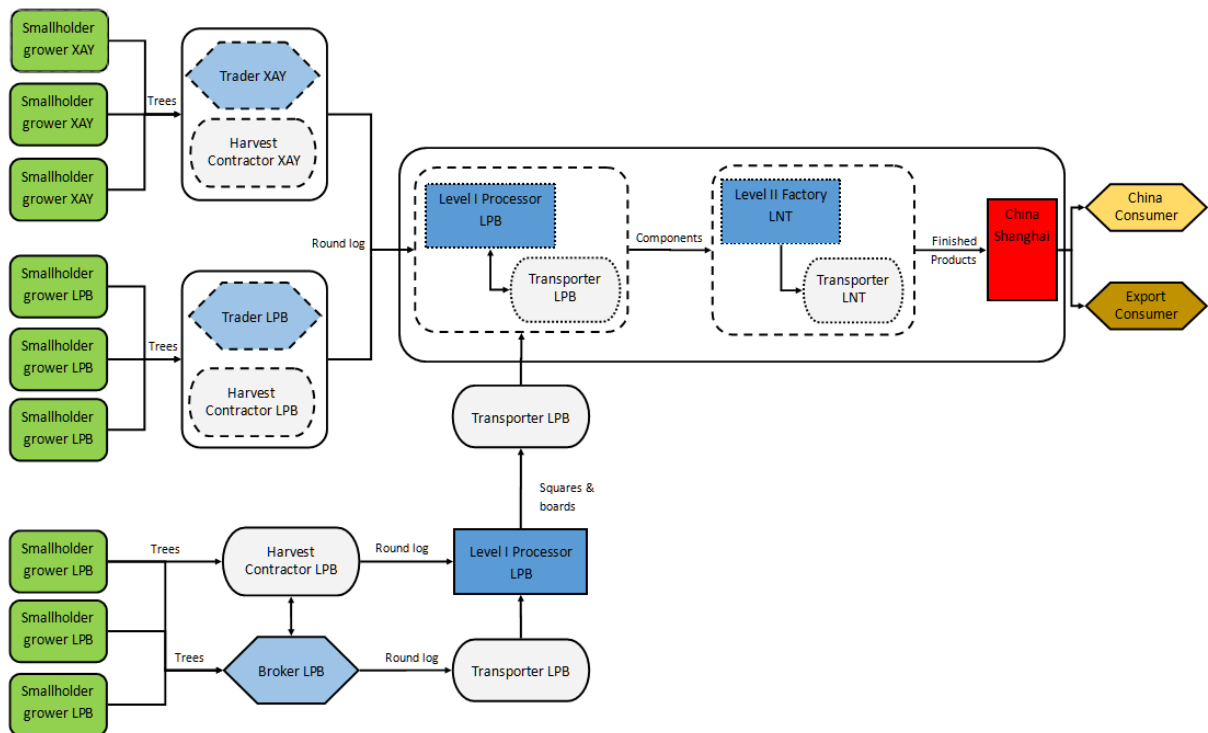


Figure 7: Complex value chain with Teak sourced through multiple channels



Ling et al (2021) found the value chains for Eucalyptus plantations to be relatively short and simple, due in part to fewer processors operating in the sector. In all cases traders/brokers and other service providers (e.g. harvesting contractors) played a role (Figure 8, Figure 9 and Figure 10). The failure of contracts between companies and growers created the opportunity to sell wood to traders rather than directly to companies, and it was noted that “Traders are often maligned as taking advantage of farmers within the value chain; but only they are able to make the upfront

payments that a farmer requires before agreeing to tree harvest” (Ling et al 2020: 17). In one case, since the completion of a large paper mill in 2018, there has been a rapid expansion of sales (as standing trees) from the plantation owners contracted to one company to the company operating the paper mill via local brokers/traders (VFI, 2018:13) and according to DAFO “there are buyers/traders who come to the village to collect the wood. The traders are “anyone who has a truck” (Ling et al 2020: 17) and may come from neighbouring countries when they are short of contracted volumes.

Figure 8: Smallholders supplying large foreign-owned plywood mill.

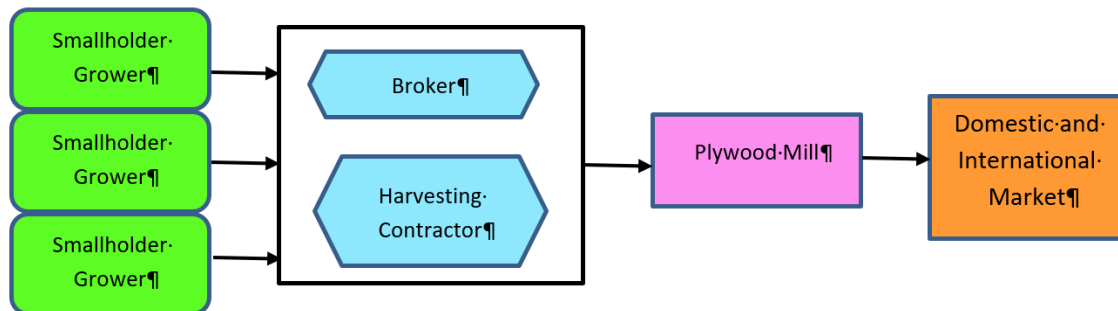


Figure 9: Smallholders supplying smaller Lao or Joint venture plywood mills.

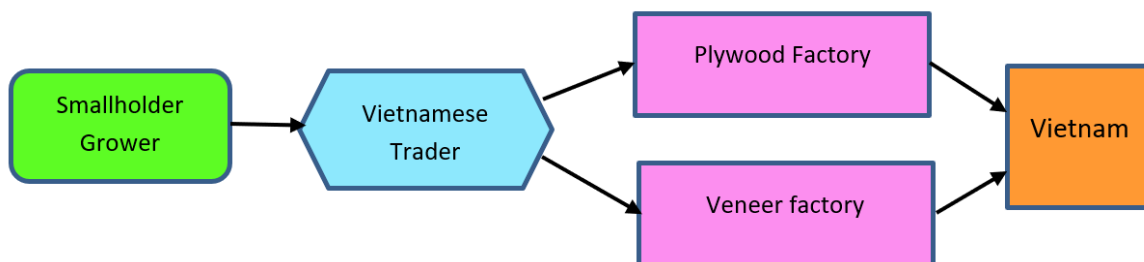
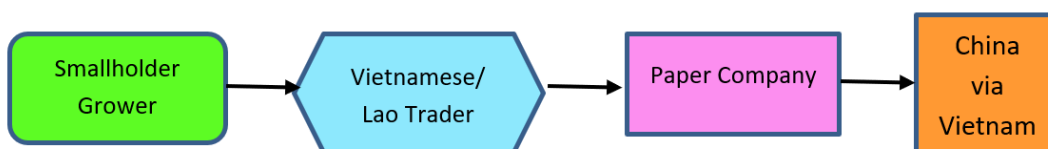


Figure 10: Out-growers smallholders supplying foreign-owned paper mills.



In their study of Rubber value chains, Smith et al 2020 found that even with plantations in geographically distinct areas and under different investment models, natural latex supply chains were connected by traders (Figure 11). As with *Eucalyptus*, the failure of contracts (for various reasons including low price) was a key enabler of traders to participate. Some companies raised concerns about “the theft of latex by farmers” under contract, and the role of independent traders (Chinese, Vietnamese, and Lao) in mobilising a ‘black market’ for this. These companies were advocating for the Government to ban independent traders or introduce a quota on the number of traders who could register. Traders, however, argued that companies are trying to monopolise the market and that they provide an alternative, more competitive

market for smallholders to sell their latex, and this was supported by some smallholders who viewed traders as important in giving them price options and market access, particularly when the Rubber latex price was low, and companies were not collecting it. Most of the Rubber companies but few smallholders were aware of the value chains that would emerge for Rubber wood, and it seems likely that brokers, traders and service providers will play a role in supplying Rubberwood to primary processing enterprises that are likely to appear as the resource matures.

All of these studies found that the intermediary actors in value chains are important, but attitudes towards them vary and they are frequently overlooked in policy or demonised particularly by competitors, which view them as 'value grabbing' rather than 'value adding'. They provide a particularly important service connecting the owners of geographically dispersed plantations to markets (Smith et al 2018), as well as in addressing the procedural burden of administration and regulation (Ling et al 2019) and access to finance through cash advances against future production in time of need. Nevertheless, many traders and mSMEs operate in the informal sector - without complying with business formalities or paying formal taxes but still being subject to informal fees and charges. While this may make these chains more efficient and perhaps cheaper, it means these actors are unable to participate in emerging markets for legal or certified timber. Legality is also an issue for smallholders. Smith et al 2017 describe the challenges associated with legal compliance by smallholders with plantation registration requirements and the IFC (2019:23) suggests that most out-growers who have grown wood on lands that they control either legally or through traditional customary rights, have been indifferent to the needs for legality and plantation registration but are now impatient to sell their wood. This lack of formality makes smallholders vulnerable to offers of low prices from traders who seek to capitalize on market opportunities for plantation-grown wood offered by indiscriminate wood processors.

Mienmany et al 2021 (forthcoming), Ling et al., (2018) and Maraseni et al (2018) note that where there is competition amongst traders, prices for smallholders are likely to be reasonable but where little competition exists, smallholders may be easily short-changed, since they have a limited knowledge of the dynamics and costs of the supply chains. For farmers, access to basic prevailing price information is more important than knowing the structure of the supply chains. However, most smallholders have no knowledge of how to measure log volume or quality. Trees are removed from the plantations based upon great trust and trees from several growers combined to make a commercial consignment. Low prices offered by traders, or perceived low prices, only serve to encourage farmers to plant something other than trees (Ling et al 2021), and in the case of Teak and Rubber, farmers are already transitioning to other commodity crops (see Mienmany et al. 2021 forthcoming, Smith et al. 2020, Ling 2021). Market competitiveness is needed to motivate farmers to plant trees, as Maraseni (2018) points out in Vietnam where there are up to twenty traders per village and competition is fierce, whereas in Laos there may only be a few traders in each district.

