



Report

National Forest Finance Assessment

Lao PDR

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The EU-funded [Forests for the Future Facility \(F4F\)](#) provides technical support to contribute to healthy forest ecosystems and forest-related value chains in Asia, Africa, the Caribbean and Latin America. The Facility is managed by [DG International Partnerships Unit F2 – Environment, Natural Resources, Water](#).

F4F is working in collaboration with CIFOR-ICRAF on the Forest Finance Assessment reports.

Assessment context

This assessment of existing forest financing instruments at country level operates as the foundation for a proposed EU-funded Action ‘Financing for Forest’ FFF.

The Action intends to boost financing for forests at global level, by generating and sharing knowledge widely. In selected partner countries, technical assistance (TA) for the implementation of specific forest finance solutions/instruments will be provided. Prior the Action, an assessment is carried out in up to 15 countries to 1) help define which forest finance solutions will be tested and piloted and in selected countries (up to 7 countries will be selected for the Action “Financing for Forest”), 2) help EU Delegations (EUDs) and partners in other countries get a better understanding of existing financing mechanisms, and 3) generate knowledge about selected financial solutions/instruments.

As a preparatory step for the proposed EU-funded Action “Financing for Forests” (FFF), an assessment of forest financing instruments has been carried out in 11 partner countries. Implemented by CIFOR-ICRAF under the Forests for Future Facility (F4F) between February-October 2025, this assessment provides an overview of existing and innovative mechanisms that can enhance the mobilisation of finance for sustainable forest management.

Disclaimer

This publication was produced with the financial support of the European Union. Its contents do not necessarily reflect the views of the European Union.

This assessment has been developed based on consultations with stakeholders and inputs from subject matter experts. It is important to note that the findings and recommendations presented herein do not necessarily reflect the official forest finance priorities or the positions of the national government.

The content is intended to provide insights and support discussions in the context of forest finance but should not be interpreted as an endorsement of any specific policy or strategy.

Project implemented by:



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Acronyms

ADB	Asian Development Bank
APB	Agriculture Promotion Bank
AFD	Agence Française de Développement
BAF	Business Assistance Facility
BoL	Bank of the Lao PDR
CBF	Conservation-based Financing
CDB	China Development Bank
CIFOR–ICRAF	Center for International Forestry Research and World Agroforestry
CLIPAD	Climate Protection through Avoided Deforestation
DFRM	Department of Forest Resource Management
DoF	Department of Forestry
EDL	Electricité du Laos
EFSD+	European Fund for Sustainable Development Plus
EPF	Environmental Protection Fund
ERPA	Emission Reductions Payment Agreement
ESG	Environmental, Social and Governance
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FCPF	Forest Carbon Partnership Facility
F4F	Forests for the Future Facility
FLEGT	Forest Law Enforcement, Governance and Trade
FPF	Forest Protection Fund
FP117/FP200	GCF-approved forest project codes
GCF	Green Climate Fund
GEF	Global Environment Facility
GGGI	Global Green Growth Institute

GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoL	Government of the Lao PDR
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
INDC/NDC	Intended/Nationally Determined Contributions
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LNCCI	Lao National Chamber of Commerce and Industry
LDCF	Least Developed Countries Fund Lao PDR
LSCO	Lao People's Democratic Republic Lao Securities Commission Office
MAF	Ministry of Agriculture and Forestry
MIP	Multi-Annual Indicative Programme (EU) MONRE Ministry of Natural Resources and Environment
MoF	Ministry of Finance
MPI	Ministry of Planning and Investment
MRV	Measurement, Reporting and Verification
MTP	Mekong Timber Plantations
NBCA/NPA	National Biodiversity Conservation Area / National Protected Area
NBAP	National Biodiversity Action Plan
NDC	Nationally Determined Contribution
NDF	Nordic Development Fund
NTFP	Non-Timber Forest Product
PA	Protected Area
PES	Payment for Ecosystem Services
PFM	Public Financial Management
REDD+	Reducing Emissions from Deforestation and Forest Degradation
SDG	Sustainable Development Goal
SDG 18	Lao PDR's national goal for UXO-free development
SME	Small and Medium-sized Enterprise

SOE	State-Owned Enterprise
TAFF/TAFF2	Tropical Asia Forest Fund (phases 1 and 2)
TLAS	Timber Legality Assurance System
ToR	Terms of Reference
TWG	Technical Working Group
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UXO	Unexploded Ordnance
VFMP	Village Forest Management Programme
WB	World Bank
WWF	World Wide Fund for Nature

Executive Summary

Lao PDR is at a critical juncture in balancing development needs with the conservation of its rich forest resources. Forests remain central to livelihoods, ecosystem services, and the country's international commitments under the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Yet, despite progress in policy reforms and donor support, the financing gap for achieving national forest and climate targets is significant. Estimates suggest that around US\$4.8 billion will be needed by 2030 to reach the government's ambition of restoring forest cover to 70% of national territory, strengthening protected area management, and scaling sustainable forest value chains. While forest-sector needs are expressed to 2030, SME and climate-related finance gaps are projected to 2035, reflecting longer investment cycles and planning horizons.

At present, most of the forest finance in Lao PDR comes from international public sources, including bilateral and multilateral development partners. Programmes such as the Forest Carbon Partnership Facility, EU initiatives, ADB's landscape and green growth operations, and various conservation finance initiatives led by WCS have contributed important momentum. However, finance flows remain fragmented, often project-based, and insufficiently coordinated with national financing platforms. The Environmental Protection Fund and Forest Protection Fund, while established to serve as central vehicles for mobilising and managing resources, are under-capitalised and require clearer mandates and governance arrangements to fulfil their potential. New and innovative finance instruments are beginning to emerge. Carbon markets offer a significant opportunity, with Lao PDR already generating initial results through the Emission Reductions Payment Agreement (ERPA). Biodiversity credits and debt-for-nature swaps are being explored, and the first domestic green bond issuance has taken place, albeit outside the forestry sector. Payment for ecosystem services (PES) schemes and blended finance approaches for SMEs and eco-tourism enterprises show potential but remain in early stages. To unlock

these opportunities, enabling policy frameworks, fiscal incentives, and strengthened institutional readiness will be essential, alongside stronger engagement with the private sector. Unlocking private sector investment will be crucial, which is estimated to represent several billion dollars of potential capital in sustainable forestry, plantations, eco-tourism, and green value chains; this is essential to closing the gap, as public and donor resources alone will not be sufficient.

The report identifies three strategic shifts that are needed to bridge the financing gap. First, recapitalisation and reform of national funds to serve as effective intermediaries, pooling resources and aligning with fiscal policy. Second, development and scaling of innovative instruments to attract private investment, including PES, carbon finance, green bonds, and biodiversity credits. Third, demonstration of integrated landscape models that bring together production, protection, and community livelihoods within a single investment framework. The Khammouane Green Growth initiative, supported by EU Team Europe partners, stands out as a promising model for replication in other provinces.

To illustrate how these shifts could be operationalised, an indicative pipeline of eight potential bankable projects has been outlined. These cover forest restoration, sustainable plantation forestry, biodiversity and protected area management, eco-tourism, and green value chains such as coffee, rattan, and bamboo. While the proposed ticket sizes and financing instruments are preliminary, the pipeline demonstrates how financing gaps can be translated into concrete opportunities that mobilise both public and private capital. This provides a starting point for developing more detailed investment plans in partnership with government, development partners, and the private sector.

Ultimately, bridging the forest finance gap in Lao PDR will require strong political leadership, improved coordination across sectors, and an enabling environment that reduces risk for private investment.

If these elements are put in place, forests can become a cornerstone of inclusive green growth, contributing not only to biodiversity conservation and climate resilience but also to jobs, sustainable livelihoods, and fiscal revenues. The challenge is considerable, but so is

the opportunity: with the right mix of instruments and partnerships, Lao PDR can position itself as a regional leader in nature-based finance and demonstrate how forests can drive sustainable development in the Mekong region.

Introduction

This report presents a comprehensive national assessment of forest finance in Lao PDR, prepared by an independent consultant under the direction of Center for International Forestry Research and World Agroforestry (CIFOR-ICRAF) and Forests for the Future Facility (F4F) in close consultation and collaboration with the EU Delegation in Laos, national stakeholders and development partners. It analyses the spectrum of financial instruments, mechanisms, and projects influencing forest sector investments across public, private, and donor-supported initiatives.

This assessment examines how forest finance contributes to national priorities in sustainable forest management, biodiversity conservation, forest-based industries, and climate change mitigation and adaptation. It assesses the effectiveness, scalability, and alignment of financial flows with key national strategies—such as the Forest Strategy 2035, NDC, and Green Growth Strategy 2030—as well as global frameworks like the Paris Agreement, SDGs, and the Kunming–Montreal Global Biodiversity Framework.

It reviews a range of financing sources, including domestic public budgets, international grants and concessional loans, private investments, carbon finance, and Payments for Ecosystem Services (PES). The analysis identifies critical financing gaps across key forest segments and evaluates forest finance instruments in terms of their impact, scalability, inclusiveness, and market potential.

This assessment distinguishes between direct forest finance instruments—such as PES, carbon markets, and national funds—and enabling programmes that create the conditions for their use. The latter includes initiatives like TICA and its ProFEB project, which support policy reform, forest protection, value chains,

and forestry education. While not instruments themselves, such programmes are essential to scale forest finance in Lao PDR.

The methodology is based on the EU-funded Forests for the Future (F4F) Facility and CIFOR-ICRAF's Guidance for National Forest Finance Assessments. It included a comprehensive desk review of national policies, legal frameworks, strategic plans, and project documents. This was complemented by project and stakeholder mapping to compile an inventory of ongoing and completed forest finance initiatives, assessing funding sources, implementing partners, and alignment with national forest sector goals.

Stakeholder consultations were central to the process. These included a technical roundtable with key stakeholders and targeted interviews with representatives from government agencies, development partners, civil society, financial institutions, and the private sector. Participants endorsed Payments for Ecosystem Services (PES), biodiversity offsets, improved access to finance for communities, environmental taxes and revenue sharing mechanisms, results-based payments and blended finance as the most promising instruments for scaling up in Laos. The main barriers identified included unclear legal frameworks, weak enforcement of existing regulations, limited market readiness, and a lack of financing for communities and smallholders. As next steps, stakeholders endorsed prioritising finalising the national PES framework, developing the green finance taxonomy, and strengthening cross-sector coordination to advance implementation of these solutions. Building on this consensus, the feedback from consultations

highlights that the Study provides a timely and evidence-based roadmap for addressing Laos's forest finance gap.

This assessment provides the EU with targeted recommendations to strengthen forest finance,

institutional capacity, and access to climate and biodiversity funding. It supports the MIP 2021–2027 for Laos and aligns with the EU Green Deal and Global Gateway by promoting sustainable value chains, climate resilience, and improved public finance systems.

