Lao PDR

Country program document for EIF Phase Three

"Promoting Trade, Investment and Inclusive Handicraft Value Chain Development in Lao PDR"

Version and date: Final version, 23 July 2026

Summary page

Subtitle	Lao PDR Trade and Industry Development Program Document
Grant recipient entity	Ministry of Industry and Commerce (MOIC)
IP	NIU, PSO, MOIC
Sub-IP(s)	Specify name of sub-IP(s), where relevant.
Duration	August 2026 to December 2030
Total cost and sources of funding	The CPD seeks EIF Trust Fund support complemented by government in-kind contributions, co-financing from non-EIF donors, and private sector lead firm contributions.
2. EIF TF	breakdown between: - Funding Facility 1: USD658,050 - Funding Facility 2: USD2,569,200
3. Government financial counterpart contribution	None
4. Government in-kind counterpart contribution	Provide a financial estimation of the expected government in-kind/cash Contribution of USD236,010 from MOIC and provincial departments.
5. Co-funding from PS lead firms, and other TRTA	1) Non-EIF TRTA co-financing research, studies, regulatory reforms and workshops is expected at USD269,700. 2) Local chambers' contribution to 2.1 subcomponent is estimated at USD24,000, and private sector lead firms' contribution to 2.2 subcomponent is expected at USD393,615.
1) Beneficiaries	1) Rural artisan producers predominantly women; 2) Home textile handicraft exporters; 3) SMEs, domestic and foreign investors from non-resource sectors; 4) Business membership organizations, particularly LNCCI and PCCIs; 5) Government agencies from central and provincial level involved in trade, investment climate, and trade facilitation activities, as well as ODA funded trade and industry development programs in the country.
Endorsement	Endorsed by Project Review Committee on May 15, 2026, and National EIF Focal Point on June 22, 2026 Dr. Manothong Vongsay, Deputy Minister, MOIC

Submission	Submitted by the NIU on June 22, 2026
Contact person	Mr. Sengphanomchone Inthasane, Deputy Permanent Secretary, PSO, MOIC - responsible for coordinating the CPD implementation and Ms. Nitnida Phongsavath, NIU Coordinator. Emails: Sengphanomchone.i@Laomoic.org and Nitnida.p@Laomoic.org

Contents

List of Acronym

AfT	Aid for Trade
ASEAN	Association of Southeast Asian Nations
BOT	Build-Operate-Transfer
CBAM	Carbon Border Adjustment Mechanism
CoO	Certificate of Origin
CPD	Country Program Document
CQS	Consultant's Qualification Selection
CSDDD	Corporate Sustainability Due Diligence Directive
DEI	Diversity, Equity, and Inclusion
EDL	Electricity Du Laos
EIF	Enhanced Integrated Framework
ES	Executive Secretariat
ESG	Environment, Social and Governance
EUDD	EU Corporate Due Diligence and Corporate Accountability Directive
FYP	Five-year Plan
GI	Geographical Indication
GEDSI	Gender, Environment, Diversity, Social Inclusion
GMP	God Manufacturing Practice
HACCP	Hazard Analysis and Critical Control Point
IC	Individual Consultant
ICB	International Competitive Bid
ICSID	International Center for Settlements of Investment Disputes
IP	Intellectual Property
LBF	Lao Business Forum
LCS	Least Cost Selection
LCTP	Lao Competitiveness and Trade Project
LDC	Least Developed Country
LNCCI	Lao National Chamber of Commerce and Industry
LPPD	Local Public Private Dialogue
MEL	Monitoring, Evaluation, and Learning
MOIC	Ministry of Industry and Commerce
MOU	Memorandum of Understanding
MSME	Micro, Small, and Medium Enterprise
NCB	National Competitive Bid
NIU	National Implementation Unit
NSEDP	National Social Economic Development Plan
NTM	Non-Tariff Measures
PAM	Prioritized Action Matrix
PCM	Project Cycle Management
PEC	Program Executive Committee
POIC	Provincial Office of Industry and Commerce
PPA	Power Purchase Agreement
PPD	Public Private Dialogue

PPP	Public Private Partnership
PRC	Project Review Committee
PSD	Private Sector Development
PSO	Permanent Secretary Office
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RCEP	Regional Comprehensive Economic Partnership
SEZ	Special Economic Zone
SOE	State Owned Enterprise
SPS	Sanitary and Phytosanitary Measures
SSS	Single Source Selection
TOC	Theory of Change
TPSWG	Trade Private Sector Working Group
TRIPS	Trade-Related Aspects of Intellectual Property Rights
VfM	Value for Money

Executive summary

1. Overview and Development Challenge

Lao PDR is at a critical juncture. Following a period of macroeconomic stabilization, the country faces deep-rooted structural challenges that hinder its transition from recovery to sustainable, equitable growth. Key challenges include unsustainable public debt, a pattern of "jobless growth" dominated by capital-intensive natural resource sectors, a small and uncompetitive manufacturing base, and a complex business environment that constrains the Micro, Small, and Medium Enterprises (MSMEs) that form the backbone of the economy.

These challenges are compounded by the country's impending graduation from Least Developed Country (LDC) status in 2026, which will result in the loss of critical preferential trade access. To navigate this transition and achieve its goal of Upper-Middle-Income status by 2035, the Government of Lao PDR has outlined an ambitious strategy in its 10th National Socio-Economic Development Plan (NSEDP) and the Ministry of Industry and Commerce's (MOIC) Five-Year Plan (2026-2030). This strategy is built on three interconnected strategic outcomes: advancing industrial development, increasing trade and market access, and promoting private sector development.

2. Program Rationale and Theory of Change

The proposed Country Program Document (CPD) operationalizes the government's strategic priorities by focusing on two catalytic intervention points derived from a detailed analysis of the MOIC's Prioritized Action Matrix (PAM) and support gaps identified through mapping of ongoing and pipeline initiatives.

The program's Theory of Change posits that:

If:

- (1a) policy dialogue and aid coordination structures are strengthened to effectively govern and coordinate trade-related technical assistance;
- (1b) key regulatory and administrative bottlenecks affecting trade and investment in selected value chains are addressed at both national and local levels;
- (1c) evidence-based policy recommendations eliminate market bottlenecks at both national and provincial levels;
- (1d) institutional capacity in investment promotion enhanced;

And if:

- Rural craft producers are integrated into high value networks through structured partnerships with lead commercial firms;

Then: Lao PDR will achieve an improved trade, business, and investment environment that fosters inclusive, resilient local economic growth.

3. Program Components

To achieve its objective, the program is structured into three distinct yet mutually reenforcing levels: National Policy Integration (Component 1), Provincial Investment Climate Facilitation (Component 2), and Grassroots Value Chain Upgrading (Component 3).

Component 1: Improved governance, coordination, and implementation effectiveness of trade and investment policy frameworks in Laos (USD770,050, including USD255,000 co-financing from DPs and government). This component aligns closely with the PAM to further enhance the trade and business enabling environment, particularly priorities under pillars 2 and 3. Key strategies include improving government effectiveness in removing trade and investment bottlenecks through establishing formal link between the two well established but historically siloed consultation mechanisms: the Lao Business Forum (LBF), managed by LNCCI, which functions as a micro-level operational sensor for private complaints; and Trade and Private Sector Working Group (TPSWG), chaired by MOIC, which acts as a macro-level policy coordination and development partner alignment engine. .

- *Sub-component 1.1: Strengthened multi-stakeholder dialogue and coordination mechanisms for trade and investment policy.* This subcomponent will establish a formal, predictable operational link between LNCCI (LBF Secretariat) and MOIC (TPSWG Secretariat). Unresolved inter-ministerial gridlocks at the LBF will automatically trigger escalation paths into the TPSWG framework. This is to ensure that field data drives the national policy agenda, and donor assistance directly funds structural solutions.

  This subcomponent will also provide funding to the PSO/NIU and LNCCI in its capacity as secretariat to TPSWG and LBFC to undertake economic analysis that would lead to improved and evidence-based policy making.

  Additionally, the sub-component will provide targeted technical inputs to line Ministries tasked with LBF escalated actions and conduct public private review workshops for draft trade and investment regulations.

- *Sub-Component 1.2 Enhanced institutional capacity for results-based management and coordinated implementation of trade-related programs.* This subcomponent will support review and improvement of existing program coordination and implementation under Program Executive Committee (PEC) and Project Review Committee (PRC) to improve effectiveness of PEC in providing strategic advice, coordination, and common operational guidelines for the implementation of trade and industry -related programs and projects in Lao PDR, and PRC in providing platform for discussing and finalizing annual and semi-annual project implementation reports and detailed work plans for PEC review and endorsement. This will be complemented by comprehensive capacity building program in result-based project cycle management for at least 50 officials.

Component 2: Strengthened investment promotion and facilitation systems at national and subnational levels, and local business environment through LPPD. (USD576,640, including 74,700) This component supports priorities for promoting efficiency seeking investment in non-resource sectors through enhancing investment promotion and facilitation to attract new investment into the non-resource sectors and addressing investment climate constraints through institutionalizing public private dialogue to address investment constraints defined under pillar 3 of the PAM. The component aims to promote private investment, including FDIs through implementing targeted investment promotion action plan and establishment of specialized investment promotion unit within MOIC and provincial offices, and identify and address investment climate constraints through institutionalized PPD mechanisms in six target provinces.

- *Sub-component 2.1: Strengthened investment promotion and facilitation systems at national and subnational levels.* This subcomponent aims to promote private investment, including FDIs through two inter-related interventions:

    1) Development of targeted trade and investment promotion plan. The plan aims to provide basic information on potential investment opportunities in Lao PDR focusing on agro-based processing industry, general labor-intensive export-oriented manufacturing industry, energy intensive sector, textile handicraft, tourism, e-commerce and others. In addition, it aims to promote sustainable and responsible investment, with a core focus on sustainable tourism, clean production, and strengthening industrial linkages. A particular emphasis will be placed on enhancing backward linkages between handicrafts (notably silk and cotton) and organic agricultural products, connecting them directly to the tourism sector to ensure that tourism growth generates tangible benefits for these local industries.

    2) Establishment of new trade and investment promotion unit within the Ministry of Industry and Commerce and six provincial offices and develop institutional capacity in fostering a private sector culture, implementing internal system, accumulating deep business knowledge, and developing information gateway.

- *Sub-component 2.2: Sub-component 2.1: Institutionalized public-private dialogue (PPD) mechanisms to identify and address investment and trade constraints.* This sub-component will institutionalize PPD mechanisms in the six target provinces, creating a structured forum for local government and the private sector to collaboratively identify and resolve regulatory bottlenecks. It aims to build the capacity of provincial chambers of commerce and industry to act as effective secretariats for these dialogues.

Component 3: Local economic development promoted through inclusive textile handicraft value chain development (USD2,069,075, including expected co-financing of USD393,615 from *participating lead firms and local chambers of commerce from six target provinces).* This component will promote private investment in six target provinces of northern Lao PDR by improving the local business environment through structured PPD and supporting the integration of rural household handicraft producers into high-value chains. This will be achieved by promoting the formation of business partnerships between successful producers/exporters and target village handicraft producer groups in the northern region.

