

Lao Upland Rural Advisory Service (LURAS)

Study of taxes and informal fees in value chains in Lao PDR





Netherlands
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ບໍລິການ-ສົ່ງເສີມກະສິກໍາຮອບດ້ານ ບສກຮ
LURAS Lao Upland Rural Advisory Service



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Executive Summary

SNV and Lao Farmer Network, under the framework of LURAS project, conducted a study to identify and collect the information on the formal and informal fees paid by farmers, traders and other actors in a number of value chains in different locations of the country.

The main goal of the study was to answer the following question, what are the formal and informal fees that value chains actors are paying to get their products from farm to market?

Interviews with producers, traders, market sellers and Government officials were conducted in five value chains, as follows: fresh products (vegetables) in Vientiane Capital, maize and livestock in the Northern Uplands, tea in the North and coffee in the South.

The study found that taxes and informal fees are relatively low for products that are oriented towards local markets, such as vegetables. Taxes and informal fees for higher value products that are mainly produced for export, such as coffee, are considerably higher. In most cases, the study found that producers and traders do not know what the source of the taxes and fees that they have to pay are and how these are calculated. This lack of transparency creates the opportunity for negotiation, which could potentially benefit both traders and officials. This study found that negotiation of fees is more prevalent in maize and coffee supply chains and less common in vegetables and tea.

Producers of vegetables, maize and tea pay small to no fees, with the taxes and fees concentrated in traders and retailers.

Taxes and informal fees represent between 1% and 10% of sales for retailers of vegetables in some of the main markets in Vientiane. For maize traders in Kham district in Xieng Khuang province, taxes and informal fees represent less than 1% of gross income, although nominally this is a significantly higher amount of money given the large volumes of maize that are being traded.

Cattle growers in Xieng Khuang pay taxes for the cattle they grow and for selling the cattle to traders. These fees represent about 10% of the gross income of each sale. Traders also have to pay taxes for buying and selling cattle and a number of export taxes. Overall, these fees represent between 8% and 10% of their gross income.

Coffee producers in Pakse pay limited fees to produce their coffee. Cooperatives and traders, in contrast, have to pay substantial taxes and fees in order to get their coffee exported. There are also plenty of informal negotiations and arrangements on the fees that have to be paid. Cooperatives or exporting companies have to pay around 3% of the value of each shipment in taxes and fees. This can represent up to 15% of their gross profit.

Finally, the study found that fees paid by tea traders represent around 1% of gross income and between 1.5% and 4% of gross profit.

This study found that while taxes and fees are relatively small for most producers and traders, different value chain actors would benefit from having more accessible and clear information on what taxes they have to pay and how are these calculated. A large-scale



survey among would further help in providing more data to understand how taxes and fees affect the competitiveness of agricultural value chains in Lao PDR.

Background

It is well known that farmers and traders need to pay formal (taxes) and informal fees to bring their products to markets. These include among others, fees to buy from certain villages and/or farmers, or to buy particular products; fees to use certain roads; fees to sell in particular areas or markets; and fees to export products. These payments can be levied by village, district, provincial or national authorities.

The World Bank's Enabling the Business of Agriculture report, which measures a number of indicators related to agriculture, gives Lao PDR a score of 37.10 (out of a possible 100 points) in overall enabling the business of agriculture¹. Specifically on Trading Food, Lao PDR receives a score of 38.19 (which is below an average of 50 points for the region). According to this study, it takes on average 96 hours to obtain agriculture-specific export documents at an average cost of US\$148, which is about the same time (96 hours) but a lower cost (US\$196) than in Thailand, but considerably longer time and higher cost than in Vietnam (72 hours and US\$35, respectively).

On the other hand, while several of the fees that farmers have to pay are stipulated in laws, decrees or other Government rulings, many of them are not formally recognised in any Government documents and are susceptible to change and/or variation depending on the season, the Government official in charge of collecting them and even personal relationships.

At present, it is not clearly known what is the size of the formal and informal fees that have to be paid by several value chain actors to bring products to markets, if these fees are similar in different parts of the country and/or for different commodities, and what is the impact that they have on prices and/or the competitiveness of these products versus products from other districts, provinces, countries.