Key findings

Lao PDR faces a projected forest and climate finance gap estimated to be ~ US\$4.8 billion by 2030. For this report, this figure is projected forward to 2035, equivalent to ~ US\$480M per year. Public allocations remain below US\$1M annually, leaving the sector highly dependent on donors and private investment.

- **Protected and protection forests:** NPAs receive ~ US\$7.8–8M/year against needs of ~ US\$19.7M, leaving a US\$10–15M gap. PtFAs receive ~ US\$1.5–2M/year against the needs of ~ US\$8.2M. Together with SFM (~US\$2M gap), this amounts to an annual shortfall of ~ US\$19.9 – 20.6M. Total annualised needs across NPAs, PtFAs, and PFAs are ~ US\$29.9M/year — far above current allocations.
- **Cumulative investment:** To date, ~ US\$1.9B has been mobilised, including ~ US\$472M in donor grants and concessional loans and ~ US\$1.4B in private capital (mainly plantations and processing). These are multi-year and capital expenditures, not recurrent flows, and therefore do not close annual management gaps.
- **SMEs and private sector:** SMEs face up to US\$1.2 billion in financing (~US\$120M/year up to 2035), including ~ US\$340M for women-owned firms. While SMEs account for 99% of businesses, most remain excluded from forest finance. Large investors (Sun Paper, VRG, Burapha, MTP, SilviCarbon) have invested > US\$1.4B in plantations and processing, while smallholders remain constrained by insecure tenure, weak credit access, and certification barriers.
- **Carbon and REDD+:** Around US\$168M has been mobilised through REDD+ and climate/carbon finance, including US\$16M disbursed

under the FCPF ERPA (82% to communities), with a further US\$26M conditional. Private engagement is emerging (e.g. Burapha's VCM issuance ~ US\$1.3M; Green Synergy pipeline). Scaling requires operationalising the Carbon Decree (2025), transparent benefit-sharing, and stronger MRV.

- **National funds:** The FPF has declined from ~ US\$1.7M (2014) → ~ US\$0.8M (2017) → ~ US\$170k (2021), leaving it dependent on irregular inflows. The EPF, established in 2005, has mobilised > US\$50M (LENS I & II closed programmes), supported 1.3M ha, and reached ~15,000 beneficiaries. Both remain under-capitalised but could serve as central platforms for biodiversity, climate, and REDD+ finance if recapitalised and strengthened.

Achieving the **70% forest cover target** will require **US\$200M–1.4B** in restoration investment, while managing existing forests demands ~ US\$29.9M/year. Barriers include limited legal frameworks (for PES, biodiversity credits), weak subnational capacity, insecure land tenure, and fragmented coordination. Overall, with targeted reforms, Lao PDR can move from fragmented projects toward a coherent, investment-ready forest finance system that supports climate action, biodiversity, and livelihoods.

Significant opportunities exist in recapitalising and strengthening national financing platforms, such as the Environmental Protection Fund (EPF) and Forest Protection Fund (FPF), to create a more coordinated approach to forest and climate finance. Finalising frameworks for Payments for Ecosystem Services (PES) and carbon markets, along with expanding blended

Table 1: Summary of Recommended Forest Finance

Forest finance solutions	Expected impact	Support needed	Source of finance
Policy alignment (stronger fiscal policies and revenue collection, bonus-malus incentives for sustainable practices)	Reduces policy conflicts, grows public budgets, rewards sustainable management, boosts finance readiness	Legal review, fiscal design, coordination	Public, blended funds, earmarked revenues
Strengthen the EPF platform.	Scales climate/biodiversity finance access	Institutional capacity, local access	Public, donor, blended
Scale PES & carbon finance	Incentivises conservation, unlocks value	MRV, legal framework, buyers	Private, blended
Finance forest SMEs & value chains	Supports livelihoods, reduces pressure on forests	TA, concessional finance	Blended, private
Enable biodiversity credits & green bonds.	Attracts private capital, supports NBS	Legal/taxonomy setup, investor pipeline	Private, blended
Enhance donor coordination	Improves efficiency, scales investment	Donor forums, aligned planning	Public, donors
Integrate forest and broader climate finance into PFM system	Aligns budgets with climate goals	Budget tagging, MoF–MoNRE links	Public, TA

finance for small and medium-sized enterprises (SMEs) and eco-tourism, will help attract private investment and generate sustainable funding for environmental conservation.

Scaling integrated landscape programmes and piloting the Khammouane Green Growth Model offers a pathway to align forest production, protection, and National Protected Areas (NPAs) within a coherent, investment-driven framework. These initiatives can harmonise environmental and

economic priorities, fostering green growth and sustainable development.

To ensure long-term sustainability, the Lao PDR must prioritise the development of sustainable revenue streams through mechanisms such as carbon markets, PES, eco-tourism revenues, biodiversity credits, and NPA financing via EPF and FPF. This will reduce dependency on donor funding and create predictable, domestically anchored financing for forest conservation and rural development.

Overview of the forest sector and performance gaps

The forest sector in Lao PDR is central to both the economy and the environment, but it faces challenges in balancing growth with sustainability. Historically, deforestation and forest degradation have been driven by agricultural expansion, plantation development, and infrastructure projects. More recently, population and economic growth have intensified competition for land, while rising incomes in Laos and the wider region have fuelled demand for agricultural products and timber.¹ Globally, shifting markets toward wood fibre and cellulose-based products are expected to sharply increase demand for plantation wood, with projections suggesting that wood harvesting may need to quadruple by 2050.² For Lao PDR, this trend presents economic opportunities but also the risk of further accelerating deforestation if expansion is not carefully managed, underscoring the urgent need for sustainable practices that align economic development with forest conservation.

3.1 Forest Sector Overview

Forests are an important contribution to Lao PDR's economy, ecosystems, and rural livelihoods—supplying timber and non-timber products, conserving biodiversity, protecting watersheds, and storing carbon. The sector underpins national priorities through forest restoration, community forestry, and emerging mechanisms like carbon finance and payments for ecosystem services (PES).

¹ World Bank. (2020). *Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs, and Resilience*. World Bank Group.

² Hetemäki, L., Palahí, M., & Nasi, R. (2020). *Seeing the Wood in the Forests*. European Forest Institute

The Forestry Law (2019)³ and Forest Strategy 2035⁴ are the foundation for Laos' forest governance, aligned with climate commitments, SDGs, and the Green Growth Strategy⁵. The government promotes a co-existence model that links conservation with livelihoods, supported by reforms to enhance institutional capacity and enable scalable forest finance.

Lao PDR aims to increase forest cover⁶ from 62% (2020)⁷ to 70% in 2030⁸, promoting sustainable forest management (SFM), restoration, and a green forest economy—one that balances community access to forest resources with commercial production.

Forests in Lao PDR are classified into Production Forests, Protection Forests, and Protected Areas (NPAs) or Conservation Forests, managed through zoning and multi-use frameworks. Yet, the sector faces ongoing pressures from agricultural expansion, infrastructure development, illegal logging, insecure land tenure, and weak incentives for local communities – threatening national forest, climate and development goals. Financing may be tailored to each category: Production Forests through sustainable value chains and carbon markets; Protection Forests via ecosystem service payments and watershed management; and

³ Lao PDR, Forest Law (Amended), No.64/NA, 13 June 2019

⁴ Lao PDR. Ministry of Agriculture and Forestry. (2023). *Forest Strategy 2035*. Vientiane: Department of Forestry.

⁵ Lao PDR. (2018). *National Green Growth Strategy of the Lao People's Democratic Republic to 2030*. Ministry of Planning and Investment, Government of the Lao PDR, Vientiane.

⁶ GoL has allocated 16.5M ha to forestland (70% of total land area) and set target to increase the forest cover rate to 70% of country's area.

⁷ Lao PDR. Ministry of Agriculture and Forestry. (2023). *Forest Strategy 2035*

⁸ Lao PDR. (2020). Nationally Determined Contribution under the Paris Agreement, Ministry of Natural Resources and Environment

NPAs through global biodiversity finance, eco-tourism, and conservation funds. An integrated approach can align economic growth, ecosystem resilience, and biodiversity protection.

3.2 Key characteristics of the forest sector

Between 2000 and 2015, the forest cover declined by 2.9%; in 2017, losses were valued at US\$464 million (2.7% of GDP). As of 2020, forest cover is approximately 62%, below the national 70% target.⁹ Laos is a biodiversity hotspot and a signatory of the Convention on Biological Diversity (CBD) since 1996, guided by the National Biodiversity Strategy and Action Plan (NBSAP) (2016–2025) and aligned with the Kunming–Montreal Global Biodiversity Framework (GBF).¹⁰

Production Forest Areas (PFAs) in Laos cover 3.1 million hectares, with 2.2 million still forested (9.3% of the total land). The planned harvest volume in PFAs for 2020 was approximately 70,000 m³, but typically only 20–40% of this target is achieved because of inaccurate survey data, poor implementation, and shifting priorities. As of March 2020, five companies had identified over 400,000 hectares of degraded and barren land within selected PFAs for establishing plantations.¹¹

Forests provide vital ecosystem services, including watershed protection and climate resilience, contributing to ~6% of GDP and 10% of exports.¹² In 2018, Laos's wood exports reached US\$300 million, led by round wood (128.6 million) and sawn wood (108.4 million), with charcoal and wooden articles contributing the remainder. Key markets included China, Vietnam, Thailand, Japan, and South Korea. The sector continues to be shaped by export policy changes, domestic processing capacity, and cross-border trade dynamics.¹³

About 61% of the workforce is in agriculture and forestry, and over 70%¹⁴ of rural households rely on forests for food, fuel, and income. Shifting cultivation is practised by nearly 70%¹⁵ of the population and remains a major driver of forest degradation. NTFPs contribute about 39% of rural household income in Laos. On average, households derive US\$489 per year in subsistence value and US\$204 per year in cash income from selling products. This reliance is primarily driven by limited alternatives in remote and upland regions. In areas with poor infrastructure and difficult access to markets, forests remain the most accessible and affordable source of essential goods and income.¹⁶

3.3 National Targets and Stocktaking of Status

The forest sector in Lao PDR illustrates both the scale of the challenge and the potential of forests to drive sustainable development. Despite clear national targets and progress in policy reforms, persistent gaps in finance, enforcement, and capacity continue to limit outcomes. Addressing these challenges requires not only stronger governance and institutional frameworks but also innovative financing solutions that can unlock investment at scale. The following chapter reviews forest and climate finance flows in the Lao PDR. While public budgets, donor support, and emerging private investment provide important contributions, they remain far below the level needed to achieve forest, climate, and biodiversity targets. Closing these gaps will require better alignment of existing funds and the mobilisation of new, innovative financing mechanisms.