Studies were undertaken under VALTIP2 to understand the effectiveness of plantation smallholder grower groups. Ling et al 2018 found that past support for the formation of groups of smallholder growers intended to strengthen their bargaining power when they sell their wood and to facilitate the dissemination of best management practices and up-to-date market information has had limited effect. Grower enterprises (micro- and small processors attached to grower groups) were somewhat more effective but benefitted a few – not many, and experienced administrative hurdles, particularly in the face of policies and practices of MOIC and MAF introduced in response to PMO15 aimed at upgrading standards but which have resulted in permanent or temporary closures. The effects of this policy are still being felt with enterprises still unable to get an operating licence or register their enterprise (discussed further below).

Plantation growers

Plantation owners and growers can broadly be classified as household, out-grower and company, with the former two classes generically considered 'smallholder', although there is no formal definition of a smallholder in the context of forest ownership in Laos. Sizes of plantation holdings recognised in regulations for different purposes are <0.16 ha, 0.16 ha-5 ha, > 5 ha, >20, >200 ha. Amongst Teak and Rubber growing households the average plantation parcel size is less than 1 ha, but overall ownership of plantations within households may be much higher, as land has historically been allocated by the state on the basis of the labour capacity within households at up to 3 ha per labour unit (see Smith 2014), allowing more substantial holdings. There are also 'enterprise farmers' ('mediumholders') who own plantations of upwards of 10s and 100s of hectares. Newby et al (2012) reported the accumulation of Teak holdings by individuals, including absentee landowners (also found by Mienmany), and the research of Smith et al 2020 identified Lao Rubber-growing entrepreneurs. Based on Government data (FSIS 2018) there are likely thousands of plantation-owning individuals/households in Laos - with an estimated 48,000 ha of Teak, 78,000 ha of Rubber and 1000 ha of *Eucalyptus* planted by farmers. A further 68,300 ha of Rubber and 15,600 ha of *Eucalyptus* plantations have been planted by farmers under contract with companies. If owning around 1 ha on average each, there are possibly over 200,000 plantation growing individuals/households in Laos.

Plantation growing companies range in size, with the holdings of the four main *Eucalyptus* growing investors ranging from just under 4,000 ha to almost 30,000 ha; although all aspire to larger areas (see Ling et al. 2020). Land holdings under concessions are not necessarily free of competing claims and do not represent the actual areas under plantation. The average size of tree plantation concession between 2014-2017 was 1,218 ha (Hett et al 2020).

The 2019 government data for "silviculture and other forestry activities" (ISIC 0210), which includes the growing of standing timber: planting, replanting, transplanting, thinning and conserving of forests and timber tracts, the growing of coppice, pulpwood and fibre wood and the operation of forest tree nurseries showed 116 registered enterprises of which 60 were Lao and 56 were foreign-owned (45 Chinese and 11 Vietnamese).

Figure 11: Rubber Value Chains

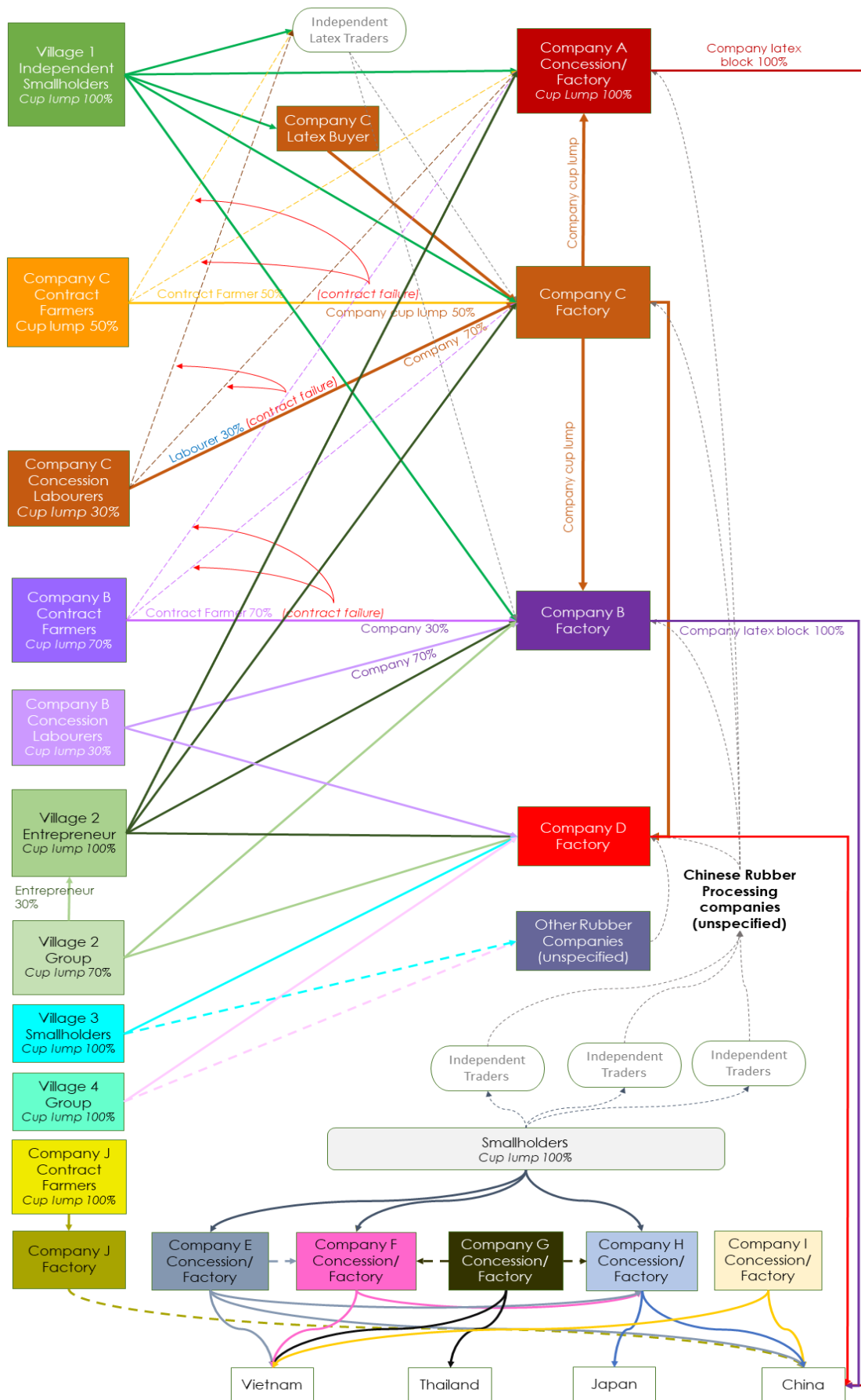
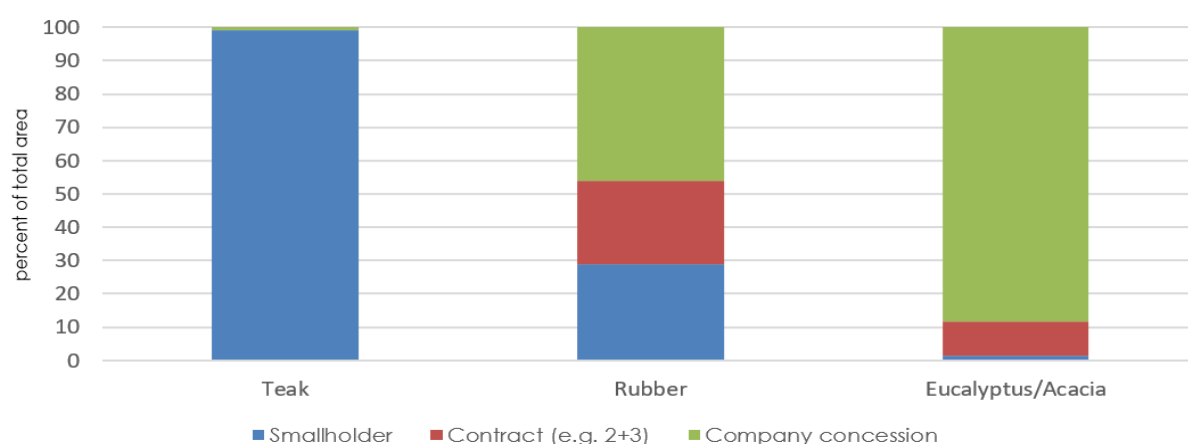


Figure 12: Proportions of plantations under different investment models in Laos



Wood processors

In 2016 Government reports indicated that there were as many as 1,595 registered wood processing enterprises including 40 sawmills, 482 finished product processing factories, and 1,073 furniture manufacturers (EFI 2018). The total number of unregistered enterprises was unknown but MOIC reported 956 unregistered 'household' enterprises.

The 2018 Forest Sector Indicator Survey (FSIS) reported 1,325 wood processing industry enterprises in Laos - 39 sawmills, 29 veneer plants, 579 wood processing factories, and 678 furniture manufacturers. Based on the FSIS data, small and medium enterprises accounted for 75% of enterprises (Table 2). In 2019 the national enterprise registration database reported significantly fewer registered enterprises– totalling 25 sawmills, 23, veneer plants, 104 furniture manufacturers and 51 other wood processors (Table 3). Since this time the industry has seen significant investment by some large foreign enterprises; Sun Paper has commenced operations, Burapha Agroforestry is currently commissioning a plywood mill and Mekong Timber Plantations has commenced construction a sawmill/veneer facility. It remains to be seen how smallholders will respond to this dynamic new market landscape and what opportunities they will offer for mSMs.

Table 2: Wood Processing Industry enterprises reported in FSIS 2018

Type	Small	Medium	Large	Total
Sawmill	0	11	28	39
Wood Processing Factory	114	201	264	579
Veneer Plant	1	9	19	29
Furniture Manufacture	490	170	18	678
Total	605	391	329	1325

Teak value chains were found to be dominated in number by micro and small enterprises (a combined total of 90% of enterprises), which is roughly consistent with national level data for the wood processing sector (88% of enterprises) from 2016 (UNIDO 2017) (Table 4). Micro, small and medium sized processing enterprises undertake the primary processing of wood into sawn or semi-finished products that are then manufactured into products, typically by larger-scale enterprises or sold

wholesale. They also perform an important function of processing locally grown wood into often low-quality finished products for use within the immediate area (e.g. for households, schools and offices). The proximity of these processing enterprises to the plantations is important for the purpose of accessibility and cost management.

