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Regulatory framework and policy support for certification, timber legality and sustainability in Lao PDR

Policy Note

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Green Growth Advisory Programme for Lao PDR





Cover photo is Wood processing factory in Saysetha Development Zone, Vientiane Capital. Photo credit: Dalaphone Sihanath.

Stumps and waste/unusable woods from furniture factory and the village at wood carving/engraving manufacturing microenterprise, Sayabury district, Sayabury Province. Photo credit: Dalaphone Sihanath.

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Advisory services and analytics on sustainability of Lao PDR's forests

Introduction

Lao People's Democratic Republic (Lao PDR) is in the early stages of a transition to a greener, more resilient economy. The country has embarked on an ambitious reform agenda for the forestry sector including with respect to progressing sustainable forest management (SFM). To support the reform process and raise complementary public and credible private investment in forestry, the Government of Lao PDR (GoL) and the World Bank Group (WBG) have together engaged in the Advisory Services and Analytics (ASA) on Sustainability of Lao PDR's Forests to enhance understanding and implementation of SFM. This policy note summarises the results of one of the six technical background reports under the ASA which focused on the policies and supporting regulatory framework for timber legality assurance, certification and partnerships in the forest sector.

The need for verified legal and sustainable forest products is increasing as prerequisites for access to more astute markets capable of paying higher prices. To participate, Lao PDR will need clear and supportive regulations to keep pace with these new market opportunities. The GoL and the forest and wood products industry must work together to create the right policy environment and implement this in a stepwise approach using the range of available tools - timber legality, forest certification, supply chain control, chain of custody certification, and the formation of groups and partnerships that bring in people as active participants and beneficiaries. These need to be proactively communicated to send a clear signal to market.

Timber Legality Assurance

The GoL has already made significant progress towards improving the legal framework for forests and timber through: reforming the Forestry Law (promulgated in July 2019); issuing and implementing Prime Minister Order No. 15 (POM15) to strengthen the strictness of management of timber harvesting and inspection of timber transport and businesses; introducing new and improved supporting regulations for key issues including the export of wood products and the management of confiscated timber; and working towards a negotiated Voluntary Partnership Agreement (VPA) and Timber Legality Assurance System (TLAS) with the European Union (EU). With support from the WBG a Ministerial Instruction on Timber Legality Assurance was issued in 2018.

More can be done for the assurance of the legality of forest products including:

- Supporting dissemination of the new Forestry Law (2019) and supporting the development of implementation guidelines and other operational documents to fully implement the law.
- Ratifying the VPA and developing the TLAS.
- Increasing enforcement of high-risk areas and products.
- Systematically managing, monitoring and reviewing regulations, including across and between sectors.
- Improving guidance for wood sales and royalty management through auctions, and more efficient revenue collection and management systems.
- Developing policies and regulations that are supportive of micro, small and medium enterprises and smallholders.
- Developing and enforcing clear regulations for timber salvaged from infrastructure areas.
- Developing enabling and fair policies for the use of forest products harvested from village use forests.



Teak logs from plantation at Finger-joined lumbers and boards processing factory, Xieng Ngeun District, Luangprabang Province.
Photo credit: Dalaphone Sihanath.

Forest Management Certification

Forest management certification has had limited success in the past in Lao PDR, and the regional dominance of markets that have not demanded legal or certified wood products has enabled the status quo. As markets transform to become more discerning, the Lao forest industry will need to change in order to compete. Forest management certification, in addition to timber legality may be required.

While there are no explicit regulatory barriers to forest management certification as a voluntary mechanism, there are some aspects of Lao PDR's legal framework that are inconsistent with certification standards or that make the attainment of certification difficult. The following is needed:

- For all forests, a comprehensive umbrella policy on SFM linked to supporting regulations that incorporate the diversity of options for forests and trees across the landscape, recognising their various uses and contributions – including protection, conservation, production, livelihoods and risk mitigation. A forestry law that requires and facilitates SFM must be supported by good quality information.



Forest landscape in Hinboun district, Khammuan province. Photo credit: Phoonsab Thevongsa.