Interventions under component 3 aims to improve market linkages, productivity, and export capacity of artisanal and producer groups through inclusive business models. Building on the success of a previous EIF project, this sub-component will promote private investment in the local economy by supporting the integration of at least 540 rural household enterprises into regional value chains through an innovative public-private partnership (PPP) model linking rural artisan craft producers with lead firms/exporters. Using a structured four-phase approach (Foundation, Partnership Structuring, Operationalization, and Sustainability), the program will broker inclusive business agreements, provide targeted skills training, and facilitate market access. The goal is not only to improve market access but also to stimulate targeted investment and value chain upgrading of the traditional handicraft sector, transforming traditional crafts into sustainable, income-generating enterprises for disadvantaged rural households.

Program Management and Operations (USD734,810, including government co-financing of USD 200,010). This component will support the NIU, six target provincial offices of industry and commerce, and six provincial chambers of commerce in performing their technical, fiduciary, and administrative oversight, ensuring effective coordination, financial management, monitoring, evaluation and learning, stakeholder engagement, communications, and reporting.

4. Implementation and Governance

The program will be implemented under the established Aid for Trade governance framework in Lao PDR. The NIU within the MOIC's Permanent Secretary Office will serve as the core implementing unit. Overall policy direction will be provided by the PEC, chaired by the Minister of MOIC, while the PRC will provide technical oversight. The TPSWG will ensure policy alignment and stakeholder engagement. The EIF Executive Secretariat and Trust Fund Manager (UNOPS) will provide fiduciary oversight and technical implementation support.

5. Cross-Cutting Priorities and Sustainability

Mainstreaming Diversity, Equity, and Inclusion (DEI) and youth employment - including gender, ethnicity (specifically Mon-Khmer and Hmong-Mien groups in Northern Laos), disability, youth employment and environmental sustainability - is not just a cross-cutting requirement; it is a critical success factor for the sustainability of this program.

The program will mainstream GEDSI actions across both components, including mandating diverse representation in sector policy dialogue, PPD structures, weighing "inclusiveness" and leveraging digitalization in lead firm selection, developing inclusive business plans, and adapting training materials and delivery to reach women, ethnic minorities (Hmong and Khmu), low-literacy populations, youth and people with disability.

Sustainability is embedded from the start, with a four-pillar strategy focusing on:

1. Institutional: Embedding capacity within existing government structures (PEC, PRC, NIU).
2. Economic: Structuring business partnerships to evolve into normal commercial relationships with shared ownership and co-investment.
3. Social: Empowering marginalized groups through accessible training and permanent representation in local governance.
4. Knowledge and Financial: Strengthening financial management systems and systematically capturing lessons for future programs.

6. Budget and Funding Request

The total cost of the program is USD3,891,475, of which USD3,377,275 is requested from the EIF Trust Fund. This will be complemented by USD276,700 from private sector partners (lead firms), in-kind contributions of up to USD77,500 from central and local government implementing agencies and partners, and co-financing from potential non-EIF funding of USD160,000.

The program's design ensures value for money by adhering to principles of economy, efficiency, effectiveness, and equity, ensuring that every intervention delivers optimal development outcomes. It also maximizes use of national consultants and service providers as a performance strategy that delivers higher quality outputs, faster, at lower cost, while building stronger local institutions.

In conclusion, this CPD represents a strategic investment in Lao PDR's institutional capacity to implement targeted business and investment environment reforms and upgrading of productive capabilities at grass root level. By strengthening the policy dialogue and governance of trade assistance and directly empowering local businesses, the program will provide a practical development model and catalyst for the country's journey towards sustainable, inclusive, and resilient economic growth in the post-LDC era.

I. Country Context and Strategic Rationale

Lao PDR has made significant strides in stabilizing its economy following the severe shocks of the COVID-19 pandemic and the subsequent macroeconomic difficulties. Supportive external conditions and domestic policy tightening helped reduce inflation from a peak of over 30% to 7.7% in 2025 and rebuild international reserves.[1] However, this stabilization remains fragile, and the country confronts deep-rooted structural challenges that hinder a transition from recovery to sustainable, equitable growth.

- Macroeconomic Vulnerabilities: Despite progress, public debt remains unsustainable and vulnerabilities persist. High external debt-service obligations and low foreign currency reserves limit fiscal space for critical investments.[2] Medium term growth is constrained by labor outmigration and weak productivity growth.[3]

- Structural Transformation and "Jobless Growth": The economy has long been dominated by capital-intensive natural resource sectors (mining and hydropower). While these sectors drive GDP, they create few jobs.[4] The manufacturing sector remains small and lacks competitiveness, while a large informal sector and subsistence agriculture employs most of the workforce but offer low productivity.[5]

- Human Capital and Business Environment: Significant gaps in human development, governance, and business regulation compared to upper-middle-income countries (UMICs) constrain productivity and private investment.[6] MSMEs, which form the backbone of the economy, face a complex regulatory environment, restricted access to finance, and a persistent skills mismatch in the labor market.[7]

- LDC Graduation and External Shifts: Lao PDR is on track of graduating from Least Developed Country (LDC) status in 2026. This requires navigating the loss of preferential trade access (e.g., the EU's "Everything But Arms" scheme) and necessitates deeper integration into global markets through new trade frameworks. Simultaneously, global trends like the EU's Carbon Border Adjustment Mechanism (CBAM) and new deforestation regulations demand a rapid shift towards green and compliant production.

To overcome these challenges and achieve its goal of Upper-Middle-Income status by 2035, the government's 10th National Socio-Economic Development Plan (NSEDP) for 2026-2030 shifts focus toward building an independent and self-reliant economy by prioritizing "four breakthroughs": strengthening public governance through digital transformation, advancing

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[1] *Lao PDR: 2025 Article IV Consultation - Staff Report; and Statement by the IMF Executive Board*
[2] *Lao PDR: 2025 Article IV Consultation - Staff Report; and Statement by the IMF Executive Board*
[3] *Lao PDR: 2025 Article IV Consultation - Staff Report; and Statement by the IMF Executive Board*
[4] *World Bank Country Economic Memorandum, 2022*
[5] *MOIC FYP for 2026-2030*
[6] *Lao PDR: 2025 Article IV Consultation - Staff Report; and Statement by the IMF Executive Board*
[7] *MOIC FYP for 2026-2030*

human resource development to meet modern labor demands, fostering high-quality industrial and agricultural growth, and integrating environmental protection into all economic activities. To strategically catalyze the development of priority industries, drive sustainable trade expansion, and empower SMEs, the Ministry of Industry and Commerce's (MOIC) Five-Year Plan (2026-2030) outline a strategy focused on three interconnected strategic outcomes, including: advancing industrial development, increasing trade and improving market access, and promoting private sector development.

Lao PDR's medium-term development path is defined by a strategic pivot from macroeconomic stabilization towards structural transformation. The policy directions outlined in the NSEDP and MOIC's FYP recognize that sustainable and equitable growth hinges on upgrading the industrial base, capitalizing on the country's unique geographic position, and creating a business environment where MSMEs can thrive. The successful implementation of these ambitious reforms - requiring strong inter-ministerial coordination, continued partnership with the private sector, and targeted technical assistance from development partners - will be critical to navigating post-LDC challenges and achieving its development vision.

II. Prioritized Action Matrix

PAM derived from MOIC FYP for 2026-2030 is strategic blueprint that sets clear targets for trade, industry, and private sector development, aligned with the NSEDP 10 for 2026-2030. The PAM is a live document and built on three pillars: Advancing Industrial Development, Increasing Trade and Market Access, and Promoting Private Sector and Enterprise Development. These pillars are supported by cross-cutting enablers, including capacity building, digital transformation, green industry and trade, and Diversity, Equity, and Inclusion (DEI).

Strategic Outcome 1: Advancing Industrial Development

Industrial upgrading is pursued through three focus areas. First, manufacturing competitiveness is enhanced by strengthening technology and skills partnerships, streamlining regulations, and upgrading industrial parks and logistics, while embedding ESG standards, circular economy practices, and clean technologies to support strategic sectors (e.g., ESG-compliant potash-to-fertilizer) and regional processing (agro-processing, handicrafts) while linking SMEs and rural areas to markets. The CPD contributes to PAM and industrial upgrading by strengthening the competitiveness of labor-intensive manufacturing and handicraft value chains through policy reforms, investment promotion, technology adoption, and skills development. It supports the implementation of evidence-based regulatory reforms that improve the business environment, strengthens investment promotion and facilitation systems to attract investment into non-resource sectors, and promotes structured partnerships between lead firms and rural producers to upgrade production technologies, improve product quality, enhance productivity, and expand market access. The program also advances digital transformation, AI readiness, and sustainable production practices by supporting the adoption of digital and AI-enabled business tools, traceability systems, e-commerce, and environmentally sustainable production techniques, including natural dyeing and circular economy approaches. These interventions strengthen industrial competitiveness while creating stronger linkages between MSMEs, rural producers, and domestic and international markets.

Strategic Outcome 2: Increasing Trade and Market Access

Growth and job creation are driven by deepening integration into global and regional markets through three interconnected strategies. Trade policy establishes a transparent digital trading environment by rationalizing tariffs, expanding the single-window platform, streamlining NTMs for green goods and industrial inputs, advancing e-CoOs and e-payments, and deepening ASEAN integration through standard harmonization, trade corridor MOUs, and enforced competition laws. National quality infrastructure is strengthened through a unified quality policy, private laboratory investments to upgrade testing to international standards, and active engagement with ASEAN working groups to harmonize regulations and secure Mutual Recognition Arrangements. Intellectual property rights adoption is promoted via local-language awareness campaigns on trademarks and Geographical Indications, with GI protection focused on high-potential products (coffee, silk), strengthened cross-border enforcement with Thailand and Vietnam, and modernization through user-friendly digital databases and e-filing systems. The CPD contributes to the PAM and increasing trade and market access by strengthening the institutional, regulatory, and business support systems needed for Lao enterprises to compete in regional and global markets. Through enhanced policy dialogue and evidence-based reforms, the program will help identify and address trade and investment bottlenecks, including non-tariff measures affecting priority value chains. It will strengthen investment promotion and facilitation systems at national and provincial levels, institutionalize public-private dialogue to improve the business environment, and support MSMEs in meeting international quality, sustainability, and market requirements. At the enterprise level, the program will improve export competitiveness by promoting digitalization and AI readiness, facilitating market intelligence, strengthening e-commerce and traceability systems, supporting product innovation and branding, and integrating rural handicraft producers into regional and international value chains through partnerships with lead firms. The program will also promote greater awareness and utilization of intellectual property tools, including geographical indications and branding for high-potential products such as Lao silk, while complementing broader government and development partner initiatives on trade facilitation, digital trade, and regional integration

Strategic Outcome 3: Private Sector Development

Structural challenges are addressed to boost the competitiveness of private firms, MSMEs, and strategic SOEs through two main pillars. The business enabling environment is enhanced by expanding the Electronic Business Registration System nationwide, introducing risk-based online licensing, strengthening legal frameworks (including joining ICSID), aiding compliance with international mandates (EUDR, CSDDD), and launching a labor market information system. MSME competitiveness is promoted through simplified formalization, expanded capital access via the Lao Credit Guarantee Company, venture capital, and FinTech adoption, productivity gains through the National Productivity Master Plan and startup hubs, and support for technical standards, GI, and international safety certifications (SPS, GMP, HACCP). These outcomes collectively aim to foster inclusive, resilient, and sustainable economic growth as Lao PDR navigates its post-LDC transition. CPD contributes to the PAM and private sector development by strengthening the business enabling environment and enhancing the competitiveness of MSMEs, particularly in the handicraft sector. Through evidence-based policy dialogue, institutional capacity strengthening, and public-private dialogue, the program will support regulatory reforms that improve the ease of doing business, investment facilitation, and the implementation of digital business services, including the expansion of electronic business registration and risk-based licensing systems. The program will also strengthen investment promotion at national and provincial levels to attract private investment into productive sectors. At the enterprise level, it will improve MSME competitiveness by promoting business formalization, strengthening financial and digital literacy, improving investment readiness and access to finance through partnerships with financial institutions, and supporting the adoption of digital and AI-enabled business tools

III. Theory of Change and Results Framework

The proposed CPD is designed to fill the support gap identified through the mapping of ongoing and pipeline initiatives. It aims to play a catalytic role in promoting legal and regulatory reforms to promote trade and private sector development, enhancing aid effectiveness, and fostering local economic development through promoting trade and investment. This will be achieved by strategically leveraging the unique features of the EIF support modality and building on the success of past EIF and other donor-supported country programs.

