briefing note

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Towards green finance for land-based investments in Lao PDR

Summary of findings from a report on potential to improve financial systems to support small-scale, sustainable investment in agriculture and agri-food systems

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Introduction

In Lao PDR, Land-based Investments (LBIs) in agriculture and agri-food systems offer a pathway to sustainable economic growth, poverty reduction, and food security. Financing for the agricultural transition has been influenced by several country-specific factors, including a push towards export market opportunities and foreign direct investment (FDI) in line with Lao PDR's "turning land into capital" strategy. Yet there is also a consensus that the country's sectoral transformation, following the national agenda, must also prioritize inclusive economic development, environmental conservation, social equity, and transparent governance to reduce imports and promote value-added agricultural products.

Emerging international best practice on sustainable finance can provide investors and commercial ventures with the tools to better mitigate the considerable financial, legal, operational, and reputational risks associated with LBIs – including delays, disputes, legal violations, and rights abuses – that may present material risk and jeopardize financial viability. A diverse set of strategies has advanced over the past few decades to move towards responsible LBIs – from voluntary company-led initiatives, to regulations that curtail negative environmental and social externalities, including a moratorium on large-scale concessions in Lao PDR in favour of smallholder producers and various contract farming schemes. Yet nature loss and disenfranchisement of rural people have continued to increase and must be reversed as quickly as possible. One missing piece to the conversation is 'green' finance: behind every LBI is a source of capital that can be used to reward responsible investment or disincentivize harmful practices. Banking systems must pivot so that Small and Medium Enterprises (SMEs) and smallholders can access much-needed finance to grow their businesses, and to create an even playing field for investors to improve their behaviour at scale.

This briefing note, funded by the Transformative Land Investment (TLI) project, summarizes a longer report on the potential for improving financial systems to support sustainable and responsible LBIs and agri-food systems in Lao PDR. More research is needed to explore this issue in the context of other non-bank finance, such as capital markets. We invite collaborators from financial institutions, investors, governments, academia, and civil society as our community of practice works towards viable solutions.

Recommendatations

The following actions can promote more sustainable and responsible LBIs in Lao PDR:

Government-led initiatives

- **Establish clear and supportive regulatory frameworks that incentivize sustainable and responsible investments**, aligned with national green growth strategy, Environmental, Social and Governance (ESG), ASEAN Responsible Agricultural Investment (ASEAN-RAI), and TLI principles.
- **Develop a long-term vision for sustainable investment in the agri-food sector and LBIs**. Allow for flexibility to adapt policies and frameworks as the sector evolves, ensuring continued alignment with sustainable development goals.
- **Seek out new opportunities to incentivize RAI and ESG practices** through international funding mechanisms such as the Green Climate Fund.
- **Improve rural land tenure security** to the degree that farmers and villages are able to utilize land titles to secure financial services. The rights to land, forests, and other natural resources are an important foundation for many rural livelihoods; conversely, insecure tenure presents both material risk and a barrier to accessing finance.
- **Explore systems of alternate subsidies and loan options and shared responsibilities** for the agriculture and agri-food sectors. Done well, these can mitigate shocks, expand at scales that benefit smallholders without causing irreversible landscape damage, and produce goods for domestic and international markets at competitive quality and prices.
- **Prioritize non-monetary support to agri-food and SMEs**, including consultation on application procedures and financial management. Collaboration with the SMEs Fund and Microfinance Institutes (MFIs) to provide training programmes covering basic accounting, business registration and management and skills, and IT.
- **Improve financial literacy and information access** among stakeholders, including private sector investors, SMEs, farmers, production groups, and cooperatives. Information should be effectively communicated through district and provincial authorities, the Ministry of Industry and Commerce (MOIC), the Lao Farmers Network (LFN), and producer groups.
- **Foster collaboration** with international organizations, development agencies, and neighbouring countries to leverage expertise and resources thata can accelerate the adoption of sustainable investment practices.