⁹ Lao PDR. Ministry of Natural Resources and Environment. (2021). *National Climate Change Strategy 2021–2030*. Vientiane: Government of the Lao PDR., p.25

¹⁰ Lao PDR. Ministry of Natural Resources and Environment. (2016). *National Biodiversity Strategy and Action Plan for Lao PDR 2016–2025*. Vientiane: MONRE

¹¹ World Bank. (2020). Lao PDR forest note: Toward sustainable forest landscapes for green growth, jobs, and resilience. Washington, DC: World Bank

¹² Wanneng P., Ozarska B., Phimmavong S., Belleville B., Davidson B. (2021). Timber trading and pricing of plantation grown teak (*tectona grandis* linn.F) in Laos. *Small-scale Forestry*, 20(4), 569–584

¹³ Lao PDR Wood Processing Sector Export Roadmap 2021–2025

¹⁴ *National Climate Change Strategy (NCCS)2021–2030*, p.21

¹⁵ UNDP. (2015). *Improving the resilience of the agriculture sector in Lao PDR to climate change impacts (IRAS)*. Vientiane: United Nations Development Programme.

¹⁶ World Bank. (2020). Lao PDR forest note: Toward sustainable forest landscapes for green growth, jobs, and resilience. Washington, DC: World Bank.

Table 2. National targets related to the Forest

Key Target Area	National Goal/Target	Current Status	Gap
Forest Cover	70% of national land by 2030/2035 (NDC ^a , Forest Strategy 2035, SDG 13,15)	~62% forest cover (14.7M) as of 2020 ^b	~8% shortfall (~2M ha); limited restoration due to finance and capacity constraints
Reforestation & Restoration	Large-scale forest landscape restoration aligned with climate goals (NDC, Forest Strategy 2035, SDG 13,15)	Mostly donor-driven and localised. The private sector is active in plantations.	Limited scalability; constrained by funding, technical capacity, and tenure insecurity
Sustainable Forest Management (SFM)	SFM and community forestry on 500,000 ha, incl. tree planting and NTFPs ^c (Forestry Strategy 2035, REDD+ ^d , SDG 12,15)	Sustainable Production Forest Management Plans in 78 PFAs, and 315 sub-management areas, 3.1 million Ha. ^e Pilots and village forestry models in place; larger private sector actors FSC-certified.	Partial implementation; hindered by institutional gaps and low market access for smallholders
Timber & Wood Industry	Develop a legal, certified, and value-added wood sector. ^f (Forest Strategy 2035, VPA-FLEGT, SDG 9,12)	Transition from raw extraction to certified/value-added ongoing; limited diversification and exports.	Infrastructure, enforcement, and market access remain key constraints.
National Protected Area (NPA) and Management (Conservation Forest Areas CFA)	Manage 4.8M ha (62%) Conservation Forest and conservation forestland. ^g 4.2 million hectares of NPA with co-management, biodiversity and enforcement ^h . (NBSAP, 7 National Report to CBD ⁱ), SDG 15)	Area of NPAs with co-management is 4.2M ha. integrating local communities and stakeholders into conservation efforts; EPF and REDD+ programmes support some areas	Many NPA are underfunded and understaffed; enforcement is weak due to financial gaps.

Note:

- a Lao PDR. (2020). *Nationally Determined Contribution under the Paris Agreement*. Ministry of Natural Resources and Environment.
- b *National Climate Change Strategy (NCCS)2021–2030, Forest Strategy p.iii*
- c *National Climate Change Strategy (NCCS)2021–2030* at least 100,000 ha of new planting should be for ecosystem protection in conservation/ protection forests, and ~400,000 ha for commercial purposes in production forests and other lands to supply sustainable raw material for wood industries
- d Lao PDR. (2020). *Lao PDR National REDD+ Strategy*. Ministry of Agriculture and Forestry
- e Lao PDR Forestry Strategy to 2035 and Vision to 2050, published by the Ministry of Agriculture and Forestry (MAF)
- f Lao PDR. Ministry of Industry and Commerce. (2021). *Wood Processing Sector Export Roadmap 2021–2025*. Vientiane: Department of Trade Promotion, Ministry of Industry and Commerce.
- g Lao PDR, Forest Strategy 2035
- h Lao PDR, Forest Strategy 2035
- i Lao PDR has not yet submitted its 7th National Report to the CBD; the deadline is 28 February 2026. The report is currently in drafting and data collection phase, coordinated by MONRE with UNDP support.
- j Wildlife Conservation Society (WCS). (2020). *Roadmap for Operationalizing the New Protected Area Policies in Managing and Financing National Protected Areas in Lao PDR*

Assessment of current levels of finance and investment

This chapter quantifies current annual finance flows, financing needs, and gaps by forest category, and distinguishes between cumulative programme-level commitments and private investment flows to provide context. Using a landscape approach—covering Protection Forest Areas (PtFAs), Protected Areas (NPAs), and Production Forests, alongside SME finance, carbon markets, and cross-cutting mechanisms—it shows where finance is concentrated, where major gaps persist, and where opportunities exist to scale. Figures are indicative and not exhaustive, but they are intended to provide a clear view of alignment with national targets. As outlined in Chapter 2, meeting the Forest Strategy 2035 (70% cover), NDC requirements, and REDD+ goals, NBSAP biodiversity targets, and the 2030 climate goal will require mobilising substantially higher levels of finance. To capture these needs in a realistic time horizon, forest-related categories are expressed to 2030 in line with near-term commitments, while SME and climate-related finance trajectories extend to 2035, reflecting longer investment cycles and the scale of transition required.

4.1 Forest Finance Context

Lao PDR faces severe fiscal pressure with public debt exceeding 108% of GDP and domestic revenue at just 8% of GDP. High debt servicing—averaging US\$1.3 billion¹⁷ annually, half owed to China—limits public financing for forestry and increases reliance on external support. Forestry remains a low-budget priority, with tagged public budget allocations of less

than US\$1 million per year¹⁸, making the sector heavily reliant on external funding. This has constrained budget allocations for the forest sector, making the sector highly dependent on donor support and private investment.

Despite contributing around 6% of GDP, the forest sector receives minimal domestic resources. Government contributions to the Forest Department's operational budget averaged just 7% during 2013–2018 (~US\$16,000 per year), while budgets for Protected Areas were as low as ~US\$5,000 annually¹⁹. The Forest Protection Fund (FPF)²⁰ has seen a sharp decline in resources—from ~US\$1.7 million in 2014 to ~US\$0.8 million in 2017²¹, and only ~US\$170,000 by 2021²²—leaving it reliant on legal harvest revenues and results-based payments.

As a result, government financing covers only a fraction of what is needed to manage Laos's extensive forest estate, leaving conservation and sustainable forest management almost entirely dependent on external programmes and private sector investment.

¹⁸ World Bank (2020) Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs and Resilience

¹⁹ World Bank (2020) Lao PDR Forest Note: Toward Sustainable Forest Landscapes for Green Growth, Jobs and Resilience

²⁰ Formerly known as Forest Resource Development Fund

²¹ The operational cost of managing PFAs has been estimated at US\$0.65 per ha, or about US\$2 million per year (SUFORD-SU 2019). The cost of managing Protected Areas ranges from US\$1 to US\$2 per ha (ICBF 2018) or US\$5 million per year. The cost of protection forest management and forest areas outside the three forest categories is estimated at US\$1 per ha, or about US\$8.2 million per year (SUFORD-AF 2011). In an international comparison, these are low figures; the average cost of forest management in tropical countries has been estimated at US\$6.25 per ha (Köthke 2014).

²² United Nations, *Policy Brief: Debt-for-Nature Swaps*, UNDP, 2022.

¹⁷ World Bank. (2024). *Lao PDR economic monitor: October 2024*. Washington, DC: World Bank

4.2 Current Investment by Forest Category and Sub-sector

This section examines current investment flows across the main forest categories and related sub-sectors, providing a baseline of where finance is concentrated and where gaps remain.

4.2.1 Protection Forest Areas PtFA (Ecosystem Services, watershed, erosion)

Protection forests provide critical services such as watershed protection and erosion control, but remain heavily underfunded. Annual contributions of around US\$1.5–2 million are channelled to the Environmental Protection Fund (EPF) from hydropower and mining revenues, comprising a mix of environmental fees and Payments for Ecosystem Services (PES).²³ In 2025, the Government launched a feasibility study for a national Payment for Forest Ecosystem Services (PfES) system, aiming to move beyond project-based schemes. Ongoing PES/CSR contributions from Nam Ngiep 1 are reported, yet the value is undisclosed²⁴.

4.2.2 Protected Areas (NPAs / Conservation Forests)

Protected Areas or Conservation Areas (NPAs) face a persistent financing gap. The 2025 designation of Hin Nam No as a UNESCO World Heritage Site creates new opportunities, but sustainable domestic revenues remain essential.

Laos currently receives about US\$7.8–8.0 million per year for NPAs, largely from the EU/AFD ECILL programme with modest contributions from public budgets and eco-tourism. This is far below the NPA Roadmap's estimated needs of US\$6.8–29.5 million annually (average ~ US\$19.7 million)²⁵, leaving a persistent financing gap of US\$10–15 million per year²⁶. Closing this gap will require long-term financing from global funds (GEF, GCF), recapitalisation of national funds, and innovative mechanisms such as biodiversity credits and eco-tourism fees.

23 Estimates based on recent MONRE data and internal communications (2025), not yet publicly released. Unconfirmed but credible information indicates that a portion of PES revenues may be channelled directly to certain NPA management units rather than through the Environmental Protection Fund (EPF)

24 Excluded from the annual totals.

25 Lao PDR. Ministry of Natural Resources and Environment. (2022). *Roadmap for the sustainable management of National Protected Areas (NPAs) in Lao PDR*. Vientiane: MONRE. define level of managements (Ideal 29.5M/year; Optimal 22.7M/year; Minimal 6.8M/year)

26 Lao PDR (2022) *Roadmap for the sustainable management of National Protected Areas (NPAs) in Lao PDR*.

4.2.3 Production Forests & Value Chains (plantations, processing, restoration)

Private capital dominates current forest finance, with large-scale foreign direct investment driving industrial plantations and processing. The largest investor is Sun Paper (~US\$1.1B²⁷), followed by the Vietnam Rubber Group (~US\$254M). Mid-sized investments from Burapha Agroforestry, Mekong Timber Plantations (MTP), and SilviCarbon contribute another ~ US\$70M. Together, cumulative private investment exceeds US\$1.4B.