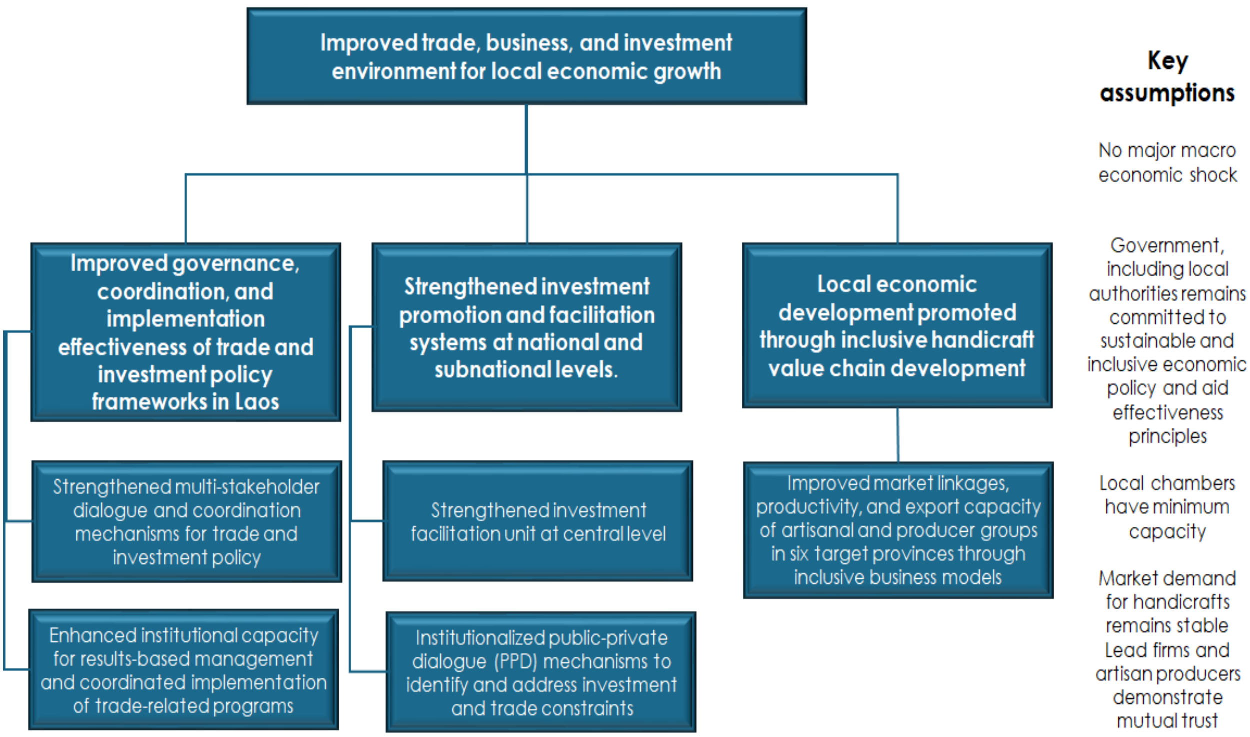
CPD operationalizes the PAM by focusing on two critical, catalytic intervention points derived directly from Strategic Outcomes 2 and 3 of the PAM: increasing trade and improving market access and promoting private sector development. Other trade and policy reform priorities will be supported by over 20 ongoing and planned support programs listed in the mapping of ongoing and planned initiatives.

First, recognizing that PAM's success hinges on effective policy coordination and implementation, the CPD's first pathway supports business and investment environment reform through synergizing institutional framework for investment climate reform, strengthening policy dialogue and promoting evidence-based policy recommendations and providing targeted reform execution support. It does so by establishing a formal predictable operational link between LNCCI (LBF Secretariat) and MOIC (TPSWG Secretariat), building evidence based analytical capacity, providing targeted reform execution support, building the institutional capacity of the governance structures responsible for steering PAM's priority actions and providing strategic oversight for all donor-funded technical assistance in trade and industry development, namely the TPSWG, PEC, and PRC, and enhancing institutional capacity in investment promotion. This pathway also addresses the cross-cutting enablers of capacity building and DEI.

Second, CPD's second pathway directly tackles PAM's goal of promoting private investment in local economy by intervening in the six least-developed northern provinces. It establishes local Public-Private Dialogue mechanisms to resolve PAM-identified business environment bottlenecks and promote value chain upgrading and integration through inclusive business partnerships that directly enhance the productive capacity of rural handicraft producers, a key sector for MSME development.

Thus, the program's overall objective is to contribute to improved business, trade and investment environment that foster inclusive, resilient local economic growth.

Figure 1: Theory of change



This program is designed around a comprehensive Theory of Change (TOC) that suggests a clear causal pathway:

If:

(1a) policy dialogue and aid coordination structures (e.g. Sector Policy Dialogue, PPD) are strengthened to effectively govern and coordinate trade-related technical assistance;

(1b) Evidence-based policy recommendations for targeted value chains are implemented;

(1c) key regulatory and administrative bottlenecks affecting trade and investment in selected value chains are addressed at both national and local levels;

(1d) institutional capacity in investment promotion enhanced;

And if:

- Rural craft producers are integrated into high value networks through structured partnerships with lead commercial firms;

Then: Lao PDR will achieve an improved trade, business, and investment environment that fosters inclusive, resilient local economic growth.

The intervention logic unfolds through a structured hierarchy of results:

1. Inputs (The Actions). The project will initiate a dual-pronged set of interventions:

At the national level, we will focus on establishing a formal operational link between LNCCI (LBF Secretariat) and MOIC (TPSWG Secretariat), building institutional capacity building. This involves enhancing policy dialogue driven by evidence policy recommendations to address priority trade and investment related policy and regulatory bottlenecks and improving mechanisms for program effectiveness, and building capacity in Project Cycle Management (PCM) across key trade and investment related agencies at central and local level to ensure public resources - including Trade-Related Technical Assistance (TRTA) - are used efficiently, and enhancing institutional capacity in investment promotion at national and local level.

At the local level, we will work on promoting local economic development. This will be achieved by providing a structured, institutionalized platform for government and the private sector (PPD) to identify constraints, co-create policy solutions, and foster trust. By bridging the gap between those who make regulations and those affected by them, PPD ensures reforms are practical, evidence-based, and effective at enhancing the trade and investment climate. Additionally, competitiveness of rural handicrafts will be enhanced through facilitating business partnerships between lead firms. In these partnerships, lead firms are committed to provide comprehensive market, technical, and operational scaffolding to transform informal rural production into an export-ready supply chain. Commercially, they offer financial stability through guaranteed purchase orders and vital working capital advances or raw material pre-financing to relieve local cash-flow constraints. On the production side, exporters translate shifting global consumer trends into contemporary design specifications and deploy technical teams to deliver hands-on training in quality control and product standardization. Finally, lead firms absorb the complex administrative and logistical burdens of packaging, export documentation, and international shipping, while simultaneously coaching artisan groups through the rigorous ethical and environmental compliance standards required by high-end global retailers.

While the lead firms already have a strong presence in high-end European and East Asian home-textile markets, they will continue to receive direct technical support from two EU-funded programs: “Inclusive Markets, Private Sector Digital Transformation and Energy Governance” (implemented by Expertise France) and “Building Opportunities for Sustainable Trade” (implemented by the ITC, 2026–2031). The support will span digital transformation (traceability, inventory, and financial management), practical digital-skills training (e-commerce, digital marketing, and payments), capacity-building on EU and international standards and certification, and digital tools for demonstrating compliance (traceability and documentation), among other areas.

Together with the targeted trade and investment promotion plan, these three initiatives form a comprehensive ecosystem of support. This ecosystem is designed to transition Lao PDR's MSMEs - from rural artisan groups to export-oriented lead firms - away from informality and low productivity toward formalization, digitalization, and sustainable market integration. Ultimately, this integrated approach is precisely what is needed to ensure that the benefits of trade and investment reach the most vulnerable communities, driving long-term, inclusive economic growth.

2. Outputs (The Immediate Results). These actions will yield direct and measurable results:

We will see a clear coordination between LBF and TPSWG evidenced by adoption of operational protocols, quarterly technical alignment briefs, enhancement of institutional capacity, evidenced by more effective policy dialogue and program implementation measured by number of legal and regulatory issues resolved and increased alignment of support programs with sector priorities, a quantifiable number of officials from central and local level trained, and targeted investment promotion action plan implemented at both national and local level.

Concurrently, our work at the local level will result in improved regulatory and administrative environment in six target provinces, a general rise in export competitiveness, and tangible improvements in market access, product innovation, quality upgrading, and improved compliance with international standards of products by village-level producers.

Outcomes (The Changes in Capacity and Practice). These immediate results will lead to deeper changes in how institutions and businesses operate:

Strengthened institutions will demonstrate enhanced capacity by providing increased support to sector priorities and adopting more robust management practices, reflected in consensus on reform priorities and the resolution of adopted priorities, and improved investment promotion through targeted investment promotion efforts.

Simultaneously, increase in the number of regulatory administrative issues resolved at local level is expected to result in improved predictability and reduced costs of doing business at the local level, while direct support to village producers through business partnership will lead to measurable improvements in their skills and productivity leading to increasing sales and incomes of rural artisans, who are predominantly women from ethnic minorities.

A more effective support system and a healthier business environment will drive increased new business creation.

3. Impacts (The Improvements in the Support System). The successful achievement of these outcomes will collectively drive improvements at the systemic level:

   We expect to see a measurable improvement in the performance of support programs themselves, making them more relevant and effective. This, in turn, will foster a more conducive environment for entrepreneurship, leading to an increase in the number of annual business registrations.