Financial institutions

- **Develop clear responsibility criteria into lending practices**, offering preferential terms for responsible investments and requiring transparent reporting to ensure accountability and enable holistic assessment of impacts.
- **Implement robust due diligence processes that assess the environmental and social risks and impacts of potential investments**. This ensures that investments align with sustainable practices and avoid negative externalities.
- **Develop specialized financial products and services tailored to the needs of different stakeholders,** such as smallholder farmers, rural communities, and SMEs, with clear and accessible application procedures. These products should facilitate access to credit, offer favourable terms for sustainable projects, and accommodate non-traditional collateral. Group loans could serve as a valuable financial product to enhance the accessibility of smallholder farmers. Reduction of interest rates and extensions of loan terms can also incentivize small-scale actors in LBIs.
- **Enhance the capacity of staff to understand the principles of RAI and ESG to provide effective consulting services to borrowers**. Currently, the bank BCEL has initiated efforts to bolster the agricultural business expertise of its staff, which could significantly contribute to the promotion of RAI and ESG practices.
- **Expand the provision of formal financial services, particularly in rural areas**. This is crucial to supporting smallholder-led agrarian transitions, improving the health and safety of small-scale production systems, and supporting farmer-led improvements in agribusiness.
- **Provide training services or outreach programmes through cooperatives or village groups to train and encourage SMEs** to improve their financial management and accounting comprehension, thus enabling more accessible access to financial services.

Background

Agriculture and pressures on forests

In recent decades, Lao PDR has tried to capitalize its land-linked potential for economic development. However, the country faces challenges in modernizing its agricultural and forestry sectors, particularly in adopting new technologies, increasing productivity, and adopting sustainable practices. Climate change poses risks to land-based investments, affecting water availability, crop yields, and forest ecosystems. Green finance, particularly when channeled to smallholders, is needed to incentivize LBIs that work for people, nature, and climate.

Agriculture remains central to the Lao economy, and is the main livelihood activity for the predominantly rural Lao population. The sector has grown at a rate of 3% over the last decade, but its share of Gross Domestic Product (GDP) compared to extractive industries and services has fallen from 30% in 2010 to 18% in 2022. Despite this, agricultural ***exports*** grew by an average of about 23% per year, reaching over $1,400 million in 2023. Improved agricultural performance and better regional connectivity have driven commercialization and value chain development, with the Government of Laos (GoL) prioritizing increasing cash crop production as part of its broader commercialization agenda. Although both domestic and foreign investments in agriculture are trending upward, they are highly inconsistent from year to year and are dwarfed by other sectors, such as energy and minerals.

There is an untapped role for finance not only to boost investment but also to target more responsible, sustainable, and smallholder-inclusive models that bring wider benefits to the rural economy.

Approximately 64% of the population and about 94% of poor households in Lao PDR are employed in the agricultural sector, and many rely solely on agricultural income. Most farming households continue to combine some degree of production for sale with subsistence farming for home consumption. In 2022, the majority of the Lao labor force (65.5%) was rural, with nearly half (49.6%) of the employed labor force in the agricultural sector. The GoL recognizes agri-food development as an essential pathway for enhancing food security and nutrition, promoting rural development and poverty eradication. However, smallholders face barriers to commercialization and value chain development, including:

- lack of access to climate-smart technologies such as improved (drought and heat-resilient) seeds;
- low or poor use of fertilizers;
- declining soil fertility, particularly in upland areas with lack of soil conservation and over-use of agrochemicals;
- limited access to and effectiveness of farm advisory and animal health services;
- poor access to irrigation and drainage services;
- limited access to credit and capital to improve their productivity;
- threat of displacement;
- insecure land tenure.

The GoL has recognized the need for stronger policies, laws, and regulations that explicitly benefit smallholders and protect them from further marginalization, and is expected to pass a new Decree on Contract Farming in late 2024 or early 2025. Women face even greater challenges in access to markets, market information, finance, technology and other productive resources. These undermine the ability of female farmers and entrepreneurs to participate in value chains and develop their export potential. More responsible and smallholder-inclusive agricultural investments have the potential to contribute to addressing many of these challenges.

The **forest** sector in Lao PDR has undergone significant changes, largely due to pressures from commercial agriculture. The GoL set a target of 70% forest cover by 2025, but only achieved 62% by 2023. Other sources show more rapid increases in forest loss: according to Global Forest Watch (GFW), Lao PDR experienced its highest-ever rate of primary forest loss in 2023, with a 47% increase from 2022. Lao PDR ranked 6th in tropical primary forest loss in 2023, despite its small size relative to other countries, such as Indonesia and Brazil, also experiencing forest loss. The primary direct driver of deforestation in many provinces is cash crop production, and cassava has rapidly expanded on former swidden land in recent years due to perceptions of lucrative and reliable profits, as well as its ability to grow on degraded land, driving further encroachment into forests. Other drivers include hydropower, mining, infrastructure, urbanization, and resettlement. The country also remains at higher risk for illegal logging.

