

chains. The two other components relating to **fostering responsible private investment in agriculture and forestry and to improving trade and transport connectivity** with EFIs, are currently being identified, and separate funding has been reserved in the 2021-2024 Multi-annual Indicative Programme for Lao PDR to that effect. The support to private sector investment will be provided through a **guarantee** from an EU Financing Institution providing loan(s) to private sector development in green sectors in Laos (selected through EFSD+ call for proposal). The support to connectivity is expected to contribute, **through an EFSD+ blending operation**, to the Southeast Asia Regional Economic Corridor and Connectivity (SEARECC) programme led by the World Bank for road rehabilitation in Lao PDR. It is complemented by the KfW-led rural road programmes 3 & 4 with targeted intervention in the north and central Lao PDR. A comprehensive action plan covering all EFSD+ budgetary guarantees and the financing decision for the entire annual commitment under the EFSD+ budget line will be adopted separately.

TICAF will also benefit from EU-funded support to Technical and Vocational Education and Training (TVET) in agriculture and forestry, decided as part of the Annual Action Plan 2022 in support of Lao PDR (AAP 2022), that is considered as an enabler.

Synergies/coordination between parts of or the whole of this action will be sought with actions at regional level, including the Green and Sustainable Connectivity Global Gateway Team Europe Initiatives for ASEAN, as appropriate.

## 2 RATIONALE

### 2.1 Context

***Agriculture and Forestry:*** Agriculture is a pillar of the national economy, accounting for more than 25% of the gross domestic product (GDP) for the Lao People's Democratic Republic (Lao PDR). Still today more than 70% of the population works in the agricultural sector. Forests and respective forest-based value chains are interlinked with agriculture and contribute significantly to rural livelihoods. The agricultural sector has been feminised for decades, with women comprising just over 50% of the population economically active in agriculture. Women slightly outnumber men in the agriculture, forestry, and fishing workforce: 51.3% of the work force are women, compared to 48.7% men. However, this high level of women's involvement is not a reliable indicator of women's empowerment in agriculture. Also, the majority of child labourers (90%) work in agriculture, forestry or fishing. Out of the working children engaged in the agriculture sector, 55% are girls and 45% are boys, mirroring the overall child workforce gender demographics (FAO 2018, Country Gender Assessment of Agriculture and the rural sector in the Lao PDR).

***Coffee sector.*** In this context, Coffee is one of the main Lao agricultural exports generating substantial cash income to farmers. The coffee is mainly exported to European Union, Vietnam, Japan, China, Korea, USA, others. Coffee cultivation is spreading in the northern regions including forest land. There are differences in the choice of permanent crops, with female-headed households growing the most coffee (29% of households – FAO, 2018). The coffee sector supports more than 20,000 producers and employs more than 300,000 people. Tea could have the same positive impacts if properly promoted. Lao PDR produces two main types of coffee: Robusta and Arabica. The Bolaven Plateau in the South is the historical and main coffee-producing area, representing 95% of the national production. National production is estimated at 33,000 tons of coffee cherries per year. In recent years, coffee cultivation has spread in the northern regions of the country. After several years of low coffee prices, the price is now conducive for farmers to engage in that cultivation. There is a promising market opportunity for the Lao coffee sector, as the local and regional demand for coffee are increasing. Moreover, the global demand for high-grade specialty coffee and/or “sustainable” coffee is rising fast. This importance of quality production is clearly recognized and pushed forward by the Lao government and the Lao coffee strategy. Producer organizations, organic certification and fair trade certification are also important lever to improve significantly the profitability for smallholder coffee producers, as successfully demonstrated by the Coffee Producers' Cooperative (CPC) experience on Bolaven plateau area, with a long and continuous support from AFD. To mitigate the risk of increased pressure on natural resources, the project will privilege promoting renewal of old plantations or the use of already degraded land rather than opening new areas, in line with the new EU Deforestation Regulation.

***Tea sector.*** In 2016 according to the Lao Statistics Bureau, approximately 4,200 ha of tea was harvested in Phongsaly, Oudomxay, Huaphanh, Luang Prabang and Champasak provinces with a production of 7,300 of fresh