   If marginalized groups (women, ethnic minorities) are actively involved in decision-making (via PPD) and receive tailored capacity building, then they will capture an equitable share of the economic benefits, leading to broader poverty reduction.

   For the target sector, this translates directly into a boost in trade, with increased exports of local handicraft products, additional income for rural households, and job opportunities in remote predominantly ethnic minority areas with high proportion of young population. The success of this integrated model will also be validated as these approaches are replicated in other initiatives, creating a multiplier effect.

4. Goals (The Ultimate Development Objectives). The cumulative effect of these systemic impacts is the achievement of our ultimate, people-centered goals:

   This economic dynamism - particularly in the non-resource sectors we are targeting - will lead to increased employment, particularly among youth populations from ethnic minorities previously engaged in subsistence agriculture.

   Finally, for the most direct beneficiaries of our interventions (the rural artisans), this entire chain of results culminates in a tangible and sustainable increase in income for target villages, specifically targeting women, ethnic minority groups, and persons with disabilities, while reducing the income gap between participating households.

In summary, this Theory of Change outlines a pathway from building institutional and productive capacity, through improved system performance, to the ultimate goals of economic diversification, job creation, and poverty reduction.

IV. Program Components

The program's primary objective is to improve trade, business and investment environment for local economic development.

The program has three main components.

Component 1: Improved governance, coordination, and implementation effectiveness of trade and investment policy frameworks in Laos. This component aligns closely with the PAM to further enhance trade and business enabling environment, particularly priorities under pillar 2 and 3. Improving government effectiveness in removing trade and investment bottlenecks requires an integrated approach that links two well established but historically siloed consultation mechanisms: the Lao Business Forum (LBF), managed by LNCCI, which functions as a micro-level operational sensor for private complaints; and Trade and Private Sector Working Group (TPSWG), chaired by MOIC, which acts as a macro-level policy coordination and development partner alignment engine. It aims to operationalize a functional institutional bridge between these two bodies as well as review existing structure and operational modality of TPSWG and aid coordination framework in light with recent restructuring of key government Ministries, including Ministry of Industry and Commerce's merger with the former Ministry of Energy and Mines, government's smooth LDC transition strategy, and ongoing historic transformation of the ODA environment characterized by significant contraction and a rapid reorientation of priorities.

This component will provide expert advice and capacity-building to assist in review existing structures and propose recommendations to formalize a continuous, institutionalized feedback loop between TPSWG and LBF, transforming ground level business insights into rapid, cross-ministerial structural reforms to accelerate investment in Lao PDR's non-resource sectors. Besides establishing institutional linkage, the component will promote data driven policy and regulatory reform through supporting sector specific studies to identify regulatory barriers and make evidence-based policy recommendations, provision of targeted reform execution support, improving aid effectiveness, and building capacity of officials in result-based project cycle management.

Sub-component 1.1 Strengthened multi-stakeholder dialogue and coordination mechanisms for trade and investment policy. This subcomponent will establish a formal, predictable operational link between LNCCI (LBF Secretariat) and MOIC (TPSWG Secretariat). Unresolved inter-ministerial gridlocks at the LBF will automatically trigger escalation paths into the TPSWG framework. This is to ensure that field data drives the national policy agenda, and donor assistance directly funds structural solutions. It will also focus strengthening institutional capacity of the Trade Private Sector Working Group and its secretariat to promote trade, industry and private sector development effectively and efficiently by providing a forum for dialogue and coordination between the Government of Lao PDR, Development Partners, and other stakeholders on sectoral, thematic, or cross-cutting development issues, and promoting sector development through policy and priority setting, mobilization of domestic and external resources, results-oriented management, and monitoring of progress.

This subcomponent will also provide funding to the PSO/NIU and LNCCI in its capacity as secretariat to TPSWG and LBFC to undertake needed economic analysis that would lead to improved and evidence-based policy making. It is envisaged that other TRTA will be encouraged to co-finance these research initiatives to promote complementarity and increase buy in from key stakeholders. Among the studies identified and likely receiving funding are the following (list not exhaustive):

1) Conduct a study on access to finance and digital adoption constraints affecting SMEs and develop recommendations to unlock SME growth

2) Conduct a study on Non-Tariff Measures (NTMs) affecting high-value agricultural exports, textile handicraft and disseminate findings to support export growth

3) Assess opportunities to leverage the Land-Linked Strategy for enhanced infrastructure connectivity and industrial integration, and develop recommendations to support export-led growth

Additionally, the sub-component will provide targeted technical inputs to line Ministries tasked with LBF escalated actions and conduct public private review workshops for draft trade and investment regulations based on MOIC FYP and PAM priorities. Potential areas of support include deepening business entry reforms through sustainable expansion of the Electronic Business Registration System to improve efficiency and geographical coverage across provinces, districts, and SEZs, and establishing and implementing a risk-based licensing framework via an online business information portal that reduces compliance costs and simplifies the search for investment opportunities.

Sub-Component 1.2 Enhanced institutional capacity for results-based management and coordinated implementation of trade-related programs. This subcomponent will support review and improvement of existing program coordination and implementation under Program Executive Committee (PEC) and Project Review Committee (PRC) to improve effectiveness of PEC in providing strategic advice, coordination, and common operational guidelines for the implementation of trade and industry -related programs and projects in Lao PDR, and PRC in providing platform for discussing and finalizing annual and semi-annual project implementation reports and detailed work plans for PEC review and endorsement. To promote effectiveness of all support programs, this subcomponent will also support development and delivery of a comprehensive capacity building program in result based project cycle management, which is envisaged to be implemented in three phases, namely: phase 01 - Needs assessment and contextualization focusing on training needs analysis, defining specific learning objectives, and map the content to the public sector context; phase 02 – Curriculum and material design focusing on designing a modular program, case studies, and practical toolkits; and phase 3 – Program delivery focusing on use of a blended approach (online, in person, and coaching methods) based on adult learning principles. The sub-component intends to train at least 50 officials from central and provincial departments on six topics of PCM, namely:

1) Module 1: The Policy-Project Nexus: How national development plans translate into project ideas.
2) Module 2: Problem Tree & Objective Tree Analysis: Practical stakeholder mapping.
3) Module 3: Logical Framework Approach (LFA): Deep dive into indicators, means of verification, and assumptions.
4) Module 4: Public Procurement & Financial Management: The rules of the game.
5) Module 5: Risk Management: Identifying bureaucratic, financial, and political risks.
6) Module 6: M&E for Learning: Not just for reporting, but for mid-course correction.

WTO work-related priorities:

The CPD supports Lao PDR's implementation of key WTO commitments by strengthening the policy, institutional, and enterprise capacities required to integrate more effectively into regional and global markets. Through evidence-based trade policy dialogue, analysis of non-tariff measures, enhanced trade and investment facilitation, and strengthened public-private dialogue, the program contributes to a more transparent, predictable, and business-friendly trading environment. At the enterprise level, it improves MSME competitiveness by promoting digital transformation, AI readiness, e-commerce, market intelligence, traceability, product innovation, and compliance with international quality, sustainability, and market requirements, enabling greater participation in regional and global value chains.

The program also supports the implementation of the WTO Agreement on E-Commerce by fostering the adoption of digital business practices and strengthening the capacity of MSMEs to engage in cross-border digital trade.

In parallel, it contributes to the objectives of the WTO Investment Facilitation for Development (IFD) Agreement by strengthening investment promotion and facilitation institutions, supporting regulatory reforms, institutionalizing public-private dialogue, and improving the transparency, efficiency, and predictability of the investment environment.

Collectively, these interventions reinforce Lao PDR's post-LDC transition by promoting a more competitive, resilient, inclusive, and digitally enabled economy that is better positioned to benefit from the multilateral trading system.

Component 2: Strengthened investment promotion and facilitation systems at national and subnational levels, and local business environment through LPPD. This component supports priorities for promoting efficiency seeking investment in non-resource sectors through enhancing investment promotion and facilitation to attract new investment into the non-resource sectors and reducing cost of doing business through institutionalizing public private dialogue to address investment constraints defined under pillar 3 of the PAM.

The challenges Laos faces in investment promotion and facilitation represent a systemic dilemma involving administrative efficiency, economic foundations, governance capacity, and development strategy. While the government has acknowledged these issues and initiated reforms - such as shortening the restrictive industry list and amending the Investment Promotion Law - achieving a fundamental improvement in the investment climate will still require substantial breakthroughs in enhancing governance transparency, strengthening infrastructure, stabilizing the macroeconomy, and optimizing incentive policies. At its core, investment facilitation represents a shift in the government's role - from a slogan-based invitation of "welcome to invest" to a service-oriented guarantee of "confidence to invest." This transition is particularly urgent for Laos. Proposed interventions under this component are vital for Laos to convert investment pledges into real economic growth and job creation. This is not only about attracting new investment, but also about retaining existing investors and encouraging them to expand and reinvest.

Sub-Component 2.1 Strengthened investment promotion and facilitation systems at national and subnational levels. This subcomponent aims to promote private investment, including FDIs through two inter-related interventions:

1) Development of targeted trade and investment promotion plan. The plan aims to provide basic information on potential investment opportunities in Lao PDR focusing on agro-based processing industry general labor-intensive export-oriented manufacturing industry, energy intensive sector, tourism, e-commerce and others. Main activities for development of the plan include the following:

    a. Assessment of current trends in trade and investment between Lao PDR and neighboring countries;

    b. Identification of investment opportunities in non-resource sectors that Lao PDR has comparative advantage;

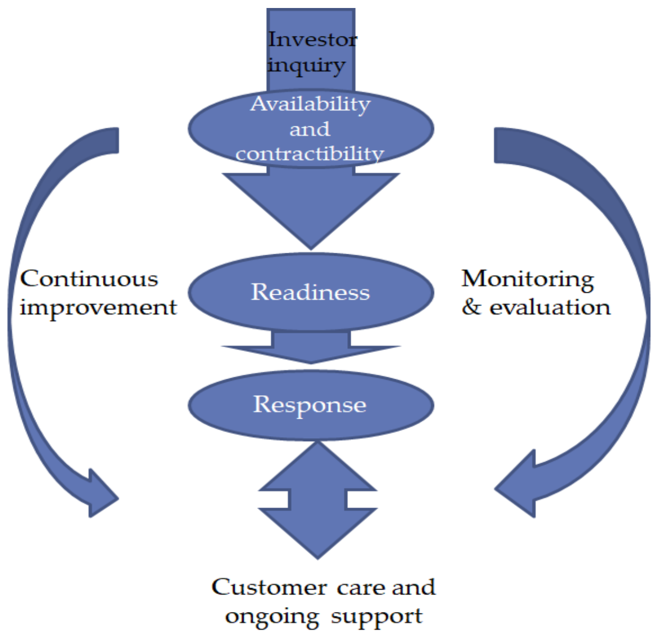
2) Establishment of new trade and investment promotion unit within the Ministry of Industry and Commerce and six provincial offices and develop institutional capacity in the following areas:

    a. *Foster a private sector culture* through building a staff with public and private sector experience, securing operational freedom and high-level reporting channels, concentrating efforts in a few priority sectors based on action plan, coordinating facilitation with networks and partners at sub-national and regional level, developing staff capacity in investment facilitation skills, including the entire investment lifecycle, digital transformation in investment matching, and investor aftercare.

    b. *Implement Internal Systems for Consistency in Effective Facilitation* through making facilitation a priority within the overall organizational strategy, maintain the equipment and practices to be easily reached and to quickly return calls and emails (see below diagram), demonstrate professionalism and dynamism through the website with frequent news updates of importance to investors, follow detailed guidelines on the content, style, timeframe, and quality assurances of inquiry responses;

    c. *Accumulate deep business knowledge* through establishing a minimum level of in-house research capacity, develop account managers into reservoirs of knowledge on priority sectors, ensure accumulation of knowledge and its relevance;

d. *Developing Information Gate Way for Investors (both domestic and foreign)* through creating comprehensive information portal with investor tracking system, calling list for potential investors, database of domestic businesses in key sectors, linking Lao Information Gateway with investment promotion websites in the region.