To address agriculture-driven deforestation, the GoL has developed new legislation, policies, and plans to promote economic development and conservation of forests through socially and environmentally sustainable management. Engaging in higher value-added production for more lucrative markets (including increasing the processing capacity) could help to steer the sector away from damaging monoculture production of primary commodities and, in doing so, ease pressure on the remaining forests. There remains a lack of clarity over forest tenure in many rural areas, including the production forests that the GoL is seeking to open for plantation investments, but which are also settled and used by thousands of rural households and communities in Laos. However, efforts are underway to recognize customary land tenure in line with the 2019 Land Law, Forest Law, and other supporting legislation. A new instruction on the recognition of land tenure in forest land was endorsed on May 31st 2024; however, further clarifications and a clear implementation mechanism are needed.

Box 1: Sources of finance for small-scale actors in the agriculture and agri-food sectors

In Lao PDR, small-scale actors can currently access finance via the following lenders. None of these mechanisms are exclusively considered 'green' finance, and they are not a panacea to structural problems that limit equitable access to capital, such as limited access to the internet and mobile phones in rural areas. Indeed, despite efforts by the GoL and support from development partners, financial institutions still fail to offer reliable and affordable products and services to smallholder farmers and SMEs. While to date they have provided invaluable financial support, they are also dwarfed by subsidies that incentivize large-scale (and often irresponsible) agricultural investment.

Banks:

Agriculture Promotion Bank (APB) remains the most critical financial provider to the agricultural sector and the primary source of credit to Lao farmers. Approximately 80% of its loan portfolio is directly to farmers and 20% is to MSMEs (Agriculture Promotion Bank, 2023). Products include small loans to SMEs, group loans (three to five farmers who assume equal responsibility over the terms of the loan), and individual loans (for which a rare 'golden' land title is required as collateral).

NAYOBY Bank (NBB) is a State-owned 'policy bank' and the second-largest provider of credit in the agriculture sector, exclusively serving officially-listed poor districts. Following structural reforms, its lending terms are extremely accommodating with no hard collateral required for group loans and low interest rates.

The SMEs Fund was established in 2010, with an initial LAK 32 billion provided by the GoL. Since 2012, approximately LAK 30 billion has been distributed to SMEs, and another LAK 200 billion committed via Decree (No. 299/GOL in 2019). The SMEs Fund extends credit through seven commercial banks with varying loan terms. Agricultural SMEs are accorded priority access but must satisfy specific criteria to qualify for loans, including business registration, membership in a cooperative or production group, and participation in training programmes (DOSMEP, 2023).

Microfinance institutions (MFIs) and **Savings & Credit Unions (SCUs)** are formally licensed non-bank lenders. The development of microfinance in Lao PDR dates to the early 1990s. By the end of 2022, the MFI sector served roughly 532,000 clients, with more than 208,000 active borrowers, and a total loan portfolio of about USD 500 million (Lao Microfinance Association, 2022). Microfinance institutions play a crucial role in rural areas by providing essential credit to farmers and agricultural SMEs in lieu of formal banking.

The **Business Assistance Facility (BAF)** does not require business registration, license, or collateral, and thus has low barriers to entry for MSMEs, including new businesses. BAF provides matching grants that reduce the cost of hiring technical advisory services, and free-of-charge basic mentoring support to help businesses identify technical advisory needs before applying for grants. Additionally, BAF can co-fund efforts to improve local, regional, and international market competitiveness. By the end of 2022, BAF had provided 250 matching grants totalling USD 1.4 million, mainly to agriculture, ICT, and hospitality sector clients (BAF, 2023)

Principles for responsible investment

New international principles can be applied to LBIs in order to prioritize responsible finance and investment practices. While non-binding, these frameworks can provide a comprehensive roadmap, precise definitions for financiers, investors, government agencies, and producers, with significant potential for application in Lao PDR.

Environmental, Social and Governance (ESG):
ESG is best understood as a framework used to assess corporate practice along three pillars that track businesses' holistic impact. ESG metrics can factor into company reporting, decision-making, and investment practice, and offer transparent insight beyond short-term or zero-sum financial performance.For responsible and profitable investment, it is critical that ESG risks and impacts are considered. Poor ESG risk management damages bottom lines, reputations, and future opportunities. Good ESG risk management can create competitive advantages while safeguarding human rights, nature, and community. For example:

- Environmental risks may include overuse of chemical inputs or negative impacts on forests, climate, and biodiversity. Mitigation measures may include Environmental and Social Impact Assessments (ESIAs), and Environmental and Social Management Plans (ESMP).
- Social risks may include lack of recognition of land tenure rights or forced displacement. Associated mitigation measures may be ensuring free, prior and informed consent (FPIC), adopting functional grievance mechanisms, and empowering marginalized groups.