Table 3: Registered Enterprises by ISIC (2019)

ISIC	Description	Lao	Foreign	Total
0129	Growing of other perennial crops	238	258	496
0130	Plant propagation	23	20	43
0164	Seed processing for propagation	2	1	3
0210	Silviculture and other forestry activities	60	56	116
0220	Logging	11	38	49
0240	Support services to forestry	1	12	13
1610	Sawmilling and planing of wood	9	16	25
1621	Manufacture of veneer and wood-based panels	13	10	23
1622	Manufacture of builders' carpentry and joinery	39	12	51
1623	Manufacture of wooden containers	2	0	2
1701	Manufacture of pulp, paper and paperboard	7	41	48
1702	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	23	0	23
3100	Manufacture of furniture	94	10	104

Table 4: Size of firms interviewed in Teak value chains compared with national wood processing data

Enterprise size (No. employees ¹)	% in Teak value chains	% in manufacturing sector (national)
Micro	49.1%	37.6%
Small	41.5%	51.1%
Medium	5.7%	5.96%
Large	3.8%	5.43%

Service Providers

Our research revealed several connecting service providers in the value chains including:

- Finders/brokers who locate and may purchase trees or logs from growers, on behalf of another – but never own the trees.
- Traders who buy and sell wood as standing trees, round logs or square logs. The buying and selling may occur at various physical locations - the forest, roadside or log yards.
- Harvesting contractors who fell trees and carrying logs to the roadside, under contract or on a fee-for-service basis.

¹ Number of employees as stated by informants, not including the owners. Employees may be permanent, casual or on contract.

- Transporters who move logs from the forest, roadside or log yard or ship wood or finished products from the mill gate.

Some service providers may provide more than one service.

These value chain actors, who operate largely in the informal sector, provide crucial services connecting the owners of the often geographically dispersed plantation resource to markets. Geographical location, kinship, and ethnicity are important in making business connections in Laos, thus traders and brokers, for example may operate within a discrete area, and growers may have specific preferences regarding who they sell too, which may not be limited to best price (Smith et al 2018).

Brokers, finders and traders ('middlemen', although many are women) are frequently maligned as 'value grabbing' rather than 'value adding' in plantation supply chains. Operating informally and staying invisible through non-compliance, or lack of regulation and enforcement, avoids government fees and charges, but may also make these networks more efficient and cheaper, reducing price-loss to growers. They also undertake administrative steps such as 'running documents' that some plantation owners do not want to do, do not know how to do or cannot afford to do themselves and they play an important role in sourcing and aggregating plantation resources and facilitating flow to processing. Nevertheless, the Government is working to develop policies and regulations for these actors to promote formalisation and legalisation. These are discussed further below.

Employment in the plantation-wood sector

Based on UNIDO data² from 2017 there were 10,321 people employed in the wood products industry and 16,910 in furniture manufacturing (a total for the sector, including non-wood furniture manufacturing). The data does not include individuals and households owning and managing their own plantations, informal employment, or employment in the informal sector.³ Seventy-two percent of the population are employed in agriculture, forestry and fishing, and most of this work is on family-run smallholdings. The 2018 FSIS, using data from 2016, reported that 65% of employment in the sector was in wood processing and 24% in furniture manufacturing, with the majority of workers (86%) being Lao citizens (Table 5).

Excluding furniture manufacturing (where representation of women is likely to be higher) national data from 2016 (UNIDO 2017,

Table 6) indicates an average of 81% of employees in wood processing were men and 12% women. Female employment was lowest in the production of veneer; plywood and other panels and board (5%) and highest in the manufacture of corrugated paper and paperboard and of containers of paper and paperboard (38%). Data on the manufacturing of timber furniture could not be disaggregated from the manufacturing of furniture overall, but within this sector 81% of employees

² <https://stat.unido.org/app/country/Emp.htm?Country=418&Group=null>

³ <https://ilostat.ilo.org/resources/methods/description-informality/>

are men. There are few studies focussed specifically on gender or livelihood impacts associated with employment on the wood processing sector. Research undertaken for this project (see Ling et al 2021) focussed on female employment in Teak wood processing and a further study exploring this issue further and the impact of COVID19 will be undertaken in 2021.

Table 5: Employment in the wood processing sector (2016)

Type	Lao	Foreign	Total Employees	Percent of total
Sawmill	557	240	797	3%
Wood Processing Factory	14,253	2,285	16,538	65%
Veneer Plant	1485	262	1,747	7%
Furniture Manufacture	5,513	674	6,187	24%
Total	21,808	3,461	25,269	
Percent of total	86%	14%		

Table 6: Male and Female participation in Employment in the Wood processing Sector (2016)

Type of Enterprise	Enterprises	Total Employees	Male		Female	
			No.	%	No.	%
Processing						
Sawmilling	70	1945	1560	80%	385	20%
Veneer, plywood, particle board and other panels and board	21	1493	1412	95%	81	5%
Manufacture of carpentry and joinery	188	5008	4189	84%	819	16%
Manufacture of other wood products	112	1705	1355	79%	350	21%
Manufacture of corrugated paper and paperboard etc	4	205	127	62%	78	38%
Manufacture of other articles of paper and paperboard	21	729	478	66%	251	34%
Total in Processing	416	11085	9121	82%	1964	18%
Manufacture of Furniture	784	12704	10310	81%	2394	19%

The Informal Economy

Globally, the concept of informality in the business environment can refer to a range of practices, institutional arrangements or transactions that are somehow hidden—at least in part—from authorities that would measure, monitor, tax and otherwise regulate them (Andrews et al 2007). Informal businesses play large roles in many sectors of the economy in Laos including manufacturing, construction, trade, and services (World Bank 2017, ASEAN 2019). A large informal economy can pose several problems by lowering productivity and growth in the economy (World Bank 2019). While there are official international definitions of informal enterprises and informal employment, the label “informal” should not be confused with “illegal” (IIED 2016).

In 2018 there were over 100,000 registered enterprises in Laos, 98% of which were SMEs (LNCCI 2018). However, the majority of mSMEs in Laos are not registered and by their very nature it is difficult to estimate their share of the total private sector by number of

enterprises; some estimates are as high as 99% (World Bank 2019). High rates of informality suggest that many enterprises perceive the benefits are outweighed by the costs of compliance with business formalities, social contributions and taxation. Costly and complex procedures for registering and inadequate incentives or benefits are frequently cited as barriers to registration. By staying out of sight and avoiding the time and monetary costs of complying with regulations, informal enterprises may have a competitive advantage over registered firms in their industry, but they may also be disadvantaged when trying to access finance or participate in some markets. The market for verified legal timber is one example.

The 2018 World Bank Enterprise Survey identified “practices of firms in the informal sector” as the second biggest problem reported by formal firms in Laos (after access to finance). Based on interviews with business owners and top managers, four main types of problematic informality were identified: inadequately registered enterprises that “fly under the radar”; widespread tax evasion (unfairly placing the burden of tax on formal enterprises); irregular adherence to complex and burdensome regulations; and a culture of noncompliance with basic rules and standards.

In the plantation-wood sector the informal economy dominates. While most medium and large enterprises are formal there are many unregistered enterprises and actors who provide services and a (mainly domestic) market for wood from growers who also operate informally (such as by not registering their plantations). Most micro and small operations are “family” enterprises, and most plantations smallholders are households, who remain in the informal sector because they perceive that there is no benefit to be gained from registration. Registration limits flexibility and invites intrusion and rent-seeking from government offices. The boundaries between formality and informality are blurred because there are links between formal enterprises and various informal value chain actors, and informal practices, such as paying unofficial fees to public officials, may be part of the day-to-day business of most enterprises.

That an uneven playing field exists for business in Laos is a common complaint of medium and large (often foreign) firms operating formally and on which the Government focusses on for the collection of tax and service charges. However timber traders and micro and small enterprises are often targeted for law enforcement.

Informal Employment

In 2019 the World Bank estimated that unregistered informal firms accounted for about 78.5 % of the total non-agricultural employment in Laos, while total informal employment which includes informal employment in informal enterprises, the formal sector and households was 94%. A 2018 ILO report found Lao to have one of the highest rates of informal employment in the Ais Pacific region (ILO 2018). The rate of informal employment in the manufacturing sector was 80.8, for skilled agricultural, forestry and fishery workers 98.6% and among craft and related trades works 91.9 %. Men and women are represented almost equally in informal employment. (ASEAN 2019).

From a policy-making perspective workers and economic units, which include enterprises, entrepreneurs and households, in the informal economy present a broad diversity of characteristics and needs. This needs to be known and understood, together with the reasons for the persistence of the informal economy, in order to formulate effective policies for the transition to formality (ILO 2018). Laos defines informal employment as comprising those employed in informal sector enterprises which are not registered and do not keep accounts of their business; those who are employed in the formal sector but whose employers do not contribute to social protection, and who do not receive work-related benefits such as paid leave and annual leave; and contributing family workers.

The number of people who operate in the informal economy because they are purposefully avoiding being regulated or paying tax (the 'evaders') represent a very small minority of informal workers. The vast majority of informal workers are the working poor, trying to earn a living. Many pay informal taxes but for most, existing regulations are often irrelevant or inappropriate and formal taxes or tax thresholds generally do not apply (IIED 2016).

As with the value chains they operate in, the pathways informal actors to transition to formality are complex, multifaceted and non-linear. Facilitating transition to formality requires that the heterogeneity of the informal economy is recognised, including the many different categories of work and enterprise involved and the various drivers that lead to both the growth of the informal economy and the informalization of the formal economy. It is crucial to acknowledge that actors in the informal economy differ widely in terms of income (level, regularity, seasonality), employment status (employees, employers, own-account workers, casual workers, domestic workers), sector (trade, agriculture, industry), type and size of enterprise, location (urban or rural and formal or informal sector economic units), social protection (social security contributions) and employment protection (type and duration of contract, annual leave protection). Economic units (enterprises and entrepreneurs) in the informal economy also demonstrate a vast diversity of characteristics about degrees of compliance with laws and regulations, or level of productivity, among others (ILO 2020).