An integrated system for internal inquiry handling

Sub-component 2.2 Institutionalized public-private dialogue (PPD) mechanisms in six target provinces to identify and address investment and trade constraints. Institutionalization of local PPD mechanisms is designed to facilitate business enabling environment reforms by supporting champions for reform, creating momentum, and accelerating the reform process. Experience shows that public-private dialogue has a range of potential impacts, but it does not achieve anything on its own – it works by facilitating, accelerating, or cementing other ongoing initiatives, ones which without the boost of stakeholder pressure would falter or fail. The most tangible benefits of PPD are the policy reforms it can advance. These can include new legislation, the amendment or scraping of existing regulations, removal or simplification of regulations and controls, standardization of procedures across different jurisdictions, and establishment of new institutions.

Program aims to institutionalize six PPD mechanisms in six target provinces by replicating similar structures established at national level through formal decisions of provincial authorities and support their linkage with PPD at national level. It is envisaged that local PPD structure will consist of key elements, namely: 2-3 private sector working group by sector or issues primarily clustered under trade facilitation and or investment climate areas, secretariat housed under provincial chambers of commerce, coordination, and high-level steering committee.

Necessary technical capacity building in areas of issue identification, analysis and meeting facilitation will be provided to each of the six LPPD secretariats, their working groups, and six provincial chambers of commerce and industry. Once PPD mechanism, including its structure and process is finalized, the project intends to support structured dialogue process, which includes the following phases:

1. Identification of issues by private sector working groups;
2. Issue identification, prioritization based on sets of criteria including relevance to broad SMEs, implementation readiness of concerned authorities, alignment with broader national and local development priorities;
3. Development of issue position papers;
4. Technical level dialogue with concerned agencies;
5. Annual provincial forum for policy level dialogue to raise visibility of the key issues identified and mobilize additional political and technical support to address them; and
6. Reporting to National Government through the Lao Business Forum chaired by Prime Minister.

Component 3: Local economic development promoted through promoting inclusive handicraft value chains.

MSMEs in Northern Region. In Northern Laos, MSMEs are not merely small businesses; they are the very fabric of the local economy. They account for approximately 99% of all formally registered firms and provide 82% to 94% of total employment. Women play an integral role, with 97% of women-led firms operating as micro or small enterprises, concentrated primarily in trading, services (18%), and manufacturing. In the northern region, traditional craftsmanship, organic agriculture, and tourism-related services are particularly prominent. Despite their numerical dominance, MSMEs in Northern Laos face formidable constraints that stifle growth:

- **Severe Financing Gaps**: Access to capital remains the most pressing barrier. The share of bank credit allocated to SMEs plummeted from 30.9% in 2015 to just 12% in 2022, as financial institutions have increasingly prioritized government projects and large corporations. The CPD will help address this challenge by strengthening the enabling environment for MSME finance through evidence-based policy dialogue, improved investment readiness, financial and digital literacy, business formalization, and stronger partnerships with financial institutions and lead firms. Emphasis will be placed on expanding access to finance and business development services for women-led enterprises, youth entrepreneurs, and MSMEs operating in disadvantaged and remote communities, enabling them to participate more effectively in formal markets and regional value chains.

- **Vicious Cycle of Informality**: An estimated 70–80% of SMEs operate informally. This status precludes access to formal financing, while the lack of formal credit perpetuates their informal status - creating a self-reinforcing barrier to expansion. The CPD will help address this challenge by promoting business formalization through targeted policy reforms, simplified business processes, awareness campaigns, investment readiness support, improved financial and digital literacy, and stronger linkages with financial institutions and formal value chains.

- **Infrastructure and Market Access Gaps**: Poor regional infrastructure hinders market access and information flows, particularly for remote handicraft producers. As a landlocked country, Laos faces prohibitively high transport costs that undermine its competitiveness against regional rivals. The CPD will address these challenges by improving market access through inclusive business partnerships with lead firms, expanding the use of digital and AI-enabled tools for market intelligence and e-commerce, strengthening producer aggregation and supply chain coordination, and supporting trade promotion, export readiness, and compliance with international standards.

- **Digital and Skills Divide**: Most MSMEs have yet to adopt digital tools; only 26% maintain a website, and over 80% report no innovation-related activities. This is compounded by severe skills shortages, with 65% of SME workers lacking secondary education. The CPD will address these constraints by strengthening digital and AI readiness through targeted capacity-building in digital literacy, business management, e-commerce, and the adoption of digital technologies, including AI-enabled tools for marketing, market intelligence, product design, inventory and financial management, customer engagement, and business decision-making. The program will also support the adoption of digital solutions for traceability and compliance with international market requirements, while leveraging complementary support from ongoing EU-funded initiatives to maximize impact and avoid duplication.

The Artisan Textile Handicraft Sector. Within this landscape, the artisan handicraft sector - especially in Northern Laos - remains deeply intertwined with daily life and cultural tradition. It employs an estimated 15,000–20,000 full-time workers, with another 100,000 engaged part-time, primarily as a supplement to farming. Total exports (including tourist sales) generate approximately USD 10 million annually, while the domestic market - fueled by strong economic growth and sustained cultural demand for traditional skirts - is estimated to be three times larger, suggesting a total potential industry value of USD 50 million.

Despite its recognized importance for poverty reduction, rural development, women's empowerment, and cultural preservation, the sector lacks a coherent policy framework and effective coordination. Key challenges include shortages of local raw materials (especially silk); declining interest among young women in weaving skills; limited access to formal credit; difficulty meeting international quality standards; poor understanding of market trends; and weak product design capacity. Furthermore, government support for business development services -particularly in remote areas - remains inadequate, and even basic production facilities (e.g., proper dyeing infrastructure) are often missing.

Nevertheless, recent progress is evident: high-quality Lao products are reaching Europe, the USA, and Japan, while collaboration between the Tourism Authority and the Ministry of Industry and Commerce on trade fairs is growing. Future strategies focus on improving export competitiveness by strengthening value chains, expanding fair-trade networks, leveraging internet marketing, building Lao branding, participating in international fairs, providing practical training in marketing and design, and developing producer clusters - with a consistent emphasis on quality for niche markets in Europe and Japan.

Intervention Strategy and Approach. Building on the success of the previous EIF project and above challenges and trends, this sub-component aims to pilot an innovative model for integrating rural artisan crafts into regional value chains. It will establish textile handicraft production partnerships that link rural artisans directly to markets, thereby providing diversified income-generating opportunities for disadvantaged households.

Lead firms are the primary implementation partners for this sub-component and will be instrumental in ensuring sustainability beyond the project's completion in 2030. These firms are deeply embedded in the handicraft value chain and will deliver cost-effective inputs to rural households to support and expand artisan production. Rigorous selection criteria have been developed to attract the most suitable partners (see Annex 3 for the full process).

The project will collaborate with established lead firms that have strong track records of exporting high-quality home textile products to Europe and Japan and have previously received extensive technical support from GIZ, CBI, and USAID-funded projects. In parallel, the project will continue to leverage ongoing EU-funded trade and private sector development initiatives (which focus on strengthening EU–Laos trade and investment ties) to build the capacity of selected lead firms in: core business skills, market linkages and matchmaking (via trade missions and fairs), sustainable investment and regulatory compliance (including the EFSD+), market intelligence, and cross-cutting areas such as gender, youth, and environmental sustainability - through needs assessments, training-of-trainers, coaching, mentorship, gender-responsive leadership, youth entrepreneurship, and compliance with EU regulations (e.g., EUDR and the Sustainable Product Initiative). Additional targeted technical assistance in market access and e-commerce will be provided by the CPD to parter-lead firms during the project duration.

The project intends to partner with the following lead firms to promote inclusive textile handicraft value chains:

- **Tai Baan Crafts**: Based in Laos, Tai Baan produces eco-friendly fashion and home textiles using hand-spun, naturally dyed yarn from indigenous organic cotton. All products are made by village artisans from various ethnic groups. The firm is a provisional member of the WFTO and adheres to the ten principles of fair trade.

- **Her Works**: A woman-owned enterprise based in Vientiane, Her Works showcases women-made handicrafts by harvesting, spinning, and dyeing natural fibers. Their home collection blends contemporary design with the unique traditional skills of Lao ethnic women, providing income to female producers across the country.
- **Ock Pop Tok**: Meaning "East Meets West" in Lao, Ock Pop Tok is based in Luang Prabang and produces handwoven home textiles - including rugs, cushion covers, throws, wall art, table runners, and placemats. All products use high-quality materials (primarily handspun cotton), and artisans are remunerated fairly.
- **Studio Silapa**: This hand-weaving workshop draws inspiration from intricate traditional Lao woven designs. The enterprise was established to harness and preserve traditional weaving skills, ensuring this unique artistic heritage endure for future generations.

Implementation Phases. This component will be implemented in four phases, in close partnership with selected producers/exporters. At least 25% of the total investment in forming producer groups, providing production equipment, and delivering capacity-building activities will be co-financed by the lead firms.

Phase 1: Foundation and Community Engagement – This initial phase focuses on identifying the right partners and establishing trust. Activities include: mapping and assessing potential lead firms (using a seven-criteria assessment grid—see Annex 10) and artisan groups; investing time in community engagement to understand socio-cultural contexts; and organizing individual artisans into formal or semi-formal collectives (cooperatives, self-help groups, or producer companies) to streamline logistics, training, and quality control.

Phase 2: Partnership Structuring and Co-Creation – With the foundation in place, the focus shifts to defining equitable partnership terms. This includes establishing transparent pricing mechanisms and assisting lead firms in preparing "Inclusive Business Plans" for partnering with rural communities. An independent social development specialist, recruited under the NIU, will provide coordination and consultation support. Farmer consultations will broker the formation of production partnerships, accompanied by a start-up training package to sensitize farmers to the costs and benefits of commercial textile production. A comprehensive capacity-building program will be delivered under a PPP co-financing arrangement (project, lead firms, and villagers). Based on needs assessments, common facilities (shared dyeing vats, racks, finishing tables, quality-check stations, storage, and upgraded ventilation/lighting) are estimated at USD 15,000 per facility, while household-level production equipment (hand tools, looms, dyeing kits, storage bins, and safety kits) is estimated at USD 600 per household. Detailed asset lists will be finalized in the Inclusive Business Plans, subject to approval by the ES and TFM. Capacity-building will be delivered via interactive workshops covering: (1) Advanced Production Techniques & Design Innovation; (2) Quality Control & Standardization; (3) Enterprise & Business Management; and (4) Market Linkages & Digital Literacy.