This information can be useful for farmers, traders, buyers, Government officials and organisations working to improve value chains in Lao PDR, in providing concrete evidence of their impact and develop ways to address them. As such, SNV conducted a study in partnership with the Lao Farmer Network to gather evidence on the amount of money that different value chain actors have to pay in order to do business.

This study was conducted within the LURAS project framework, specifically under Component 2: Market systems in rural areas that are fair and profitable, implemented by SNV.

Objective

A study was conducted to identify and collect the information on the formal and informal fees paid by farmers, traders and other actors in a number of value chains in different locations of the country.

The main goal of the study was to answer the following question:

¹ World Bank. Enabling the Business of Agriculture. <https://eba.worldbank.org/en/data/exploreconomies/lao-pdr/2019> [Accessed on 4 June 2020]



What are the formal and informal fees that value chains actors are paying to get their products from farm to market?

Other questions that were explored in this study are:

- How are formal fees (taxes) communicated to farmers, traders and buyers?
- How are informal fees determined and how are they communicated/negotiated with farmers, traders and buyers?
- What can be done to simply/clarify/reduce the formal and informal fees that farmers, buyers, transporters and others pay to get their products to markets?

Target and geographic scope

The following table presents the different value chains that were covered by this study:

Product / value chain	Region	Markets
Livestock	Northern Uplands	Export
Fresh products (vegetables)	Central	Domestic
Processed (coffee, tea)	Northern Uplands South	Export and domestic
Maize	Northern Uplands	Export and domestic

Methodology

The study followed the following steps:

- Review of existing legal documents, such as laws, decrees, or rulings on national, provincial and district fees for each commodity studied.
- Interviews with farmers, traders, buyers, Government officials at relevant ministries at district, provincial and national level
- Analysis of data collected and preparation of a report.

Fieldwork

The fieldwork was conducted between August and December 2019. The fieldwork involved:

- Visiting at least 2 villages where each selected commodity is produced and discuss with farmers or farmer groups' representatives what formal and informal fees they have to pay to sell their products.
- Interview with at least 3 traders and buyers of each commodity to record what fees they have to pay to bring products to markets and how they learn about them.
- Interview with Government officials from different Ministries at district, provincial and national level to understand how formal and informal fees are set and communicated to producers and traders.

It is important to note that it is possible that the study may not have acquired a complete picture of the informal fees that farmers are expected to pay due to the sensitive nature of the topic and the presence of government officials during most of the interviews.



Findings

Vegetables

Six vegetable retailers were interviewed in the Morning Market in Vientiane. They sell a variety of vegetables including lettuces, coriander, dill, maize, cabbages, cucumber and other green leafy vegetables. They have been selling in the market for between one and ten years. Additionally, two vegetable retailers were interviewed in Phong Savan market. They sell vegetables such as cucumber, chilli, pumpkin and chayote. They supply their produce from the Morning market, Ossie market and others. Finally, four traders (wholesale sellers) were interviewed in Ossie market.

Several of the vegetable retailers interviewed in the Morning market buy their produce from traders from Paksé. Others buy vegetables from traders from Thailand.

All of these retailers claimed that they do not have to pay any fees or taxes when they buy the produce or on the road to the way to the market. At the market, they pay several set fees in order to sell their produce. These include:

- 10,000 LAK for parking
- 20,000 LAK per ton for unloading
- 25,000 LAK per day for m² for the selling space, for cleaning and for collecting garbage

None of the retailers get a receipt for the payments they make, nor do they know how these fees are set or if there is any law or regulation stipulating them. These fees represent a very small proportion of their sales.

These sellers sell between 1 and 2 tons of vegetables per day, or between 4,000,000 LAK and 8,000,000 LAK per day depending on the products they sell. As such, fees for selling represent less than 1% of their gross income.

Two vegetable retailers were interviewed in Phong Savan market. They sell vegetables such as cucumber, chilli, pumpkin and chayote. They supply their produce from the Morning market, Ossie market and others.