Private Sector potential is high in Laos, and data suggests that developing 300,000 ha of industrial plantations could attract US\$5 billion, generate over 100,000 jobs, and yield up to US\$2 billion annually in export revenue, supporting both climate goals, conservation efforts and rural development. Sawn wood, plywood, and furniture industries are valued at ~ US\$97 million in exports (mid-2000s) but remain low-value and underdeveloped.²⁸

4.2.4 SMEs, Community Forestry, Smallholders

Small-Medium Enterprise (SMEs) make up 99% of businesses and 80% of jobs in Laos, but face a US\$1.2 billion financing gap, including US\$340 million for women-owned firms²⁹. They are crucial for scaling community forestry, NTFPs, eco-tourism, and local value chains. Nature-based tourism alone could generate US\$600M over 10 years. Despite growing credit to agriculture and forestry (now 4.6% of total lending)³⁰, SMEs remain excluded from emerging opportunities such as carbon markets or FSC certification due to a lack of dedicated credit lines and de-risking instruments.

4.2.5 REDD+ & Climate / Carbon Finance

To date, cumulative REDD+ and climate/carbon finance mobilised in Laos amounts to approximately US\$168 million. Most of these resources—around US\$151 million—have been channelled through external programmes, notably supported by BMZ/GIZ and GCF (CLIPAD), ADB, IFAD, and JICA.

27 VALTIP3 (2023). *Advancing Enhanced Wood Manufacturing Industries in Laos and Australia: A preliminary analysis of wood and fibre flows for Sun Paper's Sepone facility in Lao PDR based upon import/export data*.

28 Pei Sin Tong. (2009). *Lao People's Democratic Republic (Asia-Pacific Forestry Sector Outlook Study II, Working Paper No. APFSOS II/WP/2009/17)*. Bangkok: Food and Agriculture Organization of the United Nations (FAO).

29 International Finance Corporation (IFC). (2023). *IFC facilitates discussion for improved access to SME finance in Lao PDR*.

30 Bank of the Lao P.D.R. (2025, April 30). *Presentation at Roundtable Technical Workshop*. Internal workshop document, Vientiane.

In parallel, the Forest Carbon Partnership Facility (FCPF) Emission Reductions Payment Agreement (ERPA) provides for up to US\$42 million in potential results-based payments (2020–2024). Of this, US\$16 million has already been disbursed into the Forest Protection Fund (FPF). A further US\$6 million remains conditional³¹, subject to verified emission reductions, compliance with safeguard requirements, and operationalisation of the benefit-sharing plan.

Private sector engagement is emerging, with Burapha Agroforestry having achieved the first Verified Carbon Market (VCM) issuance, valued at approximately US\$1.3 million. In addition, the Green Synergy REDD+ project pipeline is currently under preparation, signalling further diversification of actors and instruments in the sector.

4.3 Cross-cutting Financing Mechanism

In addition to forest category-specific flows, Lao PDR relies on several cross-cutting mechanisms that underpin the finance system. While these mechanisms may not directly mobilise large-scale funds for field implementation, they provide the institutional, policy, and technical foundations that make targeted instruments effective.

Integrated Landscape Approaches – World Bank Lao Landscapes & Livelihoods Project (LLL, US\$57M, 2021–2027) integrates restoration, NPA management and community forestry. Village Forest and Participatory Management Programme (VFMP) (US\$8M) strengthens community-based forest management and NTFP in production and protection forests. EU/AFD “Green Cup” (US\$13M) supports agroforestry, value chains and integrated landscape management.

MRV and Data Systems – Robust MRV systems for carbon, biodiversity, and safeguards are essential to access results-based finance. Current systems remain fragmented and underfunded, undermining credibility with international investors. National funds and MRV systems are also under-capitalised³², further constraining long-term sustainability.

³¹ These conditional resources are not included in the cumulative total.

³² Ministry of Natural Resources and Environment (MONRE), *Presentation during Roundtable Technical Workshop, 2025*, internal document, Vientiane.

Policy and Capacity Support – Programmes such as EU TICAF/ProFEB (US\$25M) and KfW/FLEGT TLAS (US\$23M)³³ strengthen governance, legality, and institutional capacity. While they mobilise limited direct finance, they are essential for building the credibility and institutional foundations on which larger investments depend.

Together, these cross-cutting mechanisms provide the enabling conditions for scaling more targeted forest finance solutions—that are presented in Chapter 5.

4.4 Forest Sector Financing Needs, Gaps and Opportunities

Table 3 shows current investment and finance by forest category alongside the annual need and annual gap. Annualised totals include only recurring/annual flows. Average per-hectare needs are based on World Bank Forest Note calculations.

“Current” counts recurring annual flows plus in-year programme amounts where no detailed annual budgets exist. Cumulative items (e.g., private sector) are shown separately as cumulative and not added to annual totals. Table 4 shows cumulative/project amounts (e.g., donor) and is shown separately and not added to annual totals.

Annualised finance to the forestry estate is US\$9.3–10.0 million, against a need of US\$29.9 million, leaving a gap of US\$19.9 – 20.6 million per year. The shortfall is concentrated in NPAs (US\$10–15 million/yr) and PtFAs (US\$8.2 million/yr), with an additional US\$2 million/yr unmet in PFA-SFM.

Although cumulative investment in plantations and industry has reached US\$0.4 billion, these flows are capital-intensive and do not cover the recurrent management needs of NPAs and PtFAs. This underscores the urgency of establishing predictable, recurrent financing and developing targeted mechanisms to unlock sustainable SFM finance.

To provide scale without double-counting, Table 4 summarises multi-year/cumulative finance relevant to the sector—including REDD+ and carbon finance, cross-sector landscape programmes and cross-sector enabling TA/MRV. These figures are presented for context only and are not added to the annual totals used for the gap calculation.

³³ Stakeholder Roundtable Meeting, EUD Presentation (figures in EUR which has been converted to USD)

Table 3. Annualised Forest Finance: Current Flows, Needs and Gaps by Category (cumulative private investment shown separately as context)

Forest Category	Sub-category / Activity	Total Current Finance	Annual Financing Need ^a	Annual Gap
Protection Forest Areas (PtFA)	Watershed protection, erosion mgmt.	~US\$ 1.5–2.0M/yr ^b	~US\$ 8.2M/yr	~US\$ 6.2 – 6.7M/yr ^c
Conservation Areas (NPAs)	Protected area mgmt., biodiversity, eco-tourism	~US\$ 7.8–8.0M/yr ^d	~US\$ 19.7M/yr	~US\$ 10–15M/yr
Production Forest Areas (PFAs)	Sustainable Forest Management (SFM)	—	~US\$ 2.0M/yr	~US\$ 2.0M/yr
	Plantations & Industry	~US\$ 1.4B cumulative ^e (pipeline up to US\$ 5B) ^f	—	Significant
Grand Total (Annualised categories)	—	~US\$ 9.3–10.0M/yr (current finance)	~US\$ 29.9M/yr (need)	~US\$ 19.9 – 20.6M/yr
Grand Total (Cumulative/ project flows)	—	~US\$ 1.4B cumulative (from the PFAs – Plantations & Industry row above)	—	—

Note:

- a Annual Financing needs are based on the World Bank Forest Note Report.
- b Public: ~US\$0.016M/yr (Govt, negligible) External: ~US\$10M (ADB Watershed) Private: ~US\$1–2M/yr Estimates based on recent MONRE data and internal communications (2025), not yet publicly released.= (EFP); Nam Ngiep 1 (not disclosed)
- c The PtFA gap is shown as the unfunded benchmark because PES/public flows are earmarked and not fully substitutable for core PtFA budgets. If those flows were netted, the indicative gap would be ~US\$6.2–6.7M/yr.
- d Public: ~US\$0.005M/yr + eco-tourism External: ~US\$7.8M (EU/AFD ECILL)
- e Private (cumulative): ~US\$1.4B (Sun Paper~US\$1.1B, VRG ~US\$ 254, Burapha ~US\$ 30, MTP ~US\$ 30, SilviCarbon ~US\$ 10)
- f The estimate of 1.1 is derived from VALTIP3 (2023), Advancing Enhanced Wood Manufacturing Industries in Laos and Australia: A Preliminary Analysis of Wood and Fibre Flows for Sun Paper's Sepone Facility in Lao PDR Based upon Import/Export Data. The provenance of this data is official Lao and Australian import/export statistics compiled and analysed under the VALTIP3 research programme.

Table 4. Cumulative/Programme Allocations (Not Annualised)

Cross-Cutting Financing Mechanism	Description (what's included)	Cumulative Amount	Status / Notes
REDD+ & Climate / Carbon Finance	External mobilised 151 (BMZ/GIZ, GCF, ADB, IFAD, JICA) + Private VCM ~1.3 (Burapha, 1st issuance) + ERPA disbursed 16 = ≈168. ERPA conditional 26 is excluded. Pipeline: Green Synergy REDD+ (TBD).	~US\$ 168M (secured/disbursed) + US\$ 26M conditional	Programme/ amounts; not annualised. ERPA provides for up to US\$42M in potential results-based payments (2020–24) and GCF RBP ~US\$12M referenced for context.
Integrated Landscape Programmes	WB IDA/GEF/Canada 57.3, Germany VFMP 8, GEF ID 11103 (UNDP) 9.5, EU/AFD "Green Cup" 13.	~ US\$86.8M	Multi-year programme; not annualised.
Cross-Sector Enabling & MRV TA	Disclosed TA/policy/MRV support: BMZ 23, TICAF 25, JICA 9.9, ACIAR 2.9, GEF/UNEP 1.1, GEF 11286 0.25, UNDP BIOFIN 0.3, EU ARISE 5.4, Australia DFAT 1.9, WB IDA PFM 3, GEF7+8 1.	~ US\$73.65M	Disclosed flows only; additional non-disclosed support not included.
Grand Total (Cumulative / project flows)		≈ US\$ 329.5M (= 168 + 86.8 + 73.65)	Excludes US\$26M ERPA-conditional and non-disclosed items.

Table 5. Annualised finance gaps to 2035 (Climate Mitigation, SME-wide vs. forestry subsector)

Category / Source	Need (US\$ M/yr)	Current (US\$ M/yr)	Annual Gap (US\$ M/yr)	Share of total gap
Forestry sector (PtFA, NPAs, PFA-SFM; Option 1)	~ US\$ 29.9	~ US\$9.3–10.0	~ US\$19.9 – 20.6	~3–4%
SME finance gap (all sectors) (2035-aligned)	~ US\$ 120	—	~ US\$ 120	~19%
National climate mitigation gap (2035-aligned)	~ US\$ 480	—	~ US\$ 480	~77%
Total (annualised)	~ US\$ 630	~ US\$9.3–10.0	~ US\$619.9–620.6	100%

In total, cumulative programme and project flows amount to approximately US\$329.5 million across REDD+, integrated landscape, and cross-sector TA/MRV support. While significant, these are multi-year allocations rather than recurring finance and thus do not close the annual management gap. To put this in perspective, the forestry gap must be situated within the broader economy-wide context of climate and SME financing needs.