Phase 3: Operationalization and Market Linkage – This phase establishes production systems and routes to market. Activities include aligning clear quality standards and product specifications; defining sampling, review, and selection processes to ensure market readiness; leveraging lead firms' networks to integrate products into collections, retail outlets, or e-commerce platforms; and securing reliable supply chains for raw materials, production scheduling, logistics, packaging, and shipping.

Phase 4: Long-Term Sustainability and Growth – The final phase ensures the partnership thrives independently. It involves implementing robust monitoring, evaluation, and feedback mechanisms to track income increases, product quality, and order fulfillment; fostering shared ownership of the brand narrative and product success; and planning for generational continuity by training young artisans to preserve traditional crafts.

Targets and Expected Outcomes. The component will collaborate with three lead firms and reach 540 village households across 18 villages in six target provinces. This is expected to generate 200 full-time jobs and increase average household income by 20%.

V. Cross-Cutting Priorities

Diversity, equity and inclusion (DEI), gender equality and social inclusion (GESI), youth employment, disability inclusion, ethnic inclusion, and environmental sustainability are mainstreamed across the programme as fundamental drivers of sustainable and inclusive trade-led development. In Northern Lao PDR, where many communities are geographically isolated and a large proportion of the population belongs to ethnic minority groups, including Hmong-Mien and Mon-Khmer communities, women, youth, persons with disabilities, and disadvantaged households continue to face disproportionate barriers to accessing markets, finance, business services, and economic opportunities. Without deliberate inclusion measures, programme benefits risk concentrating among more accessible and better-connected enterprises, reinforcing existing inequalities.

Accordingly, DEI and environmental sustainability are integrated throughout programme design, implementation, monitoring, and learning. Gender, age, ethnicity and disability considerations will inform beneficiary selection, partnership development, capacity-building activities, monitoring systems, and policy dialogue to ensure that programme benefits are equitably distributed and contribute to inclusive economic transformation.

Component 1 and 2: Strengthening Institutional Capacity will embed inclusion within trade and investment governance by strengthening the capacity of national institutions to design and implement more inclusive policies. The programme will integrate an annual review of inclusive trade barriers into the Trade and Private Sector Working Group (TPSWG), ensuring that regulatory constraints affecting women-owned enterprises, youth entrepreneurs, ethnic minority businesses, and persons with disabilities are systematically identified and addressed. Public-private dialogue will be broadened through greater participation of organizations representing women entrepreneurs, youth, SMEs, and other underrepresented groups. Capacity-building for MOIC, LNCCI, and partner institutions will strengthen gender-responsive and inclusive project planning, stakeholder engagement, and results-based management.

Component 3: Promoting Local Economic Development will mainstream DEI and environmental sustainability across investment promotion and handicraft value chain development. Provincial Public-Private Dialogue (PPD) mechanisms will promote inclusive participation by women-led enterprises, youth entrepreneurs, ethnic minority producer groups, informal businesses, and village handicraft associations. Partnerships with lead firms will incorporate inclusion as a core selection criterion, requiring participating firms to demonstrate concrete actions to improve economic opportunities for women, youth, ethnic minorities, persons with disabilities, and disadvantaged rural households through inclusive sourcing, employment, skills development, and market access.

Capacity-building for MSMEs and rural artisans will be designed to reduce participation barriers and maximize inclusion. Training needs assessments will be disaggregated by sex, age, ethnicity, and disability to identify specific constraints, while learning materials will be adapted through local-language translation (including Hmong and Khmu where appropriate), pictorial learning tools, and accessible delivery methods. Localized training schedules, mentoring, digital literacy, AI readiness, financial literacy, and business management support will enable women, youth, and remote producers to strengthen their participation in domestic and international value chains. Environmental sustainability will be integrated by promoting resource-efficient production practices, including natural dyeing techniques, sustainable raw material sourcing, waste reduction, and circular economy approaches that improve competitiveness while reducing environmental impacts.

Digitalization and Artificial Intelligence (AI):

The CPD recognizes digitalization and AI as key drivers of MSME competitiveness, productivity, and market integration in Lao PDR's post-LDC transition. The program will strengthen the digital and AI readiness of MSMEs, particularly in the handicraft sector, by promoting the adoption of digital business tools, e-commerce platforms, AI-enabled applications, market intelligence systems, digital marketing, and traceability solutions. Capacity-building will focus on improving digital literacy, business management, financial management, and the effective use of AI to support product design, customer engagement, inventory management, and business decision-making. By leveraging digital technologies and AI, the program will help enterprises improve operational efficiency, meet international market and sustainability requirements, expand access to domestic and international markets, and strengthen their resilience in an increasingly digital global economy. Special attention will be given to ensuring that women-led businesses, youth entrepreneurs, persons with disabilities, and enterprises in remote areas can benefit from digital transformation through targeted capacity-building and inclusive access to digital opportunities.

Through this integrated approach, the program aims to ensure that trade, investment, and private sector development generate broad-based economic opportunities, strengthen the resilience and competitiveness of MSMEs, accelerate responsible digital transformation, and contribute to a more inclusive, environmentally sustainable, and equitable post-LDC transition for Lao PDR.

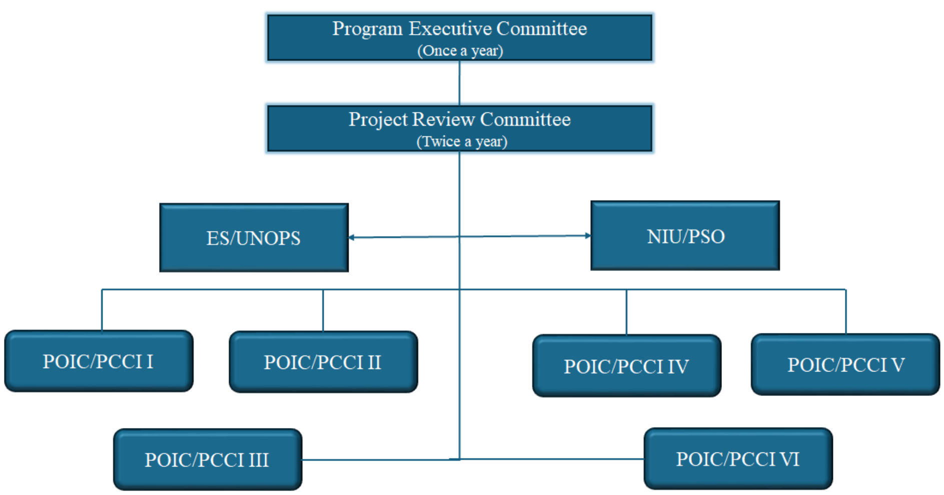
VI. Implementation Arrangements

The project will be implemented as part of an established framework, with growing capacity and an increasingly experienced team. Overall policy direction will be provided by the Trade and Private Sector Working Group, operating under the Roundtable process.

As part of efforts to move towards a program-based approach in aid-for-trade, MoIC and development partners have established a Program Executive Committee (PEC), to act as the steering committee for all trade-related assistance provided to Lao PDR. The PEC will serve as the steering committee for the proposed project and will be chaired by the Minister of MoIC (or designee). It will consist of representatives of government, including MoIC and other relevant line ministries, relevant provincial authorities, representatives of the private sector and donors. UNOPS and ES will participate as observers. The PEC will meet once a year, when annual project implementation reports and detailed work plans will be presented for review and endorsement. Other key stakeholders may be invited to participate in meetings of the PEC as observers.

In addition, a Project Review Committee (PRC) will be established to act as technical working body to review project implementation progress on a semi-annual basis. The PRC will be chaired by the EIF National Focal Point and consists of representatives from all provincial-level implementing agencies and relevant technical departments within MOIC. Meeting minutes will be produced to be used as a guideline and reference for the PEC in the review and endorsement of annual project implementation reports and work plans.

Figure 2: Project Governance Structure



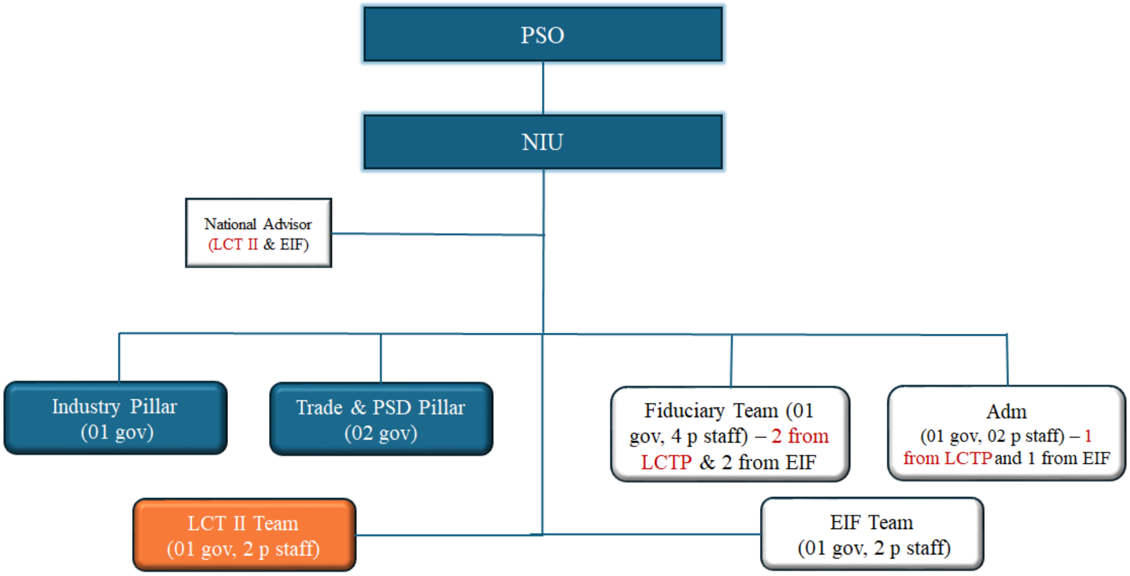
The National Implementation Unit (NIU), housed within the MOIC Permanent Secretary Office, serves as the core technical and fiduciary implementing unit for the project. The NIU is responsible for coordinating relevant implementing agencies at the provincial level, managing technical components, overseeing the work planning process, and coordinating progress and financial reporting at the project level. National technical assistance will be provided to support these functions. The NIU will also handle financial management and procurement services in support of project implementing agencies.

Implementing agencies are the provincial offices of Industry and Commerce from the six target provinces (Oudomxay, Luangnamtha Phongsaly, Luang Prabang, Huaphanh, and Xiengkhouang), and other agencies directly responsible for the technical implementation of project components and for day-to-day execution of activities, as stated in work plans approved by the Program Executive Committee. Each designated implementing agency will be responsible for the preparation of component work plans, ensuring the delivery of specific project outputs and progress reporting to the Program Executive Committee. Implementing agencies will work closely with and report to the NIU on all financial, administrative and procurement issues.