These retailers have to pay fixed fees for the use of the market space and specific services, as follows:

- 5,000 LAK per trip per cart to move their produce from their truck to their stall
- 40,000 LAK per day for a space to sell
- 3,000,000 LAK per year to the market
- 60,000 LAK per month to district (tax)
- 2,000 LAK for water

Retailers receive receipts for their payments of space in the market and the yearly fee paid to the market. They also get receipts of the monthly fee they pay to the district and they have a Government document that explains that they have to pay this.



Some sellers have to pay additional fees when buying the produce at Ossie market:

- 5,000 LAK for parking
- 10,000 LAK per cart to move their produce from their truck to their stall

These retailers sell between 500,000 and 1,000,000 LAK per day. Taxes and fees for operation take between 5 and 10% of daily sales.

One meat seller was interviewed in Phong Savan market. She sells between 2,000,000 and 3,000,000 LAK per day. She pays the following fees:

- 70,000 LAK per day for space to sell
- 20,000 THB per year to the market
- 90,000 LAK per month to district (tax)
- 5,000 LAK for water
- 15,000 LAK per inspector for inspection

These fees represent a small proportion of her sales, with the fees taking between 3% and 5% of her daily sales.

Maize

To gather data on fees to conduct business in the maize value chain in Xieng Khuan Province (XKH), two maize traders were interviewed in Kham district. Additionally, the head of the Import-Export Provincial Office in Xieng Khuan was also interviewed.

According to the Import-Export Provincial Office in XKH, all the information regarding taxes and fees that traders have to pay is on the internet. Additionally, when businesses register they get a book with a description of all the taxes they have to pay.

However, according to the Government official interviewed, even when taxes are set they can be changed. For example, according to the latest regulations, traders have to pay 200,000 LAK per ton of maize exported, but Government wants to support maize traders so they ask them to pay only a percentage of the volume exported. This is not written in law. It is decided by the tax office in conjunction with the Import-Export Office in XKH when the trader informs the Government of the export. Farmers who export directly do not have to pay tax.

For imports of inputs, companies get exclusivity rights to import and distribute seed at the national level. The import taxes vary by province. In XKH, there is no tax for seed imports. About 500 tons of seeds are imported per year.

Two maize traders were interviewed in Kham district. Traders get licences from Provincial offices to import inputs – seeds and fertiliser – and to export maize or to sell to exporters. One trader interviewed has a partnership with Government. They do all the paperwork to import and export for him. He pays taxes for import of inputs (undisclosed) but he has no idea how those taxes are calculated. He also pays a monthly tax of 60,000 LAK to the District to operate his business.

This trader works closely with 4 villages in Kham district. He sells them 12 tons of maize seed per year. He buys maize from many villages in the district. He buys more than 1,000



tons of maize per year. He sells the maize to different buyers, but mainly to two Chinese and one Vietnamese buyer.

A second trader, also based in Kham, buys maize from many farmers in several districts, including Nongket, Kham, Phoukot, Men Soui, Khun and Moung. He buys up to 50,000 tons of maize per year, both in cobs and in grain. He then transports the maize to his mill, threshes and dries it and then ships it to Vientiane.

He has to pay 20,000 LAK per ton for transportation and a fee of 15,000 LAK to get a stamp. He also pays 380,000 LAK for a monthly tax. He transfers this payment electronically to a Government bank account. He pays quarterly 170,000 LAK to the Province. He does not know how these taxes are calculated and he claims that he is able to negotiate all these payments with Government officials. All these fees represent a very small proportion of his sales, with an estimated cost of less than 1% of gross income.

The payment for an operating licence was undisclosed.

Cattle

To collect data on formal and informal fees in the beef value chain in XKH province, the research team interviewed the Deputy Head of Livestock Section of the PAFO, two representatives of farmers groups and one trader.

The Deputy Head of Livestock Section at PAFO XKH mentioned that all taxes and fees that cattle producers and traders have to pay are clearly stated in a Provincial Executive Order². According to these decree, traders have to pay 50,000 LAK per head of cattle exported. PAFO conducts an inspection and certifies cattle before export at no cost. At village level, farmers have pay 10,000 LAK per head sold, 5,000 LAK per head for inspection and 5,000 LAK for the revolving fund. According to the same official, there is no fee to trade cattle internally.