ASEAN Responsible Agricultural Investment (ASEAN-RAI) is a regionally adopted framework that has sought to harmonize approaches to more responsible and inclusive agro-investments since its enactment in 2018. Based on the Principles for Responsible Investment in Agriculture endorsed by the Committee on World Food Security (CFS), they provide a roadmap for how the private and public sectors can ensure investments in any ASEAN member state are sustainable and inclusive via ten distinct principles. While every member state is committed to translating the guidelines into national-level action and policy, the guidelines remain non-binding.

Despite extensive discussions and various training on ASEAN-RAI, its application in Lao PDR remains minimal, due to a lack of awareness. This is because investors continue to prioritize economic interests over environmental and social considerations, and there is no regulatory incentive to comply – guidelines are yet to be translated into Lao law and policy – though this is slowly improving via new legislation and as Lao stakeholders develop a shared understanding of RAI.

Banking sector support for responsible land-based investments in Lao PDR

Constraints

This section draws from perspectives on access to finance amongst agriculture and agri-food producers, particularly small-scale actors, with a focus on the banking sector. Further research is needed to provide complementary insights on lenders' ***own*** constraints to support responsible land-based investment, particularly for smallholder farmers.

Agriculture is considered a high-risk sector in Lao PDR. Financial institutions, including banks and MFIs, must adhere to regulations and guidelines issued by the Bank of Lao PDR (BoL) as well as international best practices for operational and risk management. For example, they are required to submit quarterly financial reports to the BoL ensuring consistent application of Basel II standards.[1] Lenders typically apply the '5 Cs' framework for accessing borrowing risk as follows:

1. **Characteristics:** Evaluating indicators such as education, experience, and existing indebtedness, to gauge loan-seekers' credit risk.
2. **Capacity:** Ensuring borrowers have the means to repay the loan according to the proposed amount and terms. This assessment considers the borrower's current debt obligations relative to their income or revenue, often necessitating feasibility studies or business plans. For the agriculture sector, this includes borrowers' technical knowledge on production, processing and market linkages.
3. **Capital:** Evaluating borrower assets, typically land titles, vehicles, or machinery to ascertain creditworthiness.
4. **Collateral:** Provision of personal assets pledged by the borrower as security for the loan. Businesses may offer land, equipment, or accounts receivable, while individuals are more likely to offer vehicles, land, and/or homes. Urban land is often considered more acceptable than rural land as collateral.
5. **Conditions:** Terms of the loan and any economic factors that could impact the borrower, including the loan's purpose, source, amount, term, and interest rate.

Most farmers face a high level of risk according to this framework, and therefore financial institutions consider them too costly to take on as customers. This presents a significant barrier to scaling responsible land-based

1 Basel II is a set of international banking regulations established by the Basel Committee on Banking Supervision, based in Basel, Switzerland. Basel II was released in 2004, with the goal of being phased in over a series of years. [Accessed on 1/8/2024: https://www.investopedia.com/terms]

investment. It should be noted that these standards in large part do not account for ESG, which can in and of itself present material risk. Additional challenges are outlined below.

Insecure and informal land tenure

Most agrarian land in Lao PDR lacks formal title, nor has it been formally demarcated. Investing in land with disputed tenure rights presents financial risk (The Munden Project 2012; Locke et al. 2019). However, farmers and communities who steward land and forests employ longstanding systems of customary tenure, which remain vulnerable to encroachment and loss. The GoL is currently undergoing unprecedented land tenure reforms to scale statutory recognition of rights. These are largely focused on forest landscapes, including farmed land within landscapes classified as forests, and the procedure through which various tenure instruments will be codified and realized is a long and often arduous one. Until then, the absence of formal documentation of land rights, which is often required as collateral for loans (particularly in the absence of other documentation, such as a formal business license or financial statements), presents a notable challenge to smallholder farmers seeking finance for land-based investments: only 31% of residential land and 11% of farmland possess land titles that can be used as collateral for borrowing money from microfinance institutions and banks (Wongpit et al, 2018).