The NIU currently uses a matrix structure for its division of work, where all managerial roles are performed by middle-level government officials. These roles include individual project management responsibilities, supervision of routine technical functions (fully aligned with the three strategic pillars of the PAM), as well as administrative and fiduciary functions as shown in below diagram.

Currently, seven government officials work at the NIU. They are supported by project staff financed by various projects under the existing Aid for Trade Governance Framework, primarily LCT Phase II and EIF Phase III. The NIU's main operations are clustered into four areas: two technical areas (industry, and trade & private sector development-related pillars), fiduciary functions, and administration. In addition, when the NIU performs full project execution functions, it establishes specific project teams. Currently, in anticipation of the commencement of two NIU-executed projects - LCT Phase II and EIF Phase III - two project teams will be set up. Each subunit within the NIU, except the two technical area units, is supported by project staff (indicated in each box) and one part-time advisor. Project-funded positions across all areas of NIU operations are expected to be gradually filled by existing or new government staff with the required experience and qualifications.

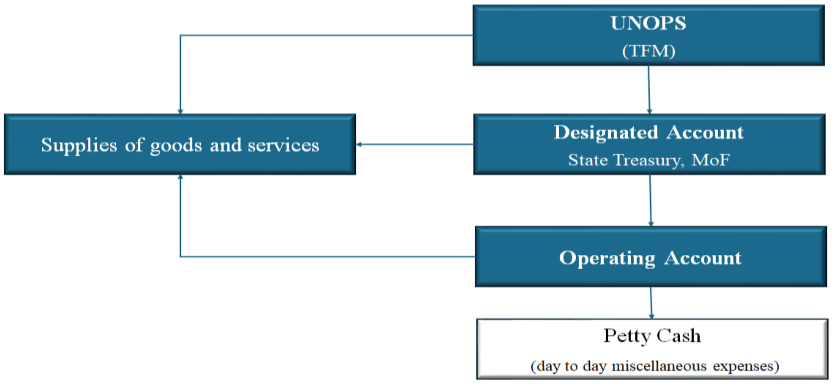
Figure 3: NIU Organizational Structure



ES and TFM will ensure that funds are used in accordance with the requirements of the MOU, the CPD and approved work plans. The ES and TFM will establish a Project Task Team responsible for coordinating development partner meetings on the project, providing administrative support to donor coordination within a program-based approach, generating commitments, and providing implementation support and technical assistance (analytical and advisory services) to the NIU/PSO. The ES and TFM will undertake regular implementation support missions to: (a) monitor progress on all substantive aspects of the project against the targets, development objectives and performance monitoring indicators set out in the CPD; (b) monitor procurement implementation and disbursements, recommending ways of ensuring that procurement activities and grant disbursements proceed smoothly and in line with the approved work plans and procurement plans; and (c) review the audited financial statements, audit reports, interim unaudited financial reports and project progress reports submitted by NIU.

Fund flow is described in the diagram below. Detailed procedures for requesting replenishment of project account opened with BOL and local commercial bank as well reporting requirements will be defined in the MOU to be signed between UNOPS and MOIC following approval of the CPD by the EIF Board.

Figure 4: Fund flow



Budgeting and planning

As established practice, each implementing agency (provincial office of Industry and Commerce) will be responsible for the preparation of annual component work plans and corresponding budgets with support from NIU project team. The budget will be consolidated by the NIU Finance team and technical team. The planning and budgeting are based on the CPD Document and relevant MOU. The CPD indicates the allocation of various sources of financing against specific components and activities with defined expected outputs to be achieved over the project periods. Therefore, budgets are to be prepared and reviewed on annual basis over the periods for the grant utilization and in accordance with allocations made in the CPD.

All work plans together with budget will be discussed and endorsed at each meeting of the Project Review and Program Executive Committee Meetings.

In budgeting for in- and out-of-country travel, Minister of Finance Ministerial Decision 2000/MoF and any related notifications by TFM or the Ministry of Finance on the use of official development assistance are to be followed.

VII. Fiduciary and Financial Management

Procurement Procedures. The NIU will be responsible for fiduciary management such as (a) procurement of goods, (b) procurement of services, and (c) financial management.

Procurement procedures of the project will follow the World Bank's Procurement Regulations for IPF Borrowers issued September 2025 (Procurement Regulations").

Procurement of Goods. Procurement of goods will be conducted in accordance with

1) National Competitive Bidding procedures of the World Bank Procurement Guidelines (September 2025);

2) Public bidding procedures specified in the Decree of Government Procurement of Goods, Works, Maintenance and Services dated 9 January 2004; and

3) Implementing Rules and Regulations (IRR), Ministry of Finance No. 0063/MOF, 12 March 2004.

The latter two, 2) and 3), will be taken into account to the extent that the Decree and IRR are consistent with the World Bank Procurement Guidelines.

No	Procurement Method		Procurement Method Threshold
1.	ICB (Goods)	International Competitive Bidding	>USD 100,000
2.	NCB (Goods)	National Competitive Bidding	<USD 100,000
3.	Shopping (Goods)	Compare Quotations	<USD 30,000
4.	Direct Contracting (Goods)	Limited supplier or only 01 supplier	-

Procurement of Services. Selection Guidelines will be based on World Bank guidelines for the Selection and Employment of Consultants under IBRD Loan and IDA credits & Grants by World Bank Borrower.

No	Selection Method		Procurement Method Threshold	Prior Review Threshold
1	QCBS (Firms)	Quality- and Cost-Based Selection	>USD 50,000	>USD 100,000
2	QBS (Firms)	Quality Based Selection	>USD 50,000	>USD 100,000
3	CQS (Firms)	Selection based on Consultants' Qualification	<USD 50,000	First Contract

4	SSS (Firms/IC)	Single Source Selection	-	All
5	LCS (Firms)	Least Cost Selection	-	>USD 50,000
6	IC	Individual Consultants	-	>USD 50,000

Procurement of services will follow a procurement plan. For both components, a procurement plan will be developed within the first three months of the project by the NIU.

Accounting Policies and Procedures

Detailed policies and procedures, including asset management policy, are defined in separate Financial Management Manual approved in December 2025.

- *Applicable Accounting Standards.* Accounting standards and policies for EIF funded CPD will be aligned with other projects managed under the NIU, such as the LCTP Phase II. NIU has adopted the cash basis of accounting ("Cash Accounting") in accordance with the Government of Lao PDR and World Bank guidelines. Cash Accounting is appropriate for projects implemented by non-revenue earning entities. The project account is prepared on historical cost convention on double-entry accounting system.

- *Accounting Software.* NIU has been using *QuickBooks* accounting software for all active projects. The accounting system is based on a Cash Accounting method whereby revenues and expenses are recorded when cash is received or paid out.

Financial statements are prepared under the historical cost basis double entry accounting. No depreciation will be charged for fixed assets as these items are expensed in full during the month of purchase, and at the end of the project life all assets will be transferred to the Government of Lao PDR in line with the Government's asset management policy.

The reports are presented in US Dollars, in accordance with the requirements of the project.

- *Foreign Exchange Policy.* The project has adopted the Foreign Exchange Policy that is in line with the policy of the Lao Ministry of Finance.

- *Accounting Reporting Period.* The Government financial/accounting year covers 12 months from 1 January through to 31 December.

The Finance Report will follow the ATLAS Based template provided by UNOPS.

- The Report will be submitted to UNOPS and MOIC quarterly, 45 days after the end of each quarter (March, June, September, and December).

- Bank reconciliation will be completed at each month's end.

- *Audit requirements.* The project financial statements and accounts will be audited annually by independent auditor acceptable to NIU and UNOPS. The Finance Unit of the NIU will be responsible for maintaining an accurate accounting record that complies with International Accounting Standards.

External audit will be conducted by an independent and qualified audit firm in Lao PDR.

The Audit Report and accompanying audited financial statements should be ready and surrendered to UNOPS and relevant stakeholders no later than 6 (six) months after the end of the fiscal year or period which the audit covers. As the Lao PDR fiscal year ends on December 31, the audit reports are due to be submitted by June 31 of each year.

The scope of the audit shall be discussed and approved by UNOPS or relevant stakeholders before the selection of the auditor is made. The recruitment of Auditor will be conducted based on an appropriate procurement method to be determined by NIU.

VIII. Monitoring, Evaluation and Learning (MEL)

The Monitoring, Evaluation, and Learning (MEL) Plan is a critical management tool for the program. It establishes a systematic framework to track progress, measure results, ensure accountability, and generate learning to inform adaptive management. The program's MEL framework is built on a standard results chain, linking inputs and activities to outputs, outcomes, and the overall development objective.

The program's MEL functions are integrated into the existing governance and implementation structure.

Entity	MEL Responsibilities
Program Executive Committee (PEC)	• Provide strategic oversight on MEL • Review and endorse annual work plans and progress reports • Ensure that MEL findings inform policy direction

Entity	MEL Responsibilities
Project Review Committee (PRC)	• Review semi-annual progress reports and detailed work plans • Assess implementation progress against targets • Provide technical guidance on MEL findings
National Implementation Unit (NIU)	• Lead overall MEL coordination and implementation • Develop and maintain MEL systems, tools, and manuals • Consolidate progress data from provincial implementing agencies • Prepare semi-annual progress reports and annual reports • Manage mid-term and end-term evaluations • Include M&E role in project coordinator's TOR
Provincial Offices of Industry and Commerce	• Collect and report MEL data from provincial-level activities • Maintain records of training participants, PPD meetings, and partnership progress • Support field visits and evaluation exercises
ES and TFM	• Provide oversight and technical support on MEL • Conduct implementation support missions to review progress

Entity	MEL Responsibilities
	• Ensure compliance with donor MEL requirements

The program will employ a mix of quantitative and qualitative data collection methods to ensure a comprehensive understanding of progress and results. See Annex 5 for detailed MEL Plan.

IX. Communications Plan

Effective communication is essential to the success of this program. It will ensure that all stakeholders -government counterparts, development partners, private sector actors, and rural communities - are informed, engaged, and aligned with the program's objectives. This Communications Plan outlines the strategy, key messages, channels, and activities to be implemented throughout the program lifecycle.

This communications plan is designed to support the program's goal of strengthening Lao PDR's trade and industry by building effective institutions and connecting remote communities to markets. The primary objectives are to ensure broad awareness, foster active stakeholder engagement, maintain transparency, promote inclusivity, and strengthen coordination among all implementation units.

To achieve this, the plan is guided by ten principles, including a focus on inclusivity (reaching women, ethnic minorities, and rural groups), the use of multiple channels, dedicated budgeting, and a commitment to tailoring messages for specific program components. The plan is designed as a "living document" to adapt to emerging needs and lessons learned. This plan will be reviewed and updated annually to ensure it remains responsive to the program's needs and continues to effectively communicate its progress and impact. See annex 6 for detailed communication plan.