4.5 Investment Gap Overview: Sectoral and Economy-Wide

The impacts of climate change are particularly significant for the Lao PDR's economy, which depends heavily on climate-sensitive sectors such as water, forestry, and agriculture. To address these vulnerabilities and progress toward its 2050 carbon-neutral target, Lao PDR has committed in its Nationally Determined Contribution (NDC) to reduce greenhouse gas emissions by 60% by 2030. Achieving this goal will require almost US\$4.8 billion in mitigation measures by 2030³⁴, according to IFC. Given budgetary constraints, much of this investment will need to come from the private sector.

At an IFC-facilitated workshop in 2018, Lao PDR's SME sector was estimated to face a US\$1.2 billion financing gap, with only 12.4% of SMEs accessing bank credit; women-owned SMEs account for US\$340 million of the shortfall³⁵. Together, these economy-wide gaps illustrate the scale of unmet finance required to support both climate action and inclusive growth.

Within this national context, the forestry subsector (protection forests, national protected areas, and production forests/SFM) requires US\$29.9 million annually, against current flows of only US\$9.3–

10.0 million. This leaves a gap of US\$19.9 – 20.6 million per year—underscoring the urgency of predictable and recurrent finance for forest management.

Taken together, these figures in Table 5 provide a clear snapshot of the scale of unmet finance in Laos. They link economy-wide climate and SME gaps with a sector-specific view of forestry, showing where additional public and private investment is most critical over the coming decade.

Figures are annual equivalents to 2035³⁶. “Current” is shown only for forestry; SME and national climate rows are needs/gaps without identified recurring inflows. Totals indicate scale and may include scope overlap; they are not a budget request. Forest-related needs are annualised to 2030 (Forest Strategy, NDC), while SME and climate projections extend to 2035 (Climate Change Strategy). Horizons are labelled explicitly to avoid confusion.

Despite large cumulative investment in plantations and industry (~US\$1.4 billion), annualised finance for core forest management remains thin—especially in Protection Forest Areas and National Protected Areas, where the gap persists at ~ US\$19.9 – 20.6 million per year. National funds (EPF/FPF) and MRV systems are under-capitalised, limiting access to results-based payments and private carbon finance. Closing this gap will require priority measures, including predictable domestic revenue for PtFAs and NPAs (e.g. eco-tourism fees, conservation levies), recapitalisation of EPF/FPF and strengthened MRV systems, mobilisation of private finance for SMEs, community forestry and carbon/green value chains, and scaling of integrated landscape programmes that align production, protection, and livelihoods within the same geographies.

These findings provide the evidence base for the financing instruments in Chapter 5 and the recommendations in Chapter 6.

³⁴ IFC, 2023, IFC and Bank of the Lao PDR Strengthen Partnership to Boost Green Finance, Achieve Climate Goals

³⁵ International Finance Corporation (IFC). (2023). *IFC facilitates discussion for improved access to SME finance in Lao PDR*.

³⁶ 2035-aligned entries carry forward the 2030 per-year gap flat to 2035 for comparability; illustrative only and not new IFC estimates.

Assessment of Forest Finance solutions and instruments

Building on the financing needs and gaps identified in Chapter 4, this chapter reviews the forest finance instruments relevant to Lao PDR—both those in use and those still emerging. Each instrument is assessed for its impact, scalability, inclusiveness, and alignment with national and global priorities. The analysis highlights contributions to date, remaining enabling needs, and untapped potential, providing the foundation for the recommendations in Chapter 6. The assessment is further informed by stakeholder consultations, including the April 2025 Roundtable Workshop (Annexe 1) and individual interviews with key actors, which provided critical insights into practical challenges, opportunities, and priority areas for action. Laos has developed a diverse set of forest finance instruments, including public funds, carbon markets, and emerging private investment. However, scalability is limited by weak legal frameworks, fragmented governance, and low institutional capacity. Tools like green bonds and biodiversity credits remain at early stages. EPF and FPF can scale finance but need more

explicit mandates and more funding. Although private sector engagement is growing, it continues to face regulatory barriers and insecure land tenure, which deter long-term investment. Further, weak monitoring, reporting, and verification (MRV) systems, the absence of a clear taxonomy for forest finance instruments, and overlapping institutional mandates undermine transparency, coordination, and investor confidence. Addressing these systemic challenges—by strengthening policy frameworks, improving governance coherence, and building local capacity—is essential to reduce risk, lower transaction costs, and create the enabling conditions needed to unlock and scale up sustainable private finance in the forest sector.

This assessment reflects the impact to date and the current status of each instrument; should conditions evolve or scale up in the future, the review would be updated accordingly and may yield different outcomes.

Table 6. Summary of Forest Finance Instruments

Finance Instrument	Impact and effectiveness (Observed outcomes to date)	Scalability (potential to scale up nationally or replicate)	Alignment with global frameworks	Inclusiveness (Extent of community, SME, and local participation/benefit)	Market development potential (contribute creating financing ecosystem)	Relevant Financing Gap (Section 4.4, 4.5)
Fiscal Reforms, Green Budgeting,	Definition: The adjustment of fiscal policies and budgeting processes to reflect environmental sustainability goals, often incorporating the valuation of natural resources and ecosystems into financial planning.					
	Low to moderate: supports climate-aligned budgeting foundations, but direct forest-sector impact remains limited to date.	High: Scalable with legal frameworks, institutional alignment, and stronger subnational capacity.	High: Aligned with the Paris Agreement, the SDGs, and the Global Biodiversity Framework (GBF).	Low: Reforms are macro-level and not yet tailored to benefit communities directly. Bonus-malus fiscal tools can raise impact and inclusiveness, e.g. tax incentives for certified forest companies (FSC)	Moderate: Builds foundation; indirect forest impact; policy-level focus.	Structural gap in domestic allocation: <0.5% of the national budget goes to forest/climate; contributes to a US\$15 m/yr NPA funding shortfall.
Green Bonds	Definition: Financial instruments issued to fund projects with environmental benefits, with green bonds raising capital for upfront expenditure and sustainability-linked loans offering incentives for achieving sustainability performance targets.					
	Minimal: no forest-related bond issuance to date; foundational work ongoing	High: Dependent on finalised taxonomy, ESG safeguards, and strong project pipeline.	Moderate: If forestry is fully integrated, future alignment with the Paris Agreement, the SDGs, and the GBF is possible.	Low: No forest-sector issuances; frameworks and access for communities remain undeveloped.	High - Supports private capital flows; scalable with taxonomy and pipeline.	Restoration and green growth gap: ~ US\$500 m to 2030 for forest landscape restoration and sustainable infrastructure.
Carbon Finance/Carbon Market	Definition: Financial markets and instruments aimed at reducing greenhouse gas emissions through the trading of carbon credits, where one credit represents the right to emit a specific amount of carbon dioxide or the equivalent amount of a different greenhouse gas					
	High: US \$168 M mobilised via REDD+ and ERPA. Strong alignment with NDCs and forest targets; 82% of ERPA funds directed to communities.	High: Scalable with MRV systems, Article 6 readiness, and replicable private-sector models	High: Fully aligned with the Paris Agreement, the SDGs, and the Global Biodiversity Framework through the NDC, the Forest Strategy 2035, and the REDD+ architecture.	Moderate: National REDD+ includes community benefit-sharing (e.g., 82% ERPA); private VCM pilots engaging smallholders.	High - High-Results-based; investable via VCM and Article 6; proven models.	Forest & climate gap: US\$4.8 bn to 2030 (forests, carbon, resilience). Carbon markets are the main instrument to close this.

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Table 6. Continued

Finance Instrument	Impact and effectiveness (Observed outcomes to date)	Scalability (potential to scale up nationally or replicate)	Alignment with global frameworks	Inclusiveness (Extent of community, SME, and local participation/benefit)	Market development potential (contribute creating financing ecosystem)	Relevant Financing Gap (Section 4.4, 4.5)
Forest and Environmental Protection Funds (FPF/EPF)	Definition: Dedicated funds established by governments or organisations to support forest conservation, sustainable management, and the development of forest areas through grants, incentives or loans.					
	Moderate: EPF supports US\$ 1.3M ha/15,000+ beneficiaries; FPF channels REDD+ funds. Contributes to SFM and NPA goals, constrained by underfunding and access gaps.	High: Scalable with strengthened fiduciary capacity; EPF well-positioned as a national forest finance platform. Depend on Capital injection	High: Strong alignment with SDGs 13 & 15, Paris Agreement, and GBF; supports NDC	Moderate: Provide grants and microcredit to communities and CSOs, but access is uneven and limited at the subnational level.	Moderate - National channels exist, limited scale and outreach.	NPA management gap: US\$ 15 m annually; plus US\$ 50 m needed for community forestry and SFM pilots.
Payments for Ecosystem Services (PES)	Definition: Financial and/or non-financial incentives provided to landowners or communities for managing their land in ways that preserve or enhance ecosystem services, such as water filtration, landscape beauty, climate benefits, and biodiversity					
	Moderate: EPF channels US\$1.5–2.0M/yr for NPA conservation and livelihoods. Demonstrated results, scale limited by policy gaps and reliance on single-payer model.	High: Strong scalability if the national PES framework is established and institutional capacity is enhanced.	High: Alignment with SDGs 13 & 15, NDC, Paris Agreement	Moderate: Targets upland communities; limited by single-payer models and the absence of formal rights.	Moderate - Service monetisation viable; constrained by legal/payer gaps. Limited market maturity; high latent potential with legal clarity.	Sustainable NPA funding gap: US\$15 m annually. PES could realistically cover 20–30% (~ US\$3–5 m/yr).
Forest Value Chain Finance (concessions, SMEs, Microfinance)	Definition: Financial services, instruments, and arrangements that support actors (concessions, SMEs, Microfinance etc.) across the forest-related value chain — from production, harvesting, processing, and trade, to final markets.					
	Moderate to High: Contributes to SFM, reforestation, and processing. Land tenure constraints and low smallholder/SME integration limit impact.	Moderate: Scalable for commercial actors; smallholder replication limited by tenure insecurity and capacity gaps	High: Strong alignment with SDGs 12, 13, 15, NDC, Forest Strategy 2035, and EU FLEGT/VPA commitments;	Moderate: Concessions benefit larger firms; smallholder access is constrained by tenure, credit, and certification gaps.	High - Direct financing to markets; supports inclusive certified production.	SME finance gap: US\$120 m (agroforestry, processing, value-chain investment).