One cattle producer interviewed mentioned that he has to pay 15,000 LAK per head sold to the village chief. He also needs to pay 500,000 LAK per head of cattle raised per year to PAFO. Furthermore, in order to be part of the producer group he has paid 200,000 LAK. He does not know how these taxes or fees are calculated nor receives any receipts for payments.

Overall, these fees and taxes amount to about 10% of the income of selling each head of cattle, depending on their weight.

Another group charges 10,000 LAK per month per member and each farmer has to pay 10,000 LAK per head sold to the village chief. They do not pay any other taxes or fees. Inputs (vaccines) are free provided by ADB. They grow their own feed.

For the producers, these fees represent between less than 1% of the sale of a head of cattle.

A trader that was interviewed is member of a trader association that has 42 members in 7 districts of XKH. They sometimes import cattle from Thailand and they export cattle to

² Temporary Executive Order on the Administration on Livestock and Livestock Produce Movement and Penalties for the Offender in Xiengkhuang Province, No. 830/Governor. XKH, dated 8/9/2014



Vietnam and China. When they import cattle, they have to pay 3,500 Baht export tax per head to the Thai Government. There are no fees to pay for import of cattle on the Lao side.

Additionally, he has to pay a monthly tax of 550,000 LAK to the Provincial Government and 50,000 LAK to the village head per head bought and/or sold.

Finally, when exporting, at the border, he has to pay 76,000 LAK per head to PAFO as an export fee. He also pays LAK 10,000 per head in border fees and 5,000 LAK per head to the village at the border. When transporting cattle, these traders pay to the police from 100,000 to 150,000 LAK per district per trip. He does not receive receipts for any of these payments and he claims that most fees are negotiable. He does not know how fees are calculated.

For these traders, these fees represent between 8% and 10% of their gross income from the sale of cattle.

Coffee

The research team interviewed two cooperatives and two companies in Pakson, one farmer in Phou-Oi village, and four Provincial Government officials. Being a high value crop that is produced mainly for export, production and trading of coffee commands more and higher formal and informal fees than other lower value commodities that are traded mainly in local markets, like vegetables.

The interviews revealed that coffee farmers in Pakson pay an annual land use tax of 40,000 LAK/ha. In the case of cooperatives, buyers pay the cooperative 1,000 LAK/kg fee for collecting the coffee from farmers.

A cooperative provided the following payments and costs per export, which can be one or two containers. These fees are usually paid by the buyer:

Phytosanitary inspection – 1,400,000 LAK (but they only get a receipt for 500,000LAK)
Quality control certificate – 2,500,000 LAK (but they only get a receipt for 1,300,000LAK)
Export certificate and CO – 770,000 LAK (but they only get a receipt for 220,000 LAK)
Taxes and fees paid at the provincial level – 17,818,054 LAK
Other fees charged at border – 2,560,000 LAK (but they only get a receipt for 360,000LAK)

As the figures show, transaction costs are high in this value chain. These costs represent about 2% of the value of the shipment or around 10% of the gross profit. Furthermore, as the figures indicate, the organisation that pays for these fees, only gets a receipt for part of the payment, suggesting that the other part of the payment is not registered in the relevant office.

This cooperative claimed that if they wanted to get all these fees and taxes processed by themselves, they would have to pay 5,000,000 LAK to a local shipping company who has good relationships with the local authorities. This process would take between 3 to 7 days. If they wanted the documents to be processed quickly, they would have to pay an additional 500,000 LAK to each provincial officer involved, typically around four.



A small company that exports coffee to Europe shared the costs they incur to export the coffee they buy from farmers:

Lump sum for shipping service (including all fees paid to Government) – 16,500,000 LAK per shipment (which can be up to two containers)
Taxes (VAT and profit tax) and service charge of PFO – 17,818,054 LAK

These costs represent about 3% of the value of the shipment or around 15% of the gross profit.

This company claimed that if they wanted to get all these fees and taxes processed in 3 days they would have to pay an additional 2,000,000 LAK to local authorities.

In addition to these costs, both the cooperative and the company claimed that trucks are stopped by police on the way to the border and drivers need to pay discretionary fees for which they do not receive any receipts. Typically, every truck would have to pay between 30,000 LAK and 50,000 LAK on the road to Pakson. Additionally, trucks have to pay for a road fee of 70,000 LAK at Pakson, for which they would receive a receipt.