X. Risk Management and Mitigation

Program identifies key risks across five dimensions (Political, Economic, Social, Environmental, and Operational), assesses their likelihood and potential impact, proposes specific mitigation measures, and describes early warning mechanisms to enable proactive management. See annex 07 for risk management matrix. The risk management matrix is a living document that will be reviewed and updated annually. Below is summary of the key risks that could affect the program's implementation, along with the measures in place to mitigate them and the early warning signs to monitor. The risk management plan is a living document that will be reviewed and updated regularly. See annex 7 for risk management matrix.

XI. Value for Money (VfM)

The CPD intends to integrate core principles of VfM adopted by the EIF by moving beyond simply minimizing costs to achieving the best combination of economy, efficiency, effectiveness, and equity. This means ensuring that every intervention delivers optimal development outcomes while using resources responsibly and inclusively.

By systematically embedding the four pillars of VfM - economy, efficiency, effectiveness, and equity - into program design, implementation, and monitoring, Lao CPD can adopt the EIF Phase III approach. This not only enhances development impact but also strengthens donor confidence, facilitating continued resource mobilization for trade and industry priorities.

More importantly, from both value for money and project efficiency and effectiveness standpoints, the Lao CPD has adopted a strategy to maximize the use of national consultants and service providers. International consultants will be engaged only for sector-specific research and studies, as well as project mid-term and final evaluations, where international experience is critical. This is not a concession to "local hiring quotas" - it is a performance strategy that delivers higher quality outputs, faster, at lower cost, while building stronger local institutions. Detailed value for money framework is presented in annex 8.

XII. Partnerships and Resource Mobilization

The National Implementation Unit (NIU) under the Permanent Secretary Office (PSO) intends to leverage the Aid for Trade (AfT) governance framework and the policy dialogue platform of the Trade and Private Sector Working Group to strengthen partnerships and mobilize resources to effectively implement trade and industry development priorities in Laos. It is envisaged that at least USD160,000 will be mobilized from non-EIF TRTA to conduct research and studies on specific topics relating to trade and private sector development. In addition, at least 20% of resource for promoting integration of rural artisan crafts with regional value chains will be mobilized from participating lead firms (estimated amount of USD 290,000).

Component I activities will be implemented in closed coordination with LCTP Phase II, which supports national level PPD, and reform around business entry and NTM streamlining, rural enterprise development will be implemented in closed coordination with ADB funded Sustainable Agrifood System Project, which focuses on strengthening value chains in tea, coffee, casava, durian, and bamboo products Food, EU funded LEAD Project that focuses on improving SMEs' access to EU market, GIZ funded Women Economic Empowerment Project and others. Where possible, NIU will explore opportunities for join activities with relevant TRTA.

The AfT governance structure in Laos typically involves multiple stakeholders: line ministries (e.g., Ministry of Industry and Commerce), development partners, private sector representatives, and coordination bodies such as the Trade and PS Working Group. The NIU intends to use this structure to align priorities to ensure that project proposals and resource requests are directly linked to prioritized action matrix and enhance coordination to avoid duplication, identify funding gaps, and harmonize support from different development partners.

The Trade and PS Working Group will be primarily used to:

- Present evidence-based needs: Share data, lessons learned, and success stories from ongoing projects to demonstrate impact and justify resource mobilization.
- Engage proactively: Co-chair or actively participate in sub-groups focused on trade facilitation, private sector development, or industrial policy to shape agendas and build trust.
- Facilitate public-private dialogue: Use the platform to bring together government, business associations, and development partners, creating a unified voice for sectoral priorities.

Through consistent engagement in the AfT governance and Working Group mechanisms, the NIU will:

- Deepen collaboration with development partners: Position the NIU as a reliable implementing partner by showcasing technical capacity, transparency, and alignment with partner funding windows (e.g., EU, World Bank, ADB, bilateral donors).
- Foster private sector engagement: Encourage co-financing or in-kind contributions from private enterprises, especially in areas such as skills development, SME support, and trade facilitation infrastructure.
- Link with regional and global initiatives: Connect national AfT efforts with ASEAN, GMS, and WTO AfT platforms to attract technical assistance and funding beyond traditional bilateral channels.

Using the AfT governance structure as a coordination mechanism, the NIU will:

- Develop pooled funding proposals: Collaborate with other government agencies and development partners through the Working Group to submit joint proposals, reducing fragmentation and increasing the likelihood of funding.
- Leverage the AfT monitoring and evaluation framework: Use data on AfT flows to identify under-funded priority areas and tailor resource mobilization pitches accordingly.
- Tap into non-traditional sources: Present the AfT platform as a trusted entry point for foundations, impact investors, and emerging development partners seeking alignment with national strategies.

By strategically engaging with the AfT governance structure and the Trade and PS Working Group, the NIU intends to transform these platforms from information-sharing forums into active mechanisms for partnership building and resource mobilization. This approach will help secure sustainable funding, enhance coordination, and ensure that trade and industry development priorities in Laos are implemented effectively and inclusively.

XIII. Budget Summary

Budget Summary									
Activity	Year 01	Year 02	Year 03	Year 04	Year 05	Total	Sources of funding		
							FF1	FF2	Non-EIF
Outcome 1 ***Improved governance, coordination, and implementation effectiveness of trade and investment policy frameworks in Laos***	***159,800***	***210,750***	***240,500***	***195,500***	***106,500***	***913,050***	***658,050***	-	***255,000***
Output 1.1 Strengthened multi-stakeholder dialogue and coordination mechanisms for trade and investment policy	111,400	136,000	135,000	80,500	44,500	507,400	288,400		219,000
Output 1.2 Enhanced institutional capacity for results-based management and coordinated implementation of trade-related programs	48,400	39,500	59,750	56,000	59,000	262,650	226,650		36,000
Output 1.3 Strengthened investment promotion and facilitation systems at national and subnational levels	-	35,250	45,750	59,000	3,000	143,000	143,000		-
Outcome 2 ***Local economic development promoted through Increased private investment, trade competitiveness, and inclusive economic growth in the prioritized sectors***	***83,590***	***431,050***	***996,350***	***669,250***	***322,475***	***2,502,715***		***2,034,400***	***468,315***
Output 2.1 Institutionalized public-private dialogue (PPD) mechanisms to identify and address investment and trade constraints	58,340	71,200	98,700	102,700	102,700	433,640		358,940	74,700
Output 2.2 Improved market linkages, productivity, and export capacity of artisanal and producer groups through inclusive business models	25,250	359,850	897,650	566,550	219,775	2,069,075		1,675,460	393,615
3. Program management and operations	***60,890***	***223,980***	***176,980***	***131,980***	***140,980***	***734,810***		***534,800***	***200,010***
Total	**304,280**	**865,780**	**1,413,830**	**996,730**	**569,955**	**4,150,575**	**658,050**	**2,569,200**	**923,325**

XIV. Sustainability Strategy

Sustainability is embedded in the program's design to create lasting institutional capacity, private sector partnerships, and resilient economic opportunities for Lao PDR beyond the project's lifetime. This strategy outlines four interconnected pathways to ensure outcomes are maintained and built upon: (1) Institutional, (2) Economic and Private Sector, (3) Social, and (4) Knowledge and Financial Sustainability.

Pillar 1: Institutional Sustainability

The program strengthens the institutions responsible for ongoing trade and industry development by embedding capacity within existing government structures.

- Governance Structures (PEC and PRC): Formalized committees are supported with clear terms of reference and oversight routines, enabling them to continue coordinating trade-related technical assistance independently after the project ends.
- Capacity Building (NIU and Agencies): A comprehensive training program in project cycle management will equip government officials and provincial staff with upgraded skills in project management, procurement, and M&E that are transferable to future government functions.

- Inclusive Policy Dialogue: The Trade and Private Sector Working Group (TPSWG) will gain a robust, inclusive operational model, with gender and ethnic dimensions becoming a standard part of its agenda.
- Economic Analysis: A systematic mechanism for commissioning economic analysis will demonstrate the value of evidence-based policy making, creating a knowledge base and process that can be sustained by the government or partners.

Pillar 2: Economic and Private Sector Sustainability

This pillar ensures that improved business environments and commercial partnerships become self-sustaining.

- Local Public-Private Dialogue (PPD): PPD mechanisms in target provinces will be legally recognized, housed within provincial Chambers of Commerce, and owned by local government and the private sector, ensuring continued reform advocacy. Sustainability plan will be developed from the second year of project operations to ensure sustainability of PPD process beyond the project duration.
- Business Partnerships (Lead Firms and Producer Groups): Using a four-phase model focused on inclusive business plans and shared ownership, partnerships will evolve into normal commercial relationships based on mutual benefit, providing stable income streams and reliable market access independent of donor support. It is expected that established commercial relationships will be continued beyond the project life.
- Asset Transfer and Co-Investment: Assets provided under the program are co-financed by partners and transferred to the producer groups. This shared investment ensures stakeholders have a stake in the long-term productive use of the assets.

Pillar 3: Social Sustainability (GESI Mainstreaming)

Sustainable benefits require equitable distribution and empowerment of vulnerable groups.

- Capacity for Women and Ethnic Groups: Training materials in local languages and flexible delivery schedules ensure accessibility. Business skills training includes household negotiation to empower women to retain control over their income, building lasting agency and financial literacy.
- Inclusive Structures: Mandated representation of women-led SMEs and village groups in PPD structures, alongside inclusiveness criteria for lead firms, ensures marginalized voices become a permanent part of the local economic governance landscape.

Pillar 4: Knowledge and Financial Sustainability

This pillar focuses on the underlying systems and resources for long-term viability.

- Knowledge Management: The Monitoring, Evaluation, and Learning (MEL) framework systematically captures lessons and best practices, creating a knowledge repository for the government and partners to inform future programs.
- Financial and Procurement Systems: Strengthened financial management and procurement systems within the National Implementation Unit (NIU) serve as a lasting asset for the government, enabling more efficient management of future development assistance.
- Transition and Handover Plan: A formal plan developed in the final year will detail the transfer of assets, management responsibilities, and institutional capacities to permanent hosts, ensuring a structured exit without disruption. Through robust, sustainable systems (KM, financial systems, transition and handover plans), the turnover or departure of personnel can be mitigated.

The MEL framework will track key sustainability indicators, including the continued functioning of oversight structures, independent convening of PPD forums, the longevity of business partnerships, skill retention among trained staff, and proper asset maintenance. A post-project sustainability review will be conducted to assess the persistence of outcomes.

FFI-funded interventions (Outcome I and Output 1 of Outcome II) underpin the long-term success of FF2 interventions, which include local PPD activities (Output 2) and textile value chain development (Outcome III).

Outcome I support this in two critical ways. First, the LBF-TPSWG linkage creates a formal bottom-up escalation channel: provincial bottlenecks identified in the six Public-Private Dialogues move through the LBF to the TPSWG and ultimately to the Prime Minister-chaired LBF. This ensures that local data shapes national policy, giving provincial stakeholders a strong incentive to actively participate. Second, Outcome I builds PEC and PRC capacity in results-based PCM, strengthening the fiduciary and technical expertise needed at both central and provincial levels to manage the complex partnerships and interventions under Outcome III.