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Table 6. Continued

Finance Instrument	Impact and effectiveness (Observed outcomes to date)	Scalability (potential to scale up nationally or replicate)	Alignment with global frameworks	Inclusiveness (Extent of community, SME, and local participation/benefit)	Market development potential (contribute creating financing ecosystem)	Relevant Financing Gap (Section 4.4, 4.5)
Blended Finance	Definition: The strategic use of public or philanthropic capital to mobilise additional private sector investment for projects that deliver positive social, environmental, and economic outcomes. Concessional funds (from governments, development banks, or donors) are combined with commercial funds (from private investors) to make investments in sustainable development more attractive and less risky.					
	High: Channels private capital into scalable models combining forestry, carbon, and biodiversity outcomes; aligned with national targets.	Moderate to High: Scalable fund structure; replication depends on strengthening investment pipelines and enabling environment.	High: Strong alignment with the Paris Agreement and SDGs 13 and 15; supports climate mitigation and forest conservation objectives.	Moderate: Integrate community benefits and outgrower models, but primarily structured for commercial actors.	High Scalable impact structure; attracts private investment into forest assets.	SME & eco-tourism finance gap: US\$120 m; also, part of US\$4.8 bn climate/forest gap.

Legend: High = established with strong results or clear potential; Moderate = emerging with partial progress; Low = early-stage or limited outcomes.

5.1 Forest finance solutions and instruments applied in the country

5.1.1 Public finance, including Fiscal Reforms, Green Budgeting

Public finance instruments in Laos include fiscal reforms and green budgeting measures that align government spending and revenue with environmental goals. These mechanisms cover tax incentives, subsidies, grants, and dedicated funds established by national or local governments to support forest conservation and sustainable management.

Laos is implementing a public finance reform agenda to align fiscal policy with climate and environmental goals. Led by the Ministry of Finance (MoF), Bank of Lao PDR (BoL), and the Ministry of Planning and Investment (MPI)—with support from development partners—these efforts aim to improve fiscal management, mobilise revenue, and expand access to green finance. The reforms are aligned with the NDC, Green Growth Strategy, and 10th National

Socio-Economic Development Plan (NSED³⁷). An IFC assessment estimates that Laos's green finance market could reach US\$23 billion by 2030, covering sectors such as energy, transport, agriculture, and water management³⁸.

Since 2022, the IFC has led the Lao Green Finance Advisory Program, now in Phase 2 (2024–2027), supporting the Bank of Lao PDR in developing a sustainable finance framework, including a national green taxonomy, ESG risk tools, and green lending incentives. ADB is assisting with green budgeting and the integration of environmental fiscal instruments into national budget processes. Furthermore, GGGI is providing US\$1.67 million in technical support to mainstream green growth into provincial and district planning. The UN–Luxembourg Joint Program supports LDC graduation and national development priorities through coordinated support from UN

³⁷ Government of Lao PDR. (2021). *10th National Socio-Economic Development Plan (2021–2025)*. Ministry of Planning and Investment.

³⁸ Vientiane Times (2024) Green Finance Crucial for Lao PDR's Path to Carbon Neutrality by 2050

Box 1: The Climate & Sustainable Finance Hub in Lao PDR

In September 2025, the Lao Government and UNDP launched a Climate and Sustainable Finance Hub under the Ministry of Finance. The Hub serves as a coordination platform to align public finance with climate, biodiversity, and sustainable development goals. Backed by partners including Luxembourg, ADB, and the INFF Facility, it supports green budgeting reforms, mobilisation of new finance, and institutional capacity. The Hub provides an entry point to strengthen fiscal tools, recapitalise EPF/FPF, and expand PES and blended finance instruments.

agencies: UNDP (biodiversity and extractives finance), UNEP (green budgeting), FAO (PES and climate-smart agriculture), and UN-Habitat (urban green finance).³⁹

Reforms have improved climate alignment but remain limited in direct forestry impact, covering only a small share of the US\$10–15 million annual NPA gap (Section 4.4, Table 3). Expanding fiscal measures and integrating them with the green taxonomy will be critical to scale financing for protected areas. Strengthening green budgeting, fiscal tools, and regulatory alignment is essential to link public spending with climate and biodiversity goals. This should include earmarking part of green budget revenues for forest conservation, NPAs, and PES schemes, ensuring the forestry sector directly benefits from the broader green finance agenda.

5.1.2 Green Bonds and Sustainability-Linked Loans

Green bonds are debt instruments to mobilise private capital for sustainable projects. In Laos, the market is nascent: only one issuance (US\$2.5 m by LOCA for transport). No forest or nature-based bonds exist yet. The Lao Securities Commission Office (LSCO) leads oversight, supported by GGGI and Agriculture Promotion Bank (APB).

Current focus is transport and energy, but green bonds could finance reforestation, biodiversity conservation, and agroforestry/SME value chains. Linking to PES and carbon credit revenues could improve bankability.

The market remains underdeveloped, with limited pipelines, weak disclosure standards, and investor appetite focused on small to medium deals (under US\$10 million). However, demand is rising: 60% of institutional investors and 80% of underwriters report interest in green bonds. Growth depends on finalising the national green taxonomy (with explicit forest-sector inclusion and safeguards), building a pipeline of investable forestry projects, and linking bonds to carbon and biodiversity markets.

Finalise and implement the national green taxonomy with forestry and biodiversity criteria and develop a pipeline of forest-based projects (reforestation, agroforestry, NPAs). Pilot small-scale forestry or biodiversity bonds, potentially blended with PES and carbon credit revenues, to attract investors and begin closing the ~ US\$500 million restoration and reforestation investment gap to 2030 (Section 4.4; Table 3).

5.1.3 Carbon Finance/Carbon Market

Carbon finance links payments or tradable credits to verified emissions reductions from forest protection, restoration, and sustainable management. Lao PDR has mobilised ~ US\$168 million to date through REDD+, ERPA, and voluntary markets. This includes GCF projects FP117 (US\$17.4 m + US\$56.9 m co-finance)⁴⁰ and FP200 (US\$37.6 m + US\$42 m co-finance), the FCPF ERPA (up to US\$42m, with US\$16 m disbursed 82% to communities), and multi-partner readiness support. Governance is led by MAF and DoF, with financial oversight via EPF, FPF, and MoF.

The National REDD+ Programme is a multi-donor initiative supporting the implementation of REDD+ across 2.1 million hectares of forest landscapes in the Lao PDR. It is aligned with national priorities, including the NDC and Forest Strategy 2035, and is coordinated by the National REDD+ Task Force. The programme covers key technical components such as emissions baselines, MRV, safeguards, and on-the-ground implementation.

Private sector engagement is also growing. Green Synergy leads Laos's largest private REDD+ project, covering 1.19 million hectares across six provinces with a 40-year crediting period. Launched in 2024, it aims to generate 17.8 million carbon credits and benefit

³⁹ Government of Lao PDR and United Nations, *Government of Lao PDR and United Nations Launch Joint Programme on Green and Climate Finance to Advance Sustainable Development and Resilience*, press release, April 29, 2025. <https://laopdr.un.org/en/293421-government-lao-pdr-and-united-nations-launch-joint-programme-green-and-climate-finance>

⁴⁰ Green Climate Fund. (n.d.). FP117: Implementation of the Lao PDR Emission Reductions Program through improved governance and sustainable forest landscape management

7,500 households, supporting community-based forest protection and voluntary carbon market participation.⁴¹

Burapha Agroforestry issued the first VCM carbon credits in 2023 (~US\$1.3m), and SilviCarbon has a Verra-registered project under validation.

Laos has developed a coordinated carbon finance structure that blends public, donor, and private financing. Governance is led by the Ministry of Agriculture and Forestry (MAF), implementation by the Department of Forestry (DoF), and financial oversight provided by EPF, FPF, and the Ministry of Finance. Provincial authorities support subnational implementation, although they face capacity constraints. Development partners contribute with financing, technical assistance, and capacity building.

The approval of the Carbon Credit Decree (2025)⁴² marks a major step, providing a legal framework for carbon rights, project approval, MRV, and benefit-sharing, enabling Laos to participate in both voluntary and compliance markets. However, secondary regulations—including a national carbon registry—are still pending, MRV capacity remains weak at the subnational level, and ensuring transparent revenue distribution to communities is a continuing challenge. Integrating carbon markets with PES, biodiversity credits, and green bonds could expand bankable projects.

To scale up carbon finance, Lao PDR should operationalise the new Carbon Credit Decree by finalising secondary regulations and establishing a national carbon registry. Strengthening MRV systems and transparent benefit-sharing through EPF and FPF will be critical to ensure community participation and investor confidence. Integrated with PES, biodiversity credits, and green bonds, carbon markets can become a cornerstone for closing the US\$4.8 billion forest and climate finance gap to 2030 (see Section 4.5, Table 5).

5.1.4 National Forest Funds/Conservation Trust Funds

National forest and conservation trust funds are government-managed mechanisms pooling domestic and international resources to support biodiversity, climate, and forest-sector objectives. In the Lao

PDR, the Environmental Protection Fund (EPF) and the Forest Protection Fund (FPF) are central to coordinating and disbursing such finance.

The **Forest Protection Fund (FPF)**, established under the 2019 Forest Law, supports protection and production forests, village forestry, and REDD+ implementation. It is financed through timber royalties and international climate funds, but inflows are highly irregular: by 2021, resources had fallen to ~US\$170,000⁴³. A US\$16 million ERPA disbursement (82% earmarked for communities) provided a temporary boost. The fund offers grants, loans, and revolving credit to communities but faces fiduciary and capacity challenges. Recapitalisation and stronger governance are needed to secure predictable flows and transparent benefit-sharing, positioning the FPF as a central REDD+ distribution mechanism that could help close the US\$50 million gap for SFM and community forestry (see Section 4.4; Table 3).

The **Environmental Protection Fund (EPF)**, created in 2005, is a national financing mechanism for biodiversity and climate action, with fiduciary oversight from MoNRE. It has mobilised over US\$50 million, including US\$14 million.⁴⁴ (LENS I) and US\$38.8 million⁴⁵ (LENS II), from the World Bank, GEF, and bilateral donors⁴⁶. While the LENS programmes are no longer active, they illustrate the scale of resources the EPF has been able to mobilise. Through its Climate Finance Window, it blends grants, concessional loans, and microcredit to support NPAs, biodiversity conservation, village forestry, and community enterprises. EPF currently supports 1.3m ha of NPAs and ~15,000 beneficiaries⁴⁷. Expanding the Climate Finance Window, recapitalising the fund, and strengthening subnational outreach are critical to secure predictable biodiversity and climate finance and reduce the US\$15 million annual NPA management gap (see Section 4.4; Table 3).

Together, EPF and FPF form the backbone of Laos's biodiversity and forest finance architecture. Both remain under-capitalised and dependent on external

41 Green Synergy. (n.d.). Laos and Green Synergy join forces for REDD+ carbon credit project

42 Lao PDR. Decree on Carbon Credit Management, No. 386/GOV, 30 May 2025.

43 United Nations, *Policy Brief: Debt-for-Nature Swaps*, UNDP, 2022.

44 United Nations Development Programme (UNDP). (2015, July 27). *National Climate Fund Case Study Report: Environmental Protection Fund in Lao PDR* [Case study]

45 World Bank. (2014). *Community Engagement Framework: Second Lao Environment & Social Project (LENS2)* [World Bank project document].