- For State managed Production Forest Areas, a clear policy statement on certification and a national standard, that builds on and is complementary to the TLAS.
- For plantation companies, clarification of land access options and land use rights, and the provision of accurate and relevant information to support land allocation decisions. Clear requirements for environmental and social protection measures.
- For plantation smallholders and village use forests, clarification of land access options and land use rights. Simplified regulations and certification standards commensurate with the scale, impacts and risk of production are needed.

Chain-of-Custody Certification

In order to improve market access, Lao forest products will need to demonstrate supply chain control and may need chain-of-custody certification. However, current regulations that focus on the collection of taxes and fees discourage full disclosure. The absence of legal timber or forest management certification has also constrained industry interest in chain-of-custody certification.

The wood products industry, which is dominated by micro, small and medium enterprises is starting from a low base, with limited business skills, particularly in product inventory management (input-output). Awareness of the potential gains from good practices - improving production efficiency, increasing product quality and market access is limited. Policy measures and incentives that change and reward good business practices are needed.

- For all wood processors, incentives to encourage compliance with the Law on Enterprise and the Law on Industrial Processing, and supporting regulations.
- Clear policies that recognise the role of micro-, small- and medium-enterprises and traders.
- Regulations and guidance on supply chain control that are already being developed should be trialled with a range of enterprises of different sizes and products before finalisation. These should be simple, easy to comply with and enforce. Demonstration and training with recognised accreditation should be provided through existing facilities, such as the National University of Laos' wood processing facility.
- For wood from State managed Production Forest Areas, salvage logging and confiscated timber, improved regulations on sales (auctioning) processes, including



Female daily workers sanding wooden chair frame before painting at wood processing factory, Xaythani district, Vientiane Capital. Photo credit: Dalaphone Sihanath.

improved systems to record wood volumes and species are needed.

- For plantation wood enterprises, revision to the regulations on wood products to enable innovation and facilitate trade and export.

Forest Grower Groups

Group certification is promoted as a means to reduce the financial and administrative burden of certification on individuals and to increase their market bargaining power. It allows multiple forest owners to become certified as a single group and share the financial costs and benefits arising from obtaining certification. Past efforts to support group formation in the forest sector in Lao PDR have had limited success compared to the agriculture sector. Opportunities do exist to facilitate the development of groups based on smallholder plantations, however the development of specific regulations and guidelines with appropriate incentives is needed. Procedures for establishing, registering and managing groups will need to be efficient, straightforward and inexpensive.

- With sufficient guidance, grower groups may be enabled to perform some administrative functions, such as plantation registration or harvesting approvals, that could reduce costs, increase efficiency and incentivise compliance with these regulatory requirements. Improved regulatory compliance will enhance the opportunity to achieve certification.
- The promotion of micro and small enterprises could enhance the feasibility of grower groups through stronger value chains. Inter-ministerial agreements are needed to create the policy environment for groups to thrive.
- Increased efforts should be made to establish linked value chains between growers, grower groups and responsible companies that will share the costs or and responsibilities for certification.



People planting tree in Hinherb district, Vientiane province. Photo credit: Phoosab Thevongsa.

Public Private People Partnerships

The GoL has recognised the importance of public-private partnerships (PPPs) as a tool in promoting joint delivery of public goods, infrastructure and services, ensuring social benefits with sustainability, transparency and accountability principles. A conceptual framework and road map for PPPs has been developed and a decree drafted. While partnerships present a real opportunity for SFM through restoration of degraded forestland and improved governance of forests across the landscape, the potential for this is not well understood.

- Frameworks for PPPs need to consider the role of people (e.g. individuals, communities or groups) as active participants or direct beneficiaries; public-private-people partnerships (PPPPs) can take many forms.
- Investments in the national park and protected area system could be strengthened by diversifying revenue into each reserve, including the establishment of sustainably managed private conservation and Nature Based-Tourism (NBT) concessions.
- For PPPPs to be effective, there needs to be an adequate legal and institutional framework in place with dedicated legislation, clearly defined institutional roles and mandates, implementing guidelines and procedures, template contracts and documentation as well as procedures to assess value for money, impacts and benefit distribution.
- Open, fair and transparent mechanisms for mediation, dispute mediation and conflict resolution will be essential.
- There is a need to consider modalities for cooperation, land-use and tree ownership rights, harvesting transport, processing and marketing rights, social and environmental standards, risk mitigation measures and cost-revenue sharing.



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