

leaves. Phongsaly represents 75% of the total production of the country. Tea production is reliant on rural tea communities, the majority of which are ethnic minorities and many women are involved in the sector. The Lao tea Sector has significant potential to grow and contribute further to the development of the local economy. Yet to-date, the sector has been unable to fully capitalize on these comparative advantages. Tea from Northern Lao PDR is recognized for its quality and unique varieties, and has therefore been identified by the Lao government as a niche crop with high potential to promote local and inclusive economic growth in the country. The Lao government and its partners have been promoting higher value and better quality tea, which lead to the registration of two geographical indications for tea in Lao PDR (Paksong tea and Komaen tea), while contributing to land restoration.

Forestry. Forests cover 14.7 million ha (62%) of the land area. The Lao PDR has lost 1.4 million ha (8.6%) of natural forests since 1990. The main cause for deforestation is conversion of forests to subsistence and commercial agriculture, mainly done in form of shifting cultivation, which represents about 80% of deforestation. In addition, forests have been degraded due to shortened rotation circles in shifting cultivation and illegal/unsustainable logging practices. The past economic development in the Lao PDR was greatly dependent on the exploitation of natural forests. In the 1990's, forestry contributed almost 10% to the GDP and log exports from natural forests represented one third of the country's export earnings. Over the past decade, however, the forest sector contribution to the GDP decreased to 3 to 4%, due to forest degradation, the logging ban to protect natural forests, and growth in other sectors. Total wood production in 2021 was estimated at 7.1 million m³, 80% of which was fuelwood and the remaining 20% industrial wood, sourced mostly from plantations. This is far from supplying locally based industry. The engagement of Lao authorities in the Forest Law Enforcement, Governance, and Trade (FLEGT) Voluntary Partnership Agreement (VPA) with the EU is an opportunity to improve forest governance, and includes the development of a national Timber Legality Assurance System, that needs to be finalised and implemented. Forests are still critical for the poverty-stricken rural population representing two-thirds of the Lao population. They provide fuelwood (80% of rural energy consumption), food, fibres, and medicine. Non-timber forest products (NTFPs) from natural forests and plantations contribute significantly to rural populations' income. Forests are also critical for adaptation to climate change and disaster risk reduction, as well as for fresh water management and watersheds, hydropower being the country's most important energy source. There is an opportunity to develop sustainable forest-based value chains and, at the same time, restore and conserve natural forests and benefit local communities. Smallholders can be engaged in development of planted forests and restoration of the natural forests providing positive impacts for biodiversity conservation and ecological benefits at the landscape level; MSMEs can scale up with better access to markets and larger companies can partner with smallholders and MSMEs. This development path requires better governance, improvement of skills and capacities, new products, and applications, as well as appropriate financing.

Food & Nutrition Security: While poverty had declined significantly in the pre-Covid-19 period, the country is now facing the cumulative effects of the pandemic and international inflationary pressures. As a result, malnutrition remains a serious public concern reflecting, among other factors, low dietary diversity. In fact, approximately 60% of household diets consist of rice, mostly glutinous and consume limited sources of other nutrients to fulfil normal requirements (FAO, 2021). In 2017, 33% of children under five were stunted (JME, 2017), and only 36% of children under 2 years reached the Minimum Dietary Diversity (UNICEF, 2017). In addition, 40% of women of reproductive age suffered of anaemia and only 32% reached the Minimum Dietary Diversity (NNSPA, 2020). Although a range of nutritious foods are available, household access to such foods is changing due to decreasing access to land and forests, and shifts in agricultural production towards export crops, and loss of biodiversity. This situation is combined with an increased vulnerability of local communities to climate and other natural hazard risks. In addition, high inflation is eroding the purchasing power of households. In 2022 food price inflation reached 39 %. Two-thirds of households have cut spending on health and education, reduced food consumption, switched to cheaper food options or foraging. These coping strategies are deemed detrimental to long-term human capital development.