Gender and mSMEs

Research undertaken for the Lao Competitiveness and Trade (LCT) Project found that Lao women, urban and rural alike, are increasingly engaged in economic activities, that the majority of women in businesses are micro- and small-scale entrepreneurs, and that as firms get bigger, the number of women entrepreneurs decreases (T4D 2020). Data from the ERM in 2018-2019 found that 27% of agriculture, forestry, fisheries enterprises are owned by women and 35% of processing enterprises are female owned.

While some research indicates enterprise administration issues are 'gender neutral' female entrepreneurs face particular challenges. Some evidence suggests differential impacts on women and men due to their social status and how processes are

administered. This contributes to women entrepreneurs 'choosing' to operate informally, with implications for tax collection and business growth. Discussions with female entrepreneurs by the LTC revealed that many prefer to stay informal because of the complications involved in renewing business licenses and the unreliability of the tax system. LTC also found that female-owned small businesses are less likely to be able to afford the required procedures, lack collateral or funds to contribute toward high start-up capital requirements, and have less time available to complete lengthy procedures. Lower education and literacy rates were also an issue. Other data (BAF 2017) suggested that while women prefer to run the official document process themselves, many businessmen prefer to hire a third party to take the burden from them.

Our research found men and women involved in all value chain elements except some service roles such as timber harvesting and log transport (although we did not survey many). Initial research on Teak value chains made several observations (see Smith et al 2018):

- Many 'middle-men' are actually women.
- In smaller/family companies, women are owners, co-owners, financial managers, did retail sales and also marketing.
- Compared to Australia, for example, there is a higher proportion of women managing Teak processing facilities and a high proportion of women employed in secondary processing.
- Labour differentiation can be gender-based with men undertaking the more manual tasks and women being employed for more detailed tasks. Some manufacturers stated a preference to women undertaking these roles due to better attention to detail.
- Wages vary according to task; with wages for dangerous and heavy work, typically undertaken by men, higher than those for light/detailed work. However, the highest wages were paid for specialist activities such as saw sharpening.
- Women were chosen over men for undertaking the detailed work in secondary processing, such as gluing, sanding (compared to the more physical work of milling logs). However, they were usually:
 - on lower salaries/daily wages as their work was regarded as less physical and less dangerous than that of men
 - more likely to be employed on a temporary and/or daily basis than men: it is unclear whether women prefer this more flexible arrangement, as ordinary female factory workers were not interviewed during this study.
- Women in managerial roles or who owned their own businesses reported no discrimination compared to a man in a similar position – in fact they suggested that they were advantaged in their business because of their better communication skills with both their employees and government officials.

- In household enterprises decision-making is frequently the role of the women and the men are implementers.
- Female employment in processing is directly proportional to the level of value adding, with women being preferred for the detailed work required for secondary processing.

COVID-19 and Responses

The closure of international borders and an exodus of foreign workers employed in the wood processing sector in response to COVID-19 impacted the plantation wood sector generally. A limited survey undertaken by the ITC and MOIC in mid-2020 found that nearly all Lao wood manufacturers reported being affected by the temporary shutdown of the country and that reduced logistic services was impacting their operations – both in terms of outward bound and inward bound trade (ITC 2020). Domestic demand reduced, which is significant particularly for Teak value chains, and access to export markets reduced. Timber stocks held by processors increased, likely resulting in reduced demand for new wood purchases, impacting plantation growers and traders alike.

The World Bank, while preparing a COVID-19 Access to Finance response program, commissioned a socio-economic assessment of various sectors, including specifically mSMEs and the informal economy - 71% of enterprise temporarily closed during the Lao lockdown and the strategies used to sustain operations included drawing on personal savings, taking out bank loans and laying-off staff (UNDP 2020).

The Government introduced specific fiscal measures aimed at supporting SMEs and employees, such as low-interest loans, tax exemptions and employee allowances. Nevertheless, it appears that many operations have slowed or stopped, reducing their labour needs and the effectiveness of the measures introduced have not yet been examined; this is important in understanding the resilience of the plantation-wood processing sector, the policy changes and future market shocks. The OECD (2020) produced a report highlighting the important role but particular vulnerability of informal mSMEs in the time of COVID-19 because they are unable to access support measures.

A further assessment of COVID-19 is being undertaken by members of the VALTIP3 team through additional support from ACIAR. The project aims to explore the combined and converging impacts of COVID-19 and export-oriented policies (PMO15) on labour in the Lao plantation-wood processing sector, with an emphasis on female labour. The objectives are: a) to identify the impacts of COVID-19 and PMO15 on availability of and demand for, labour, including whether there are differentiated demand for male and female employees, or specific impacts on female workers, b) describe Government response measures associated with PMO15 and COVID-19, focusing on labour and related issues such as social protection and c) understand the company's and labourer's immediate response and long-term adaptation strategies to COVID-19 and whether these have been effective. The assessment is due for completion in December 2021.

Other Relevant Activities

Several initiatives are sustaining a focus on the wood processing sector and are relevant to facilitating reforms for issues faced by mSMEs.

1. GIZ through ProFEB is continuing its work on identifying and prioritising reforms across the entire wood sector through the Forest Law Enforcement Governance and Trade (FLEGT) Voluntary Partnership Agreement (VPA) with the European Union.
2. MOIC's Departments of Industry and Handicrafts (DOIH) and Import and Export (DIMEX), primarily through engagement on the VPA, are revising and developing new regulations on, amongst other things wood chain of custody, including Ministerial Decision on Input-Output management and monitoring⁴ and the export of plantation wood⁵, to which this project has also contributed.
3. MOIC DOIH is leading work on a roadmap for the Wood Processing Sector in partnership with the Ministry of Agriculture and Forestry and with the support of the International Trade Centre (ITC).
4. EFI and the FAO are supporting the implementation of Decision No. 0777 through piloting and training in Provinces, for the private sector and to build capacity within the Government to implement and enforce the Decision.
5. The Government of Norway is collaborating with FAO and UNEP under the UN-REDD Programme to implement an initiative that will support countries in the Lower Mekong Region including Laos, in addressing forest crime through improved governance.
6. The World Bank's Lao Landscapes and Livelihoods Project (LLL) includes support for the piloting and implementation of the Timber legality Assurance System (TLAS) and related certification throughout the supply and value chain, and in the development of measures needed to enable the Government's new focus on the development of commercial plantation in PFAs.
7. SwedFund is supporting a Plantation Taskforce that is examining issues across the whole sector, but focussing on tree growing, with a view to identifying and prioritising areas for reform.

⁴ Decision No. 0777/MOIC-IH on the Management and Monitoring of Timber Input and Output, August 2020

⁵ Draft Guideline On export plantation timbers and products

Policy Context

This section describes the policy, regulatory and governance context to traders and mSMEs including service providers in the plantation-wood sector. Reference is also made to smallholder tree grower where they are impacted by recent forms.

Generally, the dominance of mSMEs and their role in socio-economic development is well recognised and promoted in Lao policy. Consecutive National Socio-Economic Development Plans (NSEDPs) have included objectives with respect to their contribution to development' although this has evolved over time.

The 8th NSEDP included as an objective to "Build Synchronized Production Chains between State-Owned Enterprises, Big Business Enterprises and SMEs" and lists a number of approaches:

- Form a number of big enterprises to act as a driving force for SMEs, including agro-product processing enterprises (farmer groups that supply raw materials to the processing industries) and other businesses.
- Improve the productivity of SMEs by promoting productive, appropriate and modern technology ...and set standards for goods and services to improve productivity; and enhance domestic and international market access.
- Create a favourable environment for businesses to set up and operate in, in terms of developing a strong legal framework, providing access to finance and skilled labour, and access to business development and entrepreneurial consulting services; develop comprehensive infrastructure as investment incentives and build confidence in doing business.
- Promote access to finance for SMEs, by creating projects to support long-term finance by commercial banks interested in providing loans to such companies and establishing a fund to mitigate the risk as incentives for commercial banks to provide loans to SMEs.
- Improve access to financial services for enterprises in rural areas by promoting mobile and e-banking services while having regulations established for management.

The 9th NSEDP (2021-2025, draft 5) listed as one its directions for national economic structural reforms to "Actively promoting and strengthening local entrepreneurs, SMEs in particular, to enable them to contribute to the regional and international supply chains, creating conducive environment including the identification of policies and mechanisms necessary to enable domestic enterprises to access sources of capital and markets as well as to attract more local and foreign private investments".

It states:

"Micro-enterprises and Small and Medium Enterprises (MSMEs) play an important role in driving job creation and economic development. In order to maintain a competitive ecosystem for small and medium-sized enterprises, the focus should be on improving credit information management system, diversifying financial products, and improving the capacity to plan and adopt modern business practices, as well as improving legislation to make the

operation of MSMEs systematic and fair, reduce reliance on informal borrowing and enable MSMEs to become part of regional value chains."

"Developing Micro, Small and Medium Enterprises (MSMEs) that are closely linked to markets and production networks of large companies both domestic and international; continuing to implement policies and development plans for SMEs; improving efficient access to credits, scientific technological advances and innovations; introducing conducive environment, promoting productivity and skills upgrade, improving public and private services to enhance competitiveness and sustainable development by revising work regimes or practices and labor discipline of a modern and innovative industry."

The 9th NSEDP aim to increase the number of micro, small and medium sized entrepreneurs by 2% per annum; and for mSMEs to contribute 18% GDP per annum. Priority activities for achieving this can be summarised as:

- Start-up promotion, through for example One District One Products, SME Services Centres.
- Upgrading business through training, technology, streamlining credit access mechanisms and procedures.
- Continuing to mobilize low-cost capital from both domestic and foreign sources to help strengthen sources of finance for mSMEs with production an export potential, along with creating conditions for technical skills capacity-building.
- Putting in place right policies to promote and develop goods to be of quality and meet markets' demands.
- Supporting Inclusive Business by promoting the integration between large and mSMEs in value chains.

This latter point is significant.