46 Second Lao Environment and Social Project (IDA 4.5M, IDA credits 27.5M, GEF 6.83M,

47 World Bank (2020)

flows, but with stronger governance, transparent benefit-sharing, and new revenue streams (eco-tourism fees, PES, biodiversity credits), they could evolve into robust national platforms for channelling global funds (GEF, GCF, Article 6) and blended private investment.

5.1.5 Payment for Ecosystem Service (PES)

PES schemes create financial incentives for communities and landholders to maintain or restore ecosystem services, such as watershed protection or carbon sequestration. In Laos, The Environmental Protection Fund (EPF) channels approximately US \$1.5–2 million annually⁴⁸ from multiple sources — including hydropower and mining revenues — to support National Protected Area (NPA) conservation and local livelihood programmes. The Nam Ngiep 1 Hydropower Project also implements a biodiversity and watershed offset programme. Overall, PES currently mobilises ~ US\$1.5–2 million annually, but with potential for several million more if scaled nationally.

Governed through EPF, PES primarily supports NPAs, protection forests, and adjacent communities, providing conservation co-benefits for hydropower and showcasing potential for replication in tourism, agriculture, and forestry.

The scheme's impact remains limited by the absence of a national PES policy, unclear benefit-sharing mechanisms, and low private-sector engagement. Current models rely on a single payer and lack frameworks for scalability. Despite these constraints, PES holds substantial potential to attract both public and private investment. In Laos, several million US\$ could be mobilised annually if supported by a clear policy framework, stronger institutions, and secure legal rights. However, the effectiveness of such instruments depends on credible valuation and market maturity. Carbon finance is the most advanced, while other markets—such as watershed protection and biodiversity offsets remain largely absent or donor-driven.

PES has proven moderately effective, delivering steady annual revenues (~US\$1.5–2m)⁴⁹ but covering only a fraction of the ~ US\$13 m annual funding gap for

protection forests identified in Section 4.4 (Table 3). Scaling up will require a national framework, diversified payers, and integration with mechanisms such as carbon markets, green bonds, and biodiversity credits to reduce risk and make conservation more attractive to private investors. US\$

In August 2025, the Government of Lao PDR, with support from FAO, UN-REDD, GIZ, Luxembourg, and the EU, launched a feasibility study for a national PfES system to create a roadmap for scaling PES beyond pilots, drawing on Vietnam's successful model. At the same time, Laos signed a 2024–2028 MoU with Vietnam to collaborate on PfES, marking a shift from project-based schemes toward a national mechanism that could provide predictable finance for protection forests and NPAs while supporting local communities.

5.1.6 Finance Instruments for Value Chains that Support Conservation and Restoration of Forests

Concession-based finance mechanisms in Laos involve the government allocating long-term land use rights to private companies, often with conditions on sustainable forest management, reforestation, and benefit-sharing with local communities. These mechanisms support commercial plantations, out-grower schemes, and agroforestry systems on degraded or underutilised lands.

Private investment is a growing force in Lao forest finance, combining capital, blended finance, and revenue from timber, carbon, and processing. Key players include Burapha (US\$25–30 M, 68,000 ha), MTP (US\$30–50 M, 24,000 ha), and SilviCarbon (US\$6–15 M, 31,500 ha)—collectively holding over 100,000 ha with links to processing and carbon markets, under MAF and MONRE oversight. Sun Paper has invested over US\$1.1 billion⁵⁰ in plantations and pulp infrastructure, backed by a 50-year concession on 30,000 ha and smallholder contract farming schemes. In the rubber sector, Vietnamese firms play a significant role: Vietnam Rubber Group (US\$254M, 19,000 ha) and HAGL (US\$ unknown, 26,500 ha) operate large-scale concessions as part of broader cross-border investments.

⁴⁸ Estimates based on recent FAO data and internal communications (2025), not yet publicly released.

⁴⁹ Unconfirmed but credible information indicates that a portion of PES revenues may be channelled directly to certain NPA management units rather than through the Environmental Protection Fund (EPF)

⁵⁰ Sun Paper to invest USD 637 million to build 1.2milliontonne paper mill in Laos, Xinhua Silk Road, July 18, 2018

Large-scale plantations primarily drive sustainable forest value chains in Laos. At the same time, smallholder participation remains limited due to insecure land tenure and persistent challenges related to product quality, certification, and market access. Expanding smallholder plantations is key to reducing import dependence. The EU-supported FLEGT VPA and Timber Legality Assurance System (TLAS) offer integration pathways into regulated markets. Still, key barriers remain, including insecure land tenure, limited technical capacity, and low EU market demands, which hinder inclusive participation among smallholders and domestic producers. Targeted concessional finance, tenure-linked lending, and certification support are needed to integrate smallholders and SMEs into value chains, addressing part of the US\$1.2 b SME financing gap (Section 4.5; Table 5).

The **World Bank-funded Lao Landscapes and Livelihoods (LLL) Project, led by MAF**, supports forest restoration, value chains, and climate-resilient livelihoods across five provinces with US\$57 million in financing. The programme provides grants and technical assistance to overcome key barriers such as limited access to finance, insecure land tenure, and weak local implementation capacity.

Concessions and SME finance have supported plantation and processing value chains, but remain inaccessible to most smallholders, leaving a ~ US\$1.2 billion SME financing gap (Section 4.5, Table 5). Access is limited by collateral requirements, regulatory barriers, and weak market access. To address these gaps, mechanisms like micro-credit through the EPF Climate Finance Window (supported by FP200, GCF, and IFAD) and grants from VFMP and GIZ's CliPAD provide targeted support for agroforestry, NTFPs, and smallholder plantations. Between 2018 and 2024, US\$5–7 million in concessional finance was mobilised for SMEs through ADB, IFAD, and GIZ. The EU-AFD Green CUP project further supports green processing and EU market access in tea and coffee value chains. Scaling SME credit lines and de-risking tools should be prioritised to close the US\$1.2 billion SME financing gap, ensuring that community forestry, agroforestry, and NTFP enterprises have predictable access to finance (Section 4.5; Table 5).

5.1.7 Impact Finance/Impact Investment (Fund Set-Up – Sustainable Forest Funds/ Blended Finance/De-risking)

Impact finance in Laos combines financial returns with measurable environmental and social benefits. Blended finance and de-risking mechanisms—such as the EU's EFSD+ and private funds like TAFF2—aim to attract private capital into sustainable forestry.

New Forests⁵¹ operates in Laos through its Tropical Asia Forest Fund (TAFF), which promotes climate-smart forestry and carbon markets. TAFF1 invested US\$12 million from FMO in MTP, which was later transferred to TAFF2 in 2021. In 2025, TAFF2 expanded its portfolio with an investment in Burapha, including a Verra-certified carbon project co-financed by Mirova. TAFF2 is a US\$300 million blended finance fund using de-risking structures to attract private capital for forestry, biodiversity, and ecosystem services. However, Laos still faces barriers such as high investment risk, weak regulatory frameworks, and complex permitting. Strengthening land tenure, improving carbon market infrastructure, and leveraging EPF and FPF are essential to scaling such investments.

The EFSD+, the EU's main instrument for mobilising private finance, supports forestry and agroforestry in Laos under Team Europe programming (2021–2027). It offers tools to de-risk investments in SME lending, Payments for Ecosystem Services (PES), and emerging biodiversity and carbon markets. With its flexible blended finance instruments, EFSD+ holds strong potential to scale up sustainable private investment in forest restoration, carbon finance, and green value chains—yet remains underutilised in Laos. To enhance its impact, EFSD+ can be more effectively utilised in Laos by strengthening the pipeline of bankable forest projects, building local capacity for blended finance structuring, and aligning investments with national priorities in restoration, carbon markets, and green value chains.

Funds such as TAFF2 and EFSD+ show strong potential to mobilise private investment, but deal flow in Laos remains limited, leaving the broader US\$4.8 billion forest finance gap unmet. To address this, Lao PDR should prioritise strengthening the pipeline of bankable projects, expand capacity for blended finance structuring, and align EFSD+ and TAFF2 investments with national

⁵¹ New Forests. (2024, December). About New Forests, USD 8 billion in assets under management across 4.2 million hectares of investments.

priorities in restoration, carbon markets, and green value chains. Fully utilising EFSD+ and mobilising private capital through TAFF2 could make a significant contribution toward closing the gap by 2030.

5.2 Finance solutions and instruments not applied in the country

Debt-for-nature swaps and biodiversity credits remain underdeveloped, primarily due to the absence of a dedicated legal framework, limited technical capacity, and lack of institutional experience with these instruments. While interest is growing, both mechanisms require further analysis, piloting, and policy development before they can be effectively implemented at scale.

5.2.1 Biodiversity Credits

Biodiversity credits are tradable units that monetise verified conservation outcomes, such as species protection or habitat restoration. They provide a way for private investors to directly support biodiversity while creating new revenue streams for conservation. While not yet implemented in Laos, they could provide new revenue streams for NPAs and community conservation. Potential applications include financing restoration inside NPAs, funding species recovery programmes, and supporting eco-tourism linked to biodiversity outcomes.

UNDP is leading the implementation of BIOFIN–Laos through a US\$314,000 project to develop a national Biodiversity Finance Plan (BFP). The plan will identify and design finance mechanisms such as debt-for-nature swaps, PES, green bonds, and biodiversity credits, supported by stakeholder engagement, capacity building, and a national financing working group. As part of the BIOFIN approach, UNDP is also supporting Laos in assessing the feasibility of these tools, with debt-for-nature swaps highlighted as a key biodiversity finance solution.⁵²

The main challenge is the absence of a legal and regulatory framework, along with the need for internationally recognised verification standards and transparent benefit-sharing. Yet opportunities are strong: biodiversity credits could be integrated with carbon markets or PES to create bundled instruments attractive to investors.

Lao PDR should develop a legal framework and pilot biodiversity credits in priority NPAs and community conservation areas, ensuring transparent benefit-sharing. If scaled, biodiversity credits could mobilise private finance to help reduce the US\$19.7 million annual NPA financing gap (see Section 4.4; Table 3)

5.2.2 Debt-for-Nature Swaps

Debt-for-nature swaps restructure or forgive part of a country's external debt in exchange for government commitments to fund conservation and climate projects. While Laos has not implemented such swaps, initial discussions have highlighted their potential to unlock long-term biodiversity finance.