As this cases show, the costs that coffee producers and traders have to sell and trade coffee are nominally and relatively much higher than the costs that producers and traders of other lower value commodities mainly sold in local markets have to pay.

Tea

Interviews were conducted with a representative of a farmer group, the head of a farmer group, a processing group, and two processing factories in Phongsaly district, Phongsaly Province. In addition, interviews with six Provincial Government officials were conducted.

The data collection showed that farmers pay limited taxes or fees for the production and commercialisation of tea. Farmers pay 2,000 LAK/ha as land use tax to the Village Administrative Office every year which represent a very small proportion of their income from sale of tea.

Traders and processors have to pay a number of fees. For instance, a green tea processing factory pays the following fees and taxes:

Planted Crop Moving License – 50,000 LAK per shipment
Inspection charge – 70,000 LAK + INVOICE (1,000 LAK) per shipment
Certification of Export – 40,000 LAK
Service charge – 10,000 LAK + INVOICE (1,000 LAK)
Profit tax – 24% X 5%
Income tax – 12% X 5%
Issuance of tax invoice and payment order – 500,000 LAK / ton
Certificates to move produce to China – 60,000 LAK + INVOICE (1,000 LAK)
Export license – 80,000 LAK
Certificate of Origin – 200,000 LAK + INVOICE (1,000 LAK)

Customs clearance broker service China – 900 Yuan for 1 ton
Weight bridge – 20 Yuan



For one company the fees and taxes paid on the Lao side represent roughly 0.8% of gross sales and about 1.5% of gross profit. For another company the fees and taxes paid on the Lao side represent roughly 1% of gross sale and about 4% of net profit.

Conclusions

This study looked at what are the taxes and informal fees that are paid by various value chain actors to get products to markets. To do this, the research team talked to a number of informants including Government officials, producers, traders and market sellers. The study arrived at the following conclusions:

- Different value chains seem to have radically different taxes, even for taxes that are usually standard, such as VAT and profit tax. It is not clear if this is the result of Government's tax planning and strategy or the lack of proper implementation of taxes in different provinces.
- Taxes and other fees seem to be a relatively small proportion of sales for producers and traders of low value commodities that are mainly traded locally, such as vegetables.
- Overall, taxes and informal fees represent only between 1% and 10% of sales for retailers of vegetables in some of the main markets in Vientiane.
- For producers and traders of cattle in the Northern Uplands, the overall estimated 10% tax/fees on income will have an important influence on farmers' decision to grow cattle for sale in comparison with other commodities, such as maize.
- On the other hand, taxes and fees represent a higher proportion of sales and profits of traders of higher value commodities that are produced mainly for export, such as coffee and tea. For coffee traders, fees and taxes represent between 2% and 3% of the value of the products. For tea traders this is slightly lower at around 1% of the value of the sale.
- While some taxes and fees can be clearly stated and published in a law, decree and in some cases even in a website (eg maize in XKH Province), most small scale traders and many larger scale traders do not have a clear knowledge of what taxes they have to pay. This lack of proper dissemination and transparency prevents good business planning and leaves ample room for arbitrariness and exploitation.
- Furthermore, discretionary fees are common for a wide number of actors, such as road police, officials at different Government offices, and officials at the border. It seems that most of these payments tend to be relatively small (e.g. a few thousand LAK), but in conjunction they can add up to a relatively high amount.
- Large-scale traders were not comfortable sharing with the research team if and how much they have to pay to obtain operating and trading licences and permits. However, they all admitted that in the close-knit localities in which they work (e.g. Kham, Pakson and Phongsaly districts) having and maintaining "good relationships" is essential for their businesses.
- While this uneven and disparate collection of taxes and fees by a wide number of officials at District and Provincial levels creates an unfair business environment, it does not seem to be a barrier for entry in most activities in value chains, except perhaps for trading of maize in Xieng Khouang where large payments are apparently necessary.
- Further research using a large-scale survey would help in providing more data to understand in more detail how taxes and fees affect agricultural value chains.
- Additionally, it would also be useful to understand if the recent restrictions in transportation and trade due to COVID have affected the demand and collection of informal fees and taxes and to what extent.