Following the issuance of PMO15 in 2016, MOIC responded with a review of all wood processors, aiming to close those a) operating illegally with a particular focus on household (micro) enterprises, b) located near or within state forests, c) adjust the number of facilities to match the wood supply specifics of each local area and assess enterprises against government defined processing standards or other regulatory requirements. At the time of the review, the PMO15 Taskforce reported 1,595 wood processing factories (comprising 40 sawmills 482 finished product processing factories, and 1,073 furniture manufacturers) with a license to operate, 1,154 unlicensed micro-household enterprises and 28 wood processing factories located in or near state forests. Of these the latter two categories were targeted for closure or in some cases, temporary suspension and relocation orders. Since the enforcement of PMO15 the number of registered wood processing facilities has declined (refer above), but the incidence of unregistered enterprises is difficult to gauge, particularly since the onset of COVID-19.

While many illegally operating mSMEs were closed down, POICs also inspected legal enterprises, audited them against processing standards and issued temporary closure

orders requiring upgrading and relocation. However, anecdotal reports suggest the “auditors” had little experience or knowledge of sawmills and expected “consideration” to provide a favourable report. In Luang Prabang, indicating a need to “control small wood processors”, POIC shut down 40 mSMEs in 2017 and although we were told these were all processors of natural timber, the operations of several plantation wood enterprises, including the two supported by this project, were suspended. In Xayaboury, before PMO15 there were 111 sawmills registered with POIC, in 2018 there were only 26 which had been given 6 months to improve the standards of their operations and in some cases relocate to more visible sites along roadsides, otherwise face closure. Several enterprises had invested significantly in upgrading their facilities and were transitioning from natural timber to plantation-grown wood and many Lao processing companies were generally supportive of PMO15: “This is much fairer for the Lao companies. When the Chinese exported round logs, they only had to pay tax once on the round logs, and they always bought only big trees. But as a processor, I had to pay twice, once for the round logs before processing, and then again on the processed product.”

PMO15 was however viewed less favourably by growers who were generally receiving a lower price, and many mSMEs are still facing challenges both in terms of meeting processing and wood products standards and in registering their enterprises. In 2021, almost 5 years since PMO15 was introduced micro and small processors of plantation grown Teak are still unable to register their business.

Improving the ease of doing business has also been a focus of recent policy. In 2018 PMO02 promoted several reforms that aimed at making business procedures simpler and more efficient. A 2018 report on “Reform of the Business Registration Procedure” completed for MOIC under the Trade For Development Program identified a range of regulatory factors as discouraging compliance and resulting in an increase in informal business operations (T4D 2018). There has been an emphasis reforming processes for enterprise registration including requirements for sectoral operating licenses, intended to encourage participation in the formal sector and enable industry access to capital (through loans), investment and upgrading, and on tax to increase fiscal return to government. All business enterprises in Laos are required to be registered with the Ministry of Industry and Commerce Department of Enterprise Registration Management (DERM) and in some cases they must also obtain an operating license from the relevant sectoral agency, for example MAF in the case of plantation business or MOIC-DOIH in the case of a wood processors. For mSMES this has been problematic (EFI 2018) and for smallholder plantation owners, recent changes present a new challenge.

Enterprise registration benefits the Government through fiscal contributions associated with regulatory charges and taxes. For enterprises the benefits of registration are access to finance and thereby capital for upgrading, including against increasingly higher mandatory standards, and access to markets, which increasingly demand legality (see e.g. EFI 2018, LNCCI 2016), but the costs of finance is high, so investment in making improvements becomes risky. Lack of enterprise

registration (and non-compliance with other regulations) situates enterprises and other actors within the informal economy meaning that they and their activities are invisible for to government. As a result, the Government misses out on information about their citizens and their role in the economy and relevant data to develop policies and monitor implementation. The opportunity to levy fees and taxes for generating budget is also lost. This theoretically hampers good governance and state building.

Recent anecdotal evidence indicates that MOIC is attempting to act on broad policies for “Inclusive Business by promoting the integration between large and mSMEs in value chains”, and certainly numerous donor funded projects, including this projects and its precursor, have supported and encourage integrated value chain approaches. In Luang Prabang, for example, where plantation-based mSMEs are finding it difficult to gain enterprise registration they are being encouraged towards “partnering” under the registration of large processors and manufacturers. Other anecdotal evidence⁶ indicates that MOIC is tending away from support to mSME wood processors because of policy, due to latent pressure, real or implied, to implement PMO15 or because the burden of administration of a potentially large number of enterprises is too great.

For those mSMEs that have invested in upgrading in response to PMO15 partnering is potentially an unattractive option, especially where experience has had adverse outcomes (see Smith et al 2018). For larger enterprises that strive to meet legality standards, partnering with even registered mSMEs may present an unacceptable risk if regulations are not complied with and the source of wood cannot be guaranteed as legal. It is unclear what the consequences would be for smallholder plantation growers for whom mSMEs and traders provide important market competition and have seen price decline since PMO15 was introduced.

Herein lies a further conundrum. In striving to encourage compliance with business formalities by simplifying and clarifying the process, the Government has expanded the regulatory umbrella to explicitly cover a broader range of forestry businesses. Under this umbrella now fall all plantation growers – and there are no obvious exceptions for smallholders who now face a triumvirate burden of registration – as an enterprise under MOIC, as a forestry business under MAF and just for growing plantations (under MAF). Despite some incentives, such as land tax exemptions for registered plantations and income tax thresholds, it seems that rendering smallholders (and mSMEs generally) taxable is a key driver of these changes, which have been introduced in parallel to changes to tax laws. All individuals, legal entities and organisations, including self-employed people, who have income from business operations or from employment are obligated to have a Taxpayer Identification Number and pay income tax. Prime Minister’s Order No. 247 on the Promotion of Tree Planting for Commercialisation, 2019, states that income tax is payable on the sale of

⁶ Based on conversations between the author and representatives from various donor funded projects.

planted trees. Thus, plantation enterprises, including smallholders who sell wood to industry, are affected. In trying to disentangle this regulatory environment, our research was unable to clarify what these new rules mean in practice. Wherein MOIC is developing supporting regulations for their sector, no similar guidance could be sourced from MAF.

Within this regulatory fog, discretionary decision making prevails. For the 'street level bureaucrats' (see Lipsky 1980, 2010) - primarily the officers of MOIC and MAF in the provinces, districts and to a lesser extent, villages - who are asked to implement the rules, the distinction between formal policy on the one hand and actual practices is significant; they have to be aware and make sense of policies, and make them operate in practice (Evans and Harris 2006, Tummer and Bekkers 2014). Since PMO15, with its strong enforcement and the accelerated regulatory changes that followed, this has been a challenge, and it is clear that locally specific adaptations and interpretations have been applied. One specific coping mechanism (Vedung 215) seems to be non-application or 'cherry picking' of the rules, particularly where these are applied to micro-enterprises and traders. This seems to be in part because the rules are not clear but also because the strength at which PMO15 was applied to industry and local bureaucrats alike has created a fear of breaching it, still 5 years after it was implemented. Hence micro and small plantation wood processors who have sought to adapt to the new rules remain unable to register their enterprises because neither POICs or PAFOs are clear that they should and can do this. Even centrally the 'problem of mSMEs' remains unresolved.

There is a tension between policy and regulation for the plantation sector in Laos, where policies aim to promote investment and make it easier to do so, but either more regulation is being made to make this happen or reforms are being stymied by local interpretation or application of the rules. Some countries are experiencing similar conundrums; in China, for example despite national reforms intended to encourage investment through which forest growers were supposed to rid of heavy taxes and fees, they continued to suffer from new arbitrary fees set by local government (Dong 2018) which countered these reforms.

Legislation

In 2011 a *Law on Small and Medium Sized Enterprise Promotion* No. 11/NA was enacted, through which the government "encourages and promotes the development of SMEs aiming to enhance their competitiveness and capability regarding production, trade and service, by providing support on the financial, technical, technological, marketing and scientific research and others. Under this law, SMEs are independent enterprises that are legally registered and are classified according to the business sector, the annual average number of employees, the total assets and the annual turnover. SMEs are classified into three categories:

1. SMEs operating in *production of commercial goods* such as the processing industry, handicrafts, agricultural production and commercial goods, which in this case could refer to plantation growers or wood processors.

2. SMEs operating in *trade* such as wholesalers and retail traders, which could include to timber traders or nurseries.
3. SMEs operating in *services* such as tourism, transportation, banking, finance, education or health care, which could include to tree harvesters or wood transporters.

The Law on Enterprise No. 46/NA 2013 sets the principles, rules and measures for establishing, operating and managing a business enterprise in Laos. Under this law all enterprises must be registered. (Article 2) defines a Business as “an activity operating in one or all stages of an investment process starting from the stage of production to the provision of services, aiming to gain profits and utilize the benefits for the public interest”. There are different types of enterprises:

- An Individual enterprise is a form of enterprise created by one person. An individual enterprise conducts business in the interests of an owner. The owner is solely and unlimitedly responsible for the enterprise's liabilities.
- A Sole Company limited is a type of company having one shareholder.
- An Ordinary partnership is a type of partnership conducting business jointly by its partners based on trust between themselves and all partners are unlimitedly responsible for the enterprise's liabilities.
- A Limited partnership is a type of partnership in which some of its partners have unlimited responsibility for the enterprise's liability, called “general partners”, and others whose liability is limited, are called “limited partners”.
- An Ordinary Company is a form of enterprise created by dividing capital into shares of equal value. The shareholders are responsible for the company's liabilities up to the value of the unpaid portion of their shares.
- A Limited Company has as shareholders at least two persons but not exceeding thirty persons.
- A State Company is established by the State with its capital contribution more than fifty percent of the total capital or by transferring other type of enterprise to state enterprise as agreed with the investors concerned.
- A Public Company has as founding shareholders at least nine persons, with free transferability of shares and entitlement to openly sell the shares.
- A Mixed Company is an enterprise invested jointly by State and/or state enterprise and other sectors (domestic or foreign investors)

A *Cooperative* is also a recognized type of enterprise and determined under the *Decree on Cooperatives* No. 136/PM 2010 as a collective economic organization established by a group of small entrepreneurs namely farmers, manufacturers, traders, and others which voluntarily intend to form a cooperative aimed at cooperation on capital, experiences, technology in production, trade and service to succeed their own business as well as to ensure social welfare among the members and their families.