Lack of access to finance

A significant portion of the rural population, including farmers, have limited access to formal financial services in Lao PDR. These services include credit, affordable banking systems, social- and market-based insurance, and links to downstream supply chains. Despite efforts by the government and support from development partners, financial institutions are underrepresented in rural areas, and when available, loans are often ill-adapted to farmers' needs. A 2022 study (Wongpit and Sisengnam) analysed the accessibility of finance for rice, pig, and maize agriculture activities. Education, experience, land size, and number of workers were identified as important determinants of access to finance. Farmers with primary school education were found to have a higher chance of obtaining credit, while most farmers still had high levels of credit risk and lacked collateral, savings, and access to policies for insurance for disaster assistance. Moreover, farmers were asked to consider the specificities (conditions and calendar of production) of different farming activities (e.g., by applying different interest rates for different

Box 2: Government support to small-scale farmers in China

In China, the State apparatus plays a crucial role in providing essential services to farmers and agribusiness, with valuable lessons to be learned for other countries in creating an enabling environment for economic growth. Through farmer-friendly policies, development funding, infrastructure enhancement, and technical oversight, the government of China has successfully catalysed one of the largest agrarian transitions in modern history.

Since the 1980s, China has enacted several waves of tenure reform in both agriculture and forestland areas, devolving land ownership to collectives, then further recognizing management rights at the household level. Collectively-owned forestland and extensive pasture now comprise nearly half of the country's total land area (Rights and Resources Initiative, 2023). Secure tenure has served as a safety net for many Chinese farmers, who can choose whether to continue farming, pursue off-farm wage labour, or migrate and collect land rental fees to support other financial ventures. In Guangxi Province, for example, farmers reported a rental standard of over US$4,200 per hectare per year as of April 2024. In addition, the Government of China also provides significant tax incentives and public investment in infrastructure for agribusiness such as roads, electricity, and water; technical assistance and training, and support to the establishment and effective management of cooperatives through industry development funds.

This support extends to emergency relief, which can take the form of policy subsidies or other market mechanisms. Direct compensation in the case of force majeure losses such as climate change-fueled disasters that damage crops can take the form of cash or in-kind supplies. Agricultural insurance is a also widely-used form of support, with farmers receiving direct subsidies for purchasing crop insurance. In parts of Yunnan Province, for example, farmers pay 30% of the insurance cost while the other 70% is subsidized.

However, this degree of support is challenging to replicate in Lao PDR without significant political will, additional resources that are difficult to come by in the context of the current fiscal crisis, and an overarching service-oriented strategy that is not driven by a profit motive. Government and financial institutions in Lao PDR could therefore explore economically-feasible tax incentives and supportive policies that boost the profitability of smallholder and SME ventures.

products), and to better consider farming risks (e.g., by introducing some flexibility in the payback period for credit/loans if disease outbreaks or extreme climatic event disrupted production). Farmers were also asked whether the government could provide financial help if such incidents occurred; while this is not typical in Lao PDR, lessons can be drawn from other countries, such as China (see Box 2). Farmers and small processing units located in rural areas also face very high interest rates despite existing policies to cap interest rate spreads at 4%. Smallholder farmers also tend to lack sufficient savings to cope with financial emergencies.

While commercial banks are expanding their services, a significant portion of remote areas still lack access. Only 33% of farmers can access credit from village funds, microfinance institutions, and banks. The remaining farmers rely on informal sources such as relatives, traders, and agriculture equipment shops to borrow money.[2]
Lastly, the terms of most loans, including high-interest rates, pose a challenge for farmers, as they are often unsustainable. These conditions further limit their ability to access credit and may perpetuate their financial instability (Wongpit et al, 2018). Farmers can access credit by forming lending groups, wherein they guarantee each other's loans. This enables them to bypass the issue of having no individual collateral. Box 3 in this brief explores successful examples of cooperatives accessing finance.

Low financial literacy

Borrowers in the agriculture and agri-food sector, particularly smallholder farmers, are in need of capacity strengthening for financial management including business licensing, maintaining trading and production record, accounting, applying for credit, and building a credit history. The majority of SMEs lack formal business licenses and prefer to pay a lump sum tax rather than provide accounting reports. However, these reports serve as crucial documents for banks and MFIs to evaluate the risk of borrowers and understand their financing requirements, enabling them to customize loan products accordingly.