In 2017 the Government issued a *Decree on the classification of Small and Medium Sized Enterprises* (No, 25/GOL) to clarify to 2011 Law on SMEs and differentiated three sizes: micro, small and medium.

In 2019 a *Government Decree on Small and Medium Enterprise Promotion* (No. 299/GOL) was issued regarding the organization, management, use and inspection of a Small and Medium Enterprise Promotion Fund, a State financial organization under MOIC responsible for centrally mobilizing funds from various sources with the aim to ensure stable and consistent funds for the promotion of small and medium enterprises to be developed, strengthened and sustained.

Wood Processing Enterprises

A Law on the Processing Industry No. 01/99/NA was introduced in 1999 and described types and sizes of factories, including for wood processing and handicrafts. Pursuant to that law several other pieces of legislation were made, and which have been revised over time on the standards of wood processing factories (Decision No. 0221/MOIC 2007) and the management of wood processing factories (Decision No. 301/MoIC 2007). The revised *Law on Industrial Processing No. 48/NA 2013* (Article 10), provides definitions for sizes of manufacturing factories categorised according to the total power output of the machinery, labour used, or financial investment.

- Small-size factories consist of machinery power from 10 to 50 horsepower or with a labour force from 10 to 50 persons.
- Medium-size factories consist of machinery power from 51 to 200 horsepower or with a labour force from 51 to 200 persons.
- Large-size factories consist of machinery power from 201 horsepower and higher or with a labour force from 201 persons and higher.

Article 3.11 also defines a family-type industry as an industry that uses simple technology, with low investment, operates within the household, mainly uses family members, employs less than 10 persons or uses small-size machinery with less than 10 horsepower in production.

Article 6 states that the Law applies to both domestic and foreign individuals, legal entities and organizations operating a processing industry business for all sectors, sizes and levels in Lao PDR, excluding family-type industry. Family-type industry is dealt with in a separate regulation. We were unable to source this regulation.

In 2008 the *Law on Handicraft* No. 02/NA was introduced, which applied to every size of handicraft manufacturer and family-owned handicraft factories, artisans and entrepreneurs. It identified four sizes of handicraft factories as well as "Family-Owned Handicraft Factories".

Decision No. 0719/MOIC on Timber Processing Manufacture Standards, 2009 categorises wood processing enterprises based on production type as:

- Level I - sawmills, or semi-finished product manufacturers of products with ISIC codes 1610, 1621, 162201, 1701.1 (produce sawn wood, cut wood, semi-processed wood, construction wood, interior decoration wood and pulp) which can be supplied to Level II manufacturers to be processed into finished products or for added value.

- Level II - timber product and furniture manufacturers of products with ISIC codes 1621, 1622.2, 1623, 1624, 1629, 1701.2, 1709 and 3100 (including frames, door frames, window frames, stairs, bars and other interior products for buildings, parquet, floor, particle board and so on; containers made from timber, boxes, cargoes, pallets; paper, products made from paper; wooden furniture (tables, chairs, shelves, beds), decorative woods, wooden sculpts, wooden jewellery, picture frames, household and handicrafts) for export and domestic purposes.
- Small size sawmills or a household sawmills means which are small timber processors or small furniture manufacturers with less than 10 labourers or a machine with 5 horse-power, which produces products in ISIC codes No. 1629 and 3100 - semi-finished products or finished products such as tables, chairs, shelves, beds, decorative woods, wooden sculpts, wooden jewellery, picture flames, household and handicraft products to supply for bigger sawmills or for export and domestic purposes.

Article 10 encourages small and household factories to utilise materials from level I manufacturers (sawmills and semi processing manufacturers) as well as branches, roots, stumps and other waste woods. Their machines must be small machines or ordinary carpentry tools and their products must comply with the *Notification No. 1415/MOIC on patterns and sizes of timber products, 2008* and be of high quality for export and domestic purposes. Notification No. 1415/MOIC has been replaced by Decision 2005/MOIC-DOIH and subsequent amendments but the more recent instructions do not include the classification of wood processing factories that was in Notification No. 1415.

Small and household enterprises are discouraged from sawing or cutting timber for commercial uses and encouraged to use their own raw material for any commercial purposes. They must:

- process timber to final products with maximum value adding for export and domestic purposes.
- develop product quality and standards with distinctive designs and patterns of the country and meet international requirements.
- exchange experiences and information sharing on technical issues among the manufactures.
- create a cluster or become a member of a cluster.

Small household timber processing manufactures that meet these conditions and standards must apply for permits/licenses according to Article 5 and Article 6 of the Decision on Timber Processing Management No. 1301/MOIC 2007 from POIC which has authorization to issue and extend (on case by case) annual permits/licenses.

Decision No. 0264.MOIC.DOIH on the Management of Factories refers both the Law on Industrial Processing No. 48/NA 2013 and a Law on Handicraft No. 02/NA 2008 (not sourced) and categorizes factories in three classes. It includes a classification consistent with the Law on Industrial Processing in terms of labour and processing

horsepower, but introduces an investment threshold, as opposed to the Decree on SMEs in terms which refers to income and asset value.

Numerous Decrees/Orders have been issued that have been aimed at strengthening or improving forest management and forestry businesses (for example No. 31/PM in 2006, No. 17/PM in 2008, No 32/PM 2012) and in 2016 the Prime Minister Issued Order No. 15 On Strengthening Strictness of Timber Harvest Management and Inspection, Timber Transport and Business (PMO15), which instructed MOIC to review and “adjust” wood processing factories. In response the number of wood processing factories was reduced with small family factories operating without a licence to be closed.

Decree No. 0777/MOIC.DIH on Management and Monitoring of Timber Input and Output, 2020 defines timber traders and timber processing factories:

- Timber processing factory means the primary and secondary timber processing factory, and small household factories stipulated in Decision No. 0719/MOIC.
- Timber trader means the operator that undertakes to buy and selling of logs, semi-finished or finished timber products under the related laws and regulations which includes timber retail store and timber import and export company but does not take any action in timber processing.
- Operator means the timber processing factory and timber trader that have a business license under the related laws and regulations of Lao PDR.
-

Table 7: Categories of Commodity Production Enterprises in different legislation

Category	Law No. 48/NA on Industrial Processing, 2013		Decree No. 25/MOIC.ERM 2017			Decision No. 0264.MOIC.DIH 2019		
	Power (hp)	Labour	Labour (ave/yr)	Total Assets (kip)	Turnover (kip/yr)	Power (hp)	Labour	Investment value (kip)
Micro	<5	<10	1-5	< 100M	<400M	N/A	N/A	N/A
Small	10-50	10-50	6-50	< 100M	< 2B	10-50	10-50	100M -1B
Medium	51-200	51-200	51-99	< 4B	< 4B	51-200	51-200	1-4B
Large	>201	>201	N/A	N/A	N/A	>201	>201	>4B

Forestry Enterprises

Forestry Businesses are defined in the *Law on Forests* No. 64/NA 2019 (Chapter VI) as including:

1. Production of tree and NTFP seedlings;
2. Tree and NTFP planting;
3. Wood processing;
4. Charcoal production;
5. Processing of NTFPs;
6. Export of timber, wood products, tree species and NTFPs;
7. Import and transit of timber, wood products, tree species and NTFPs;
8. Sale of NTFPs;

9. Sale of wood products;
10. Ecotourism;
11. Trade in forest carbon;
12. Other forest-related businesses.

The Law does not specifically legislate for mSMEs, but Article 104 requires that individuals, legal entities or organizations that intend to operate a forestry business are required to submit an application to the One-Stop Investment Service Office as specified in the Law on Investment Promotion or to the Industry and Commerce sector as specified in the Law on Enterprise and shall obtain technical approval from the Agriculture and Forestry sector in coordination with other relevant sectors.

The articles describing specific forestry business activities (Article 93-103), refer also to, in some cases, "individuals, households, legal entities, and organizations" inferring that these require enterprise registration for some activities, but exceptions are also provided. For example:

- Article 94 Tree and NTFP Planting
 - Individuals, households, legal entities, and organizations are encouraged to engage in commercial tree and NTFP planting to supply raw materials to industrial processing factories according to the policy described in Article 60 of this Law.
 - Planting trees and NTFPs shall be carried out in designated sites in accordance with the principles as described in Article 57 of this Law.
 - *For individuals, households, legal entities and organizations that intend to operate commercial tree plantations on land for which they have legal-use rights, can do so without obtaining further approval.*

This last point is somewhat ambiguous; it is unclear as to whether the exemptions refer to the enterprise approvals specified in Article 104 (and issued by MPI or MOIC, see the next section on Enterprise Registration and Operational Licenses) or to approvals associated with tree planting that would be issued by MAF.

- Article 95 Wood Processing
 - Individuals, households, legal entities and organizations are encouraged to use technology and innovation in timber processing for value addition following modern industrial practices, aimed at producing finished products that meet standards for domestic consumption and for export.
 - The establishment, expansion and relocation of timber processing factories, charcoal kilns and factories that use wood as an energy source shall require the agreement of the agriculture and forestry sector before applying for a permit from the industry and commerce sector. Such enterprises need an assured supply of raw material and should not be reliant on raw materials from natural forests.

From this, all wood processing enterprises, regardless of type or size, require agreement from MAF and a permit from MOIC, and if taken together with Article 104, possibly an application through MPI's One-Stop-Service.

There is no reference to the buying, selling or transport of wood as trees or logs (as compared to wood products which have been processed) although the Sale of Wood Products is described in Article 101 as requiring approval of the industry and commerce sector. This would therefore seem to encapsulate enterprises likely to be traders (as described in Decision No. 0777/MOIC.DIG).

Enterprise Registration and Operational Licenses

In 2018 the Prime Minister issued an Order on Improvement of Regulations and Coordination Mechanism for Doing Business in Lao PDR (No. 02/PM, 'PMO02') since when several reforms have been introduced aimed at making business procedures simpler and more efficient. In 2019, Decision No. 0023/PSO.DERM on Enterprise Registration was introduced to clarify the requirements of enterprise registration. Key elements of this decisions are:

- Registration is issued by MOIC.
- Registration is required once only in the life of a business.
- It is required by foreign and domestic enterprises.
- It clarifies the difference between enterprise Registration issued by MOIC and business licencing issued by the relevant sector.
- It differentiates (in Article 5) between activities on the "controlled list" and those not on the "controlled list". That list was issued under Decree No. 03/PM on The Approval of the Controlled Business List and Concession Activity of Lao PDR, 2019 ('PMO03' 2019):
 - activities that are not on the controlled list, follow the procedures in Article 16 of the Enterprise Law, wherein the enterprise registration officer can consider enterprise registration without seeking comment from the relevant sectors.
 - Activities that are on the controlled list should follow the procedures in accordance with the Law on Investment Promotion (No. 14/NA/2016).
 - Chapter 3 of the Law on Investment Promotion describes the formalities for business on the controlled list and requires these to submit an application through the provincial or central One Stop Service.

Under PMO03, 2019 'controlled businesses', relevant to this study are:

- Using private land of over 10 hectares for growing trees under ISIC 012, which includes Rubber but not other timber plantation tree species.
 - Plantation and forestry activities under ISIC 0210 for industrial purposes including silviculture, planting and nurseries.
 - No size limit is included and 'industrial' is not defined':
 - Plantation and harvest of planted forestry products for commercial purpose (ISIC 0230) including logging.

PMO03 also includes a list of 'concession businesses' which includes.

- rental of government land for plantations

Wood processing and manufacturing, including handicrafts, are not included in PMO03 2019, thus enterprise registration follows Article 16 of the Enterprise Law.

Decision No. 0044/MOIC.ERMD on business activities of industry and commerce licensing made in January 2019, attempted to clarify the licensing requirements for different types of activities under MOIC's areas of administration. It lists in Article 3, of specific relevance to this study, the following, that are subject to MOIC licensing requirements:

- Manufacturing of wood and of products (ISIC 16)
- Paper and paper products manufacturing (ISIC 17)
- Rubber and plastic products manufacturing (ISIC 22)
- Furniture manufacturing, including wooden furniture (ISIC 31)

The decision states that these types of processing and manufacturing all are subject to approval at the central level.

The Decision also states industry and commerce business activities not included in Article 3 are not subject to licensing requirements, as approved by Article 5 of Decision, No. 0023/MOIC.ERMD 2019. That is, they are not subject to an operating licence approved by MOIC, but they still require to register as an enterprise.

Decision No. 265/MOIC on Decentralization in Administration for Industry and Handicrafts Processing Factories made in March 2019) specifies which agencies and level has the authority to approve (and revoke) licencing of factories of different sizes:

- Industry and Handicraft Department has administrative rights and duties to issue, amend, withdraw and cancel operating licenses for large, medium and small-scale business activities administrated by MOIC and to issue, amend, withdraw and cancel enterprise registration for large scale businesses under the authority of MOIC.
- Division of Industry and Commerce at the provincial level has administrative rights and duties to issue, amend, withdraw and cancel operating licenses and approve business expansion plans in accordance with Law on Factory Management, for small and medium enterprises.
- The District Industry and Handicrafts Offices has administrative rights and duties to issue, amend, withdraw and cancel operating licensees, approve extension plans for small enterprises but not for sawmills, wood processing or furniture factories.

For plantation owners the requirements for operational licences and enterprise registration are unclear. They presently suggest that all plantation investors, except those growing Rubber on their own land in parcels less than 10 ha, require an operating licence and enterprise registration, uncles Article 104 of the Forest Law excluded them from these. Figure 13 and Figure 14 step out Enterprise Registration requirements for key components of plantation value chains.

Figure 13: Overview of Enterprise requirements

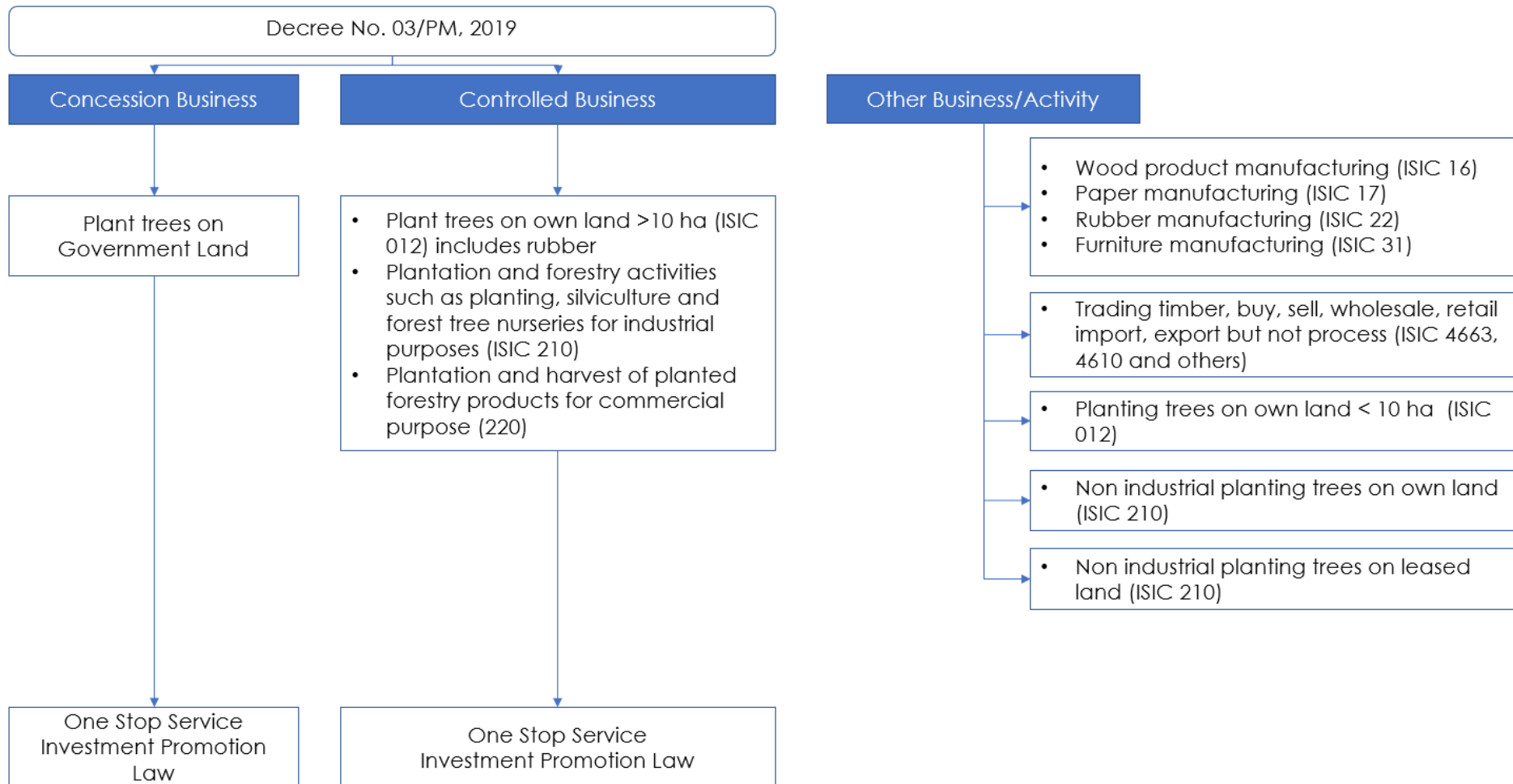
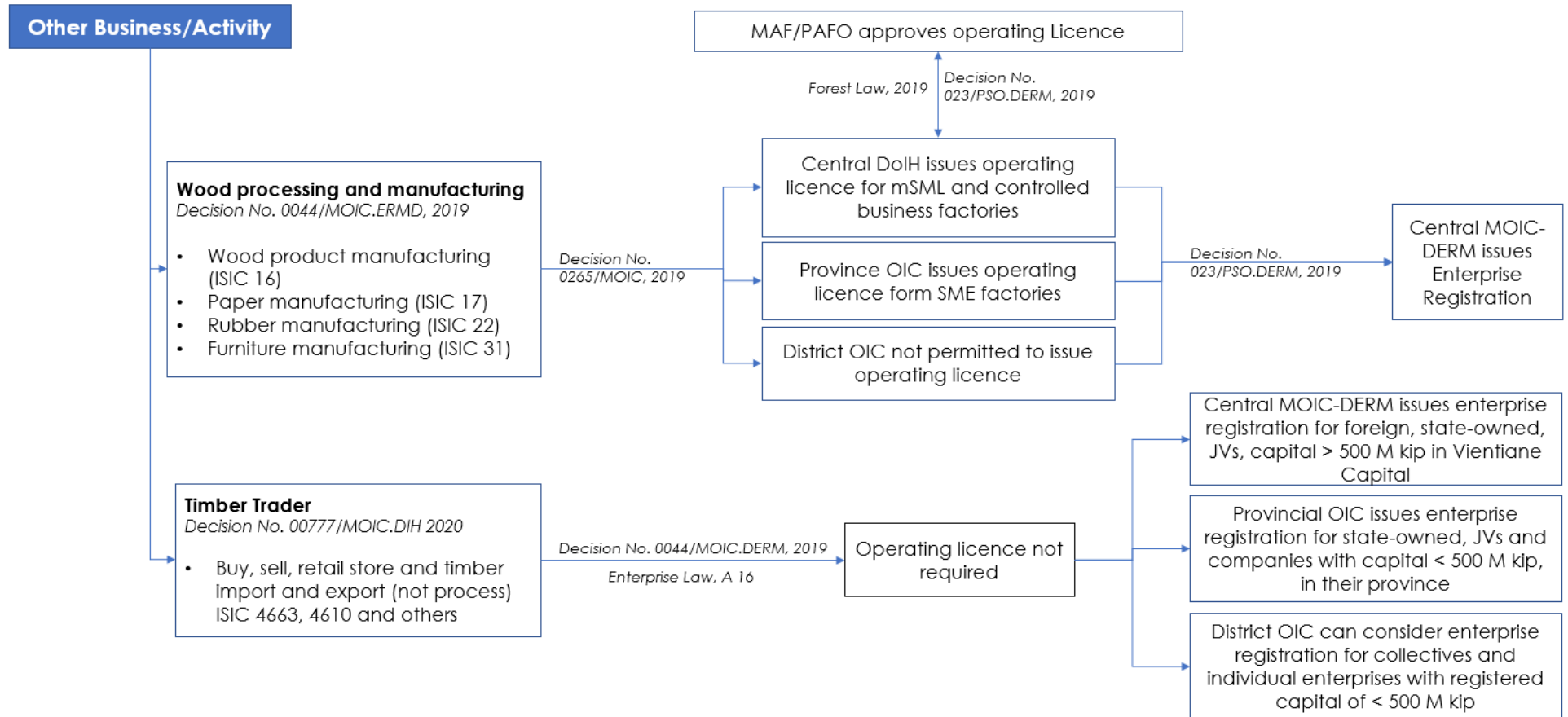


Figure 14: Other business activities - Wood processing, manufacturing and trading



Taxes

Direct and indirect taxes exist in Laos. The direct taxes are income tax including profit tax, land and property tax, environmental tax and statutory fees and service charges. Indirect taxes include value added tax, excise tax, customs duty and stamp duty.