2 The interest rates for farmers borrowing from microfinance institutions range from 3-5% per month, whereas Nayobay Bank charges an annual interest rate of 5-6%, and APB charges 9-12% per year. Farmers who resort to borrowing from informal sources face interest rates of 5-10% per month.

Opportunities

Emerging frameworks for green finance and RAI/ESG in Land-Based Investment

On a global scale, International Finance Institutions (IFIs) have pledged US$32 trillion for climate initiatives in emerging markets by 2030, with the East Asia and Pacific region alone accounting for more than US$16 trillion (International Finance Corporation, 2024). However, the UN estimates that finance with a direct negative impact on nature is 140 times larger than private investments in nature-based solutions, exposing a daunting gap that undermines increases in green finance (UNEP 2024).

At the regional level, the **ASEAN Taxonomy for Sustainable Finance** serves as a pivotal foundation for ASEAN member states to foster green finance through initiatives fitting within national contexts. In November 2021, the first edition of the ASEAN Taxonomy was released, emphasizing climate change as its primary focus. It functions as an action plan designed to steer funding towards eligible activities, and a foundation from which member states can develop their own country-specific taxonomy across four main areas: climate change mitigation, climate change adaptation, protection of healthy ecosystems and biodiversity, and resource resilience and the transition to a circular economy.

The development of the ASEAN Taxonomy dates back to 2014, when, under the ASEAN Parliamentary Assembly (AIPA), member states unanimously agreed to establish green growth strategies and promotion centers. The bloc recognized the potential for green finance to support sustainable economic development goals, integrate the concept of sustainability into financial systems and mitigating climate- and nature-related financial risk, improve enterprises' access to funding, resources, and markets, drive policy and regulatory reforms, foster orderly system construction, and leverage technology and innovation. All activities must meet three important criteria: i) Do No Significant Harm (DNSH), to ensure that the activities in any environmental goal will not cause serious harm to other environmental goals; ii) Remedial Measures to Transition (RMT), to ensure that any serious harm is eliminated or made to be non-serious; and iii) Social Aspects (SA), to ensure that investment does not adversely impact people who live in nearby areas, or violate human or labor rights. Defining national-level Taxonomies can attract investment and ODA, form the basis for green bonds, loans, and other financial instruments, and help Lao PDR progress to net zero by 2050. It also presents a decision-making framework for investment, banks' own policies, and government regulation.

In Lao PDR, the general level of comprehension of these sources of finance, and application of responsible investing principles, is quite low.

The principles and frameworks described above, including ESG and RAI, are still in their infancy, and with international guidance becoming contextualized and customized for regional national implementation. For example, there are already several known barriers to accessing loans from IFIs: the relatively small market size of Lao PDR compared to other countries may dissuade IFIs from providing substantial loans, particularly to the agriculture sector. IFIs typically prioritize projects that offer sustainability benefits and align with ESG principles; given the status of the agriculture and forest sector in Lao PDR, it is difficult to find "responsible" investors to fund. Lao banks and MFIs have yet to incorporate RAI considerations into their criteria for offering loans or incentives. Further awareness-raising and collaboration between line ministries and BOL are necessary to establish and scale a platform to assist investors in accessing IFIs for use within the Lao market. However, there are some nascent signs of progress for green finance among key stakeholders:

The Bank of Lao PDR (BOL)

The BOL has signed a Memorandum of Understanding (MoU) with the International Finance Corporation (IFC) to establish a green finance policy framework and develop green financing products in the country. The move aims to enable the financial sector to channel financing towards climate-friendly projects to help Lao PDR achieve its goal of reducing greenhouse gas emissions by 60% by 2030 and achieving carbon-neutral status in three decades. The partnership will begin with a market readiness assessment and will focus on developing regulations and guidelines on green finance and bonds (Bank of Lao PDR, 2022). Decision No. 318/BOL aims to provide loans with a low interest rate of 5.5 percent per annum and maturity of up to six years; however, there is no specific scheme for the agriculture sector. Furthermore, the BOL has implemented a credit support scheme for SMEs, for better and faster access to finance. As of October 2021, the number of credits provided by commercial banks had reached US$1billion, as well as US$117 by non-bank financial (Bank of Lao PDR, 2022). In connection with the BOL, specific ministries and departments developed a 5-year strategic plan (2021-2025) to develop and strengthen financial institutions with a focus on development of capital markets and coordination to implement sustainable banking, and established a technical committee on ASEAN Sustainable Taxonomy research based in the office of the Securities Management Committee. A 2022 MOU with the IFC is supporting a gap analysis, creation of a strategic plan on sustainable finance, and creation of a Lao Taxonomy, with an overall aim to transition Lao markets to financial products that promote green and sustainable development. Further, the BOL is collaborating with ASEAN Central Banks to implement its strategic plan and climate targets. In the future, the BOL will need to determine incentive policies for commercial banks that align their financial portfolios with the country's climate targets.