Income/Profit tax

All individuals, legal entities and organisations, including self-employed people, who have income from business operations or from employment are obligated to have a Taxpayer Identification Number and pay income tax. The current Tax Law No. 67/NA, 2019 lowered the profit tax (PT) rate for small, medium, and large enterprises and introduced new progressive rates and larger deductions for personal income tax (PIT).

Article 9 covers Enterprises Income Tax and defines this as tax collected from net income. The types of tax on enterprise income are:

1. Profit tax;
2. Micro enterprise income tax.

Profit tax is collected from all domestic and foreign businesses, including self-employed people, whether registered or not, and is imposed on profits. The progressive rate ranges from 0-20 percent.

Micro enterprise income tax uses self-declaration and applies an exemption to those with an annual income of 50 M kip or less and for those with an income from 50 M to 400 M the rate varies based on the sector at:

- 3% for production including agriculture and industrial products.
- 4% for commerce.
- 5% for services.

Individual income tax applies to self-employed people, including those who undertake business activities such as brokerage, consulting or on-line sales. Land rental income is also subject to income tax. There is a tax-free income threshold of 1.1 M kip/month and then a progressive rate from 5%-28%.

Prime Minister's Order No. 247 on the Promotion of Tree Planting for Commercialisation, 2019, states that income tax is payable on the sale of planted trees. Thus plantation enterprises, including smallholders who sell wood to industry, are subject to income tax.

Land and property tax

Land and property tax are a monetary obligation collected from individuals, legal entities or organizations who use land and property. The current legislation on Land tax is Decree No. 01/PO 2007 on Land tax. That Decree is pursuant to the 2002 Land Law, which was repealed in 2019 by the Land Law No. 70/NA.

According to Decree No. 01/PO 2007 land tax rates for building wood processing and handicraft factories range from 8 kip/m²/year (in rural upland villages) to 180 kip/m²/year in urban areas of Vientiane.

PMO247, 2019 states that land tax exemptions apply to registered plantations but land use fees for plantations on land for which the government has approved a concession should comply with the President's Ordinances on the rate of state land lease and concession fees.

Decree No. 01/PO 2007 provides a land tax exemption for foreign residents, stateless people, and foreigners who lease state land for construction purposes.

Environmental Tax

Environmental tax is a monetary obligation collected from individuals, legal entities or organizations authorized to operate businesses, to import or use goods and natural resources in Lao PDR, which causes environmental pollution, [poses] risks [and] damages to human, animal, plant health and life and ecosystem.

Plantations are exempt from paying forest restoration and forest resources taxes.

Value Added Tax

VAT, administered under Law No. 48/NA 201, is an indirect tax which is collected on the value-added proportion of goods and services at all stages of production manufacturing and distribution to the provision of services and consumption. Inputs on purchases can be offset against outputs on sales. Individuals, legal entities and organizations that are registered as a business, with an investment license and a taxpayer identification number, are required to register for VAT, except micro enterprises which have an annual business turnover of less than LAK 400,000,000.

VAT of 10% generally applies on the following activities:

- Importation of goods and services.
- Supply of goods and services in Lao PDR by companies registered and operating a business in the VAT system.
- Export of services by companies registered and operating a business in the VAT system.

The supply and importation of certain goods and services are exempt from VAT.

Exports of goods are zero-rated, except the export of natural resources, including wood, that are not finished goods, which are subject to the 10% VAT rate.

Excise tax

Excise tax is levied on the import or domestic supply of certain goods and services ranging from 3% to 90%. The law provides some exemptions including as relevant to this study such as mechanized equipment used in production such as bulldozers, trucks and tractor-tailors. Statutory fees and service charges

Fees are direct obligations for government royalty collected from individuals, legal entities or organizations operating economic and social activities through State agencies with certification and authorization.

Service charges are direct obligations occurred from technical [and] administrative services performed by the State agencies on social non-profit activities and for administrative costs.

Fees and services charge are specified in a Presidential Ordinance on Fees and Service Charges, currently Edict No 03. PO 2012.

The Fees associated with Enterprise Registration are set out on the DERM Website (<http://www.erm.gov.la/index.php/en/registration/fees>). The cost dependent on the type and size of legal entity (Table 9).

Table 8: Enterprise Registration Fees

Legal Entity	Fee / kip
Individual enterprise	40,000
Sole Company limited	80,000
Ordinary partnership	90,000
Limited partnership	90,000
Company limited	90,000
State Company	90,000
Public Company	90,000
Mixed Company	90,000

In addition to the registration fee there is a Capital Registration Fee based on the amount of capital being invested.

Technical fees are charged for the issuing of an operating licence which are also set in Edict No: 03/P 2012, for example:

- The fee for issuing a 3 to 5 years operating licence for a processing factory ranges between 15,000 kip for a factor with a labour force from 10 to 25 people or using mechanized power not exceeding 5 horsepower, to 2 M kip for a factory with mechanised power over 5000 horsepower. The fee for a micro/household factory is 10,000 kip per year.
- The fee for issuing a business license for a logging enterprise 1M to 2 M depending on the amount of registered capital.
- The fee for a permit to operate a nursery business is 20,000 kip.

An operating licence for a tree plantation business is 20,000 to 150,000 kip depending on the registered capital.

Table 9: Capital registry fee under Edict No: 03/P 2012

Capital Investment	Fee / kip
Under 1,000,00	No charge
More than 1,000,000-10,000,000	20,000
More than 10,000,000-20,000,000	50,000
More than 20,000,000-50,000,000	100,000
More than 50,000,000-100,000,000	300,000
More than 100,000,000-400,000,000	500,000
More than 400,000,000-1,000,000,000	1,000,000
More than 1,000,000,000-10,000,000,000	2,000,000
More than 1,000,000,000-20,000,000,000	3,000,000
More than 20,000,000,000	5,000,000

Tax exemptions and Incentives

The Investment Promotion Law, article 9, provides for incentives for investment activities. Business that will be granted incentives include, *inter alia*: clean, toxic-free agriculture, planting seed production, animal breeding, industrial plantation, forestry development, protection of environment and biodiversity, activities promoting rural development and poverty reduction.

However, in order to be eligible, investments must have a value of at least two hundred million Kip; or employ at least 30 Lao skilled workers or 50 or more Lao national employees with an employment contract of at least 1 year. Investors may be eligible for periodic profit tax exemption (article 11). Enterprises that use domestic raw materials which are not natural resources for producing finished and semi-finished products for export are exempt from value-added tax, based on the Government issued list of products for export (article 12). Land rental fees for concession may be waived for up to 10 years depending on the zone in which they are located and they meet one of the forms of investment specified in article 9. Request for investment incentives should be made in the application for investment and concession.

The Law states that small and medium size businesses with investment capital and number of employees less than those specified above receive incentives according to relevant laws and regulations. However, there are few explicit exemptions within relevant regulations - such as the law on the Promotion of SMEs.

The Law on Industrial Processing states that factory operators should receive imports duty free, as well as value-added tax exemptions for machinery used in the manufacturing of processing industry.

Conclusions

The principal planted forest resources in Laos are Teak, Eucalyptus/Acacia and Rubber, each with different and heterogeneous value chains. For Teak and Rubber in particular, traders, micro and small enterprises are dominant and play important roles - without them, most smallholders would have limited market access. However, these rural entrepreneurs, and the smallholders they service are mostly operating informally and while broadly this is something the government has recognised and is working to address by easing the burden of doing business, there are still challenges.

Formality is important in terms of increasing the contribution of enterprises to government fiscal returns through taxes and charges, to bring them within reach of complying with a commitment to timber legality and to enable access to finance, markets and services. Accessing support in response to the COVID-19 pandemic has heightened the importance of being visible - informal enterprises risk missing out.

In some sectors regulatory reforms have been quick and substantial, but, as with any rapid reform processes there have been priorities, and as a result there have been omissions and mistakes. Part of the issue is that traders, micro and small enterprises and smallholders suffer an identity crisis – at least in the eyes of some policy makers and some bigger businesses. Traders are viewed as 'value grabbing' not 'value adding' and smaller wood enterprises were targeted as agents of illegal logging. Smallholders are neither 'farmers' nor 'enterprises', and they risk falling through the cracks as new policy focus shifts towards larger scale industry. As such, in policies and in practice, the place of these value chain actors is not clear, and research indicates that there is some bureaucratic inertia around including them in the reform process – the problem may just be too big to deal with the resources available.

There are real challenges for the officers who are tasked with applying and enforcing policy and regulation at the local level and who have, in some cases been inundated with new rules and procedures, and in others have been left with no clear rules to apply. For these 'street level bureaucrats' who have to make sense of policies and apply them in the local context there is evidence of 'non-application', 'cherry picking' and 'local interpretation' of the rules. Even centrally, where reforms are incorporating them the 'problem of mSMEs' and traders remains somewhat unresolved.

Current policy aims to support inclusive business by promoting integration between large and mSMEs in value chains. In practice this is unworkable unless policies recognise the value and roles of mSMEs, and in the process of integration all parties benefit. Regulations need to be fair and accessible and suitably tailored to all actors.

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