Box 3: Case studies of cooperative access to finance

Agricultural cooperatives are not ubiquitous in Laos, and do not receive the types of government support provided, for example, in Vietnam. Yet these examples show that organizing into a cooperative or other producers' group can bolster smallholders' access to finance and subsequent growth.

Thong Mang Agricultural Cooperative (TMAC) began as an organic vegetable production group in 2015 in Vientiane capital. The group formed in response to three problems: rapid spoilage of vegetables in the market, growing demand for organic produce driven by concerns about the high use of chemical fertilizers and pesticides, and a desire among female farmers to earn more income after the harvest season. TMAC's vision is one of mutual support, self-responsibility, shared ownership, and fair benefits based on members' capacity for income and livelihood improvement. It aims to ensure production of high-quality product, access to markets, and facilitation of effective production and product distribution segments through input, equipment, and financial capital provision and contract farming with price guarantees. Initially TMAC borrowed from MFIs at high interest rates (36%) as it was unable to access State-owned banks due to their due diligence requirements including clean financial reporting, production plans, and financial statements. However, with technical and policy support, TMAC has successfully accessed capital from formal banks at 6% interest. This has, in part, contributed to the cooperative's ability to weather COVID-19-related slowdowns, reduced land availability, and shifting contract farming arrangements.

The **Jhai Coffee Farmer Cooperative (JCFC)** was founded in 2000 by farmers who exhibited exceptional skill in traditional coffee grading but struggled to realize additional value from their product. In 2004, JCFC forged an agreement with a Japanese buyer to export coffee to Japan, contingent upon the enhancement of coffee quality, and began cultivating Arabica varieties to cater to the Japanese market. As demand surged, accessing funds from the banking sector became crucial, but establishing a clear corporate identity as a precondition proved challenging. In response, JCFC sought financial support from the Lao Farmers Network (LFN), with backing from the ASEAN Farmer Organization Support Program, to secure working capital for coffee collection periods, and received a US$200,000 loan at 3% interest for six months. JCFC's membership has grown significantly, now comprising over 450 members spanning 19 villages. Funds from LFN also enabled JCFC to grow their capacity for plantation care, harvesting, processing, roasting, brewing, cupping, and packaging.

Commercial banks and capital markets

Outside the BOL, financial institutions are just beginning to explore sustainable finance instruments. For example, the Prime Minister's office has received a feasibility report and proposed committee, and finance leaders are drafting a handbook for how to issue green bonds. Some individual banks are in the preliminary stages of developing new products including green deposits, green loans, and forms of SME financing conditioned on sustainability. Further efforts are needed to align with the aforementioned Lao Taxonomy and voluntarily adopt disclosure policies for climate- and nature-related financial risk which mirror international ESG disclosure standards.

Currently, there are no enterprises to issue bonds or securities listed on the Lao stock exchange. Based on the international experience, it is crucial to have a strong bond market functioning at a certain level before green, social and sustainable bonds could be issued. This must be underpinned by laws, policies, and regulations that provide guidance to markets. Currently, Lao PDR lacks regulation for an independent auditor who can verify or certify that the investment projects that issue bonds are environmental, and social friendly enterprises.

Conclusion

Lao PDR is still in an exploratory phase for green finance, but faces new and promising opportunities to scale incentives for responsible LBIs. By creating an enabling policy environment and expanding access to new forms of capital that adhere to best practices for ESG and RAI, the Lao agriculture and agri-food sectors can create 'triple bottom line' wins. These will be wins for the country's remaining natural landscapes, farmers and other small-scale rural producers who depend on agrarian income for their livelihoods, national economic growth and food security, and future resilience to climate change.

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The Center for International Forestry Research and World Agroforestry (CIFOR-ICRAF) harnesses the power of trees, forests and agroforestry landscapes to address the most pressing global challenges of our time – biodiversity loss, climate change, food security, livelihoods and inequity. CIFOR and ICRAF are CGIAR Research Centers.

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