Laos has the potential to adopt debt-for-nature swaps, though no formal framework currently exists. With UNDP support, the Government is exploring a proposal aligned with national strategies, and a Technical Working Group (TWG) has been formed. However, no agreement has been finalised due to legal and creditor constraints.⁵³ A significant challenge lies in the Lao PDR's high external debt exposure to China, its largest bilateral creditor. China has expressed willingness to engage in debt negotiations with Laos and openness to restructuring arrangements that incorporate environmental objectives. China's lending terms typically lack environmental conditionality and transparency, making it challenging to negotiate swaps that align with international debt-for-nature models.⁵⁴ Without creditor cooperation or a multilateral mechanism, Laos's ability to operationalise such instruments remains limited.

Debt-for-nature swaps remain at an exploratory stage, but UNDP identifies Lao PDR as a strong candidate for nature-linked restructuring. If implemented, swaps could unlock US\$10–20m annually, reduce debt servicing, and channel green finance into NPAs, ecosystem services, and climate adaptation—helping close the US\$10–15m annual NPA gap. To advance this option, Lao PDR should prioritise developing a clear roadmap, strengthen governance through the Technical Working Group, and pursue targeted negotiations with key creditors such as China and Thailand, complemented by pilots in green bonds and robust monitoring systems.⁵⁵

⁵³ UNDP Lao PDR. (2023). *The Debt-for-Nature Opportunity in Lao PDR: Design, Feasibility, and Strategy* UNDP, Vientiane, Lao PDR

⁵⁴ UNDP Lao PDR. (2023).

⁵⁵ UNDP Lao PDR. (2023).

Table 7. Finance solutions and instruments not applied in Laos

Finance solution	Regulatory constraints (Legal viability of the instrument)	Market readiness (Investor base and enabling environment)	Institutional capacity (Ability of institutions to implement)	Past attempts (Previous experience and outcomes)
Biodiversity Credits	No specific enabling law	Not yet established	Foundational carbon/forest expertise	None yet (emerging interest)
Debt-for-Nature Swap	No legal framework	Early-stage exploration	Inter-ministry TWG formed	TWG in place; no transaction finalised

5.3 Availability and gaps of baseline data (climate, biodiversity, social) and MRV systems

Laos has made progress in establishing foundational MRV systems for climate and forest monitoring, such as the National Forest Monitoring System (NFMS), Safeguards Information System, and Lao National Safeguards Information System (LNSIS). Still, significant data and institutional gaps remain across sectors. Overall, MRV efforts are project-dependent, fragmented across ministries, with limited coordination and low technical capacity at the subnational level to maintain the systems.

Climate Systems gaps include limited subnational climate risk data, incomplete GHG coverage (especially in agriculture and waste), and the absence of standardised adaptation indicators. Climate MRV remains reliant on donor funding, with no long-term domestic financing strategy. Institutional coordination and data integration across ministries are also weak.

Laos lacks a centralised national biodiversity database for monitoring of species and habitats. Standardised indicators aligned with the Global Biodiversity Framework are lacking, and there is no MRV system in place to support biodiversity credit issuance or ecosystem service valuation. Establishing robust MRV systems is also essential to support a landscape approach that covers production forests, protection forests, and NPAs. Each category requires tailored data — from carbon stocks and land-use rights in production forests, to watershed services in protection forests, to biodiversity monitoring in NPAs — to ensure

finance is transparent, targeted, and credible for both domestic and international investors.

Social and Safeguards Systems lack detailed data on forest-dependent communities, including indicators on gender, ethnicity, income levels, land tenure status, and vulnerability to climate and market risks. Monitoring of benefit-sharing, FPIC, and other safeguard commitments is inconsistent and not integrated into national MRV frameworks. Customary land tenure data remains incomplete, and there are no legal mandates for long-term monitoring of environmental and social safeguards.

Closing MRV and baseline data gaps is crucial for the Lao PDR to meet international standards, strengthen investor confidence, and scale up forest and biodiversity finance. Current limitations in data quality, safeguards, and benefit-sharing reduce transparency and credibility, hindering access to results-based payments and limiting participation in Article 6 and voluntary carbon markets. A well-coordinated national MRV strategy is essential to unlock these opportunities. Strengthening MRV systems will not only enhance accountability and fair benefit distribution but also lay the groundwork for a credible, investable pipeline of projects.

Across all instruments, common enabling conditions stand out: secure land tenure, credible MRV systems, a green finance taxonomy, and stronger governance. These cross-cutting issues are essential for scaling forest finance in Lao PDR and form the basis for the targeted recommendations set out in Chapter 6.

Recommendations for Forest Finance solutions and instruments

This chapter presents recommendations that are grounded in the stakeholder consultation process, drawing on the consensus areas from the April 2025 Stakeholder Roundtable Workshop (see Annexe 1) and further reinforced through follow-up consultations and individual interviews with key actors. This ensures that the proposed actions reflect both collective inputs and specific perspectives from across government, development partners, and the private sector.

Scaling up forest finance in Laos requires addressing systemic barriers to transform fragmented efforts into a cohesive and scalable financing system. This section presents a framework built on four foundational pillars—**land, people, leadership, and revenue generation**—as the basis for scaling investment. Aligned with these pillars, a set of targeted, actionable recommendations is proposed to strengthen governance, mobilise blended finance, and support inclusive, community-based approaches.

The recommendations also align with the **EU's Global Gateway strategy**, which is the main framework through which the EU mobilises investment, concessional finance, and guarantees for sustainable development. By positioning Lao PDR's Forest finance reforms within this wider EU agenda, the assessment ensures that proposed solutions are both nationally relevant and globally supported.

Bringing these elements together, the assessment proposes a **Green Growth Model** that integrates land use planning, private capital, and local livelihoods. This model offers a pathway toward a nationally coordinated, investment-driven forest finance system—anchored in Lao PDR's policy priorities and capable of delivering lasting climate, biodiversity, and development outcomes.

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The EU Global Gateway (2021–2027) is the EU's flagship investment strategy, mobilising up to €300 billion for sustainable infrastructure, climate, biodiversity, and green growth. Its financial arm, the **EFSD+**, provides guarantees and blended finance to de-risk private investment.

In Lao PDR, the Global Gateway is already operational through the **Team Europe Initiative on Climate Action in Forestry (TICAF)** and related programmes that support sustainable value chains in coffee, tea, timber, and forest restoration. These initiatives combine **EU grants, concessional loans, guarantees, and private sector investment** to scale forest and biodiversity finance.

For this assessment, EFSD+ is especially relevant to:

- **Fiscal reforms (6.2.1):** supporting green budgeting, bonds, and NPA financing.
- **Institutions (6.2.2):** recapitalising EPF/FPF and improving donor coordination.
- **Private/community finance (6.2.3):** de-risking SME credit, eco-tourism, PES, and biodiversity credits.
- **Scaling models (6.2.4):** replicating the Khammouane Green Growth Model via carbon, PES, and NPA finance.

Linking Lao PDR's forest finance reforms to the EU Global Gateway ensures alignment with global climate and biodiversity goals while anchoring solutions in the **Forest Strategy 2035, NDC, and Kunming–Montreal GBF**.

6.1 Foundations Pillars for Scaling up Forest Finance

Scaling up forest finance in Lao PDR will depend on a coherent enabling environment that links policy alignment, institutional capacity, and sustainable revenue generation with strong provincial leadership and community participation.

Building on stakeholder consultations and findings from Chapters 4 and 5, two immediate priorities were consistently highlighted as essential to strengthen investor confidence and long-term financing readiness:

1. Strengthen institutional coherence and investor confidence.

Prioritise a few high-impact reforms—clarifying institutional mandates, finalising the PES framework, improving transparency and accountability of the EPF and FPF, and securing land tenure for communities and SMEs—to demonstrate predictable and inclusive forest finance governance.

2. Diversify and expand domestic and private finance.

As donor funding declines, broaden financing sources by scaling up PES and watershed fees, improving eco-tourism revenue sharing, and developing green bonds and biodiversity credits. Strengthening MRV and transparent reporting will be key to building trust and closing the US\$20 million annual gap in forest management.

These priorities provide the overarching direction for the following four foundational pillars that underpin Laos's forest-finance architecture: land, people, leadership, and revenue generation. Progress on these pillars is essential for forest finance mechanisms to have a real, lasting impact.

Land: Secure, enforceable, and inclusive land use planning is essential. Governance must move beyond policy into practice—ensuring control over forested areas, enabling enforcement, and involving communities in land-use decisions. Effective frameworks must balance conservation with regulated access, sustainable livelihoods, and clear incentives for communities to steward forests over the long term.

People: Local communities, SMEs, and government staff are central to delivering forest finance. Building

subnational capacity through training, adequate staffing, and local ownership is critical. Equally important are mechanisms to improve access to finance and capital for communities and enterprises, coupled with incentives that reward sustainable practices. Without empowered actors at the ground level, implementation will stall, and confidence in finance systems will remain low.

Leadership: National ownership and strategic coordination are key. A single, accountable coordinating body with a clear mandate is needed to align efforts, enforce policies, and ensure delivery. Laos must move from fragmented, project-based initiatives toward mandate-driven systems supported by political leadership, cross-sector collaboration and dedicated resources to build effective financial infrastructure.

Revenue Generation: Sustainable forest finance must generate predictable long-term public income. Beyond international contributions, this requires diversified and **sustainable revenue streams** - including PES schemes, carbon markets, eco-tourism revenues, biodiversity credits and fiscal instruments to support NPAs and protection forests. This mechanism can channel resources into EPF and FPF, reduce donor dependency, and ensure that biodiversity and climate goals are backed by recurring domestic income.

6.2 Forest Finance Solution Recommendations

The following tables present forest finance recommendations based on urgency, alignment with financial gaps, stakeholder interviews and consultations. Each recommendation aims to briefly include the expected impact, necessary support, potential funding sources, and estimated time horizon. The proposed solutions align closely with the four foundational pillars—land, people, leadership, and revenue generation—required for scaled forest finance in Lao PDR. They integrate top-down reforms in policy, planning, and coordination with bottom-up action through SMEs, communities, and local landholders, creating a coherent and enabling environment for investment.

6.2.1 Legal and Policy Alignment with National Strategies and Fiscal Planning

Chapter 4 showed chronic underfunding of NPAs and weak capitalisation of EPF/FPF, while Chapter 5 highlighted the need for stronger legal frameworks

Table 8. Legal, Policy and Fiscal Recommendations

Forest finance solutions	Expected impact	Support needed	Source of finance	Time horizon
Align policies on forestry, land, climate, and investment with national priorities.	Increases coherence, reduces conflicts, and boosts climate finance readiness	Technical support, legal review, inter-ministerial coordination	GoL, EU (Global Gateway policy dialogue via TICA), UNDP, World Bank	Immediate
Finalise and enforce PES and REDD+ legal frameworks	Builds investor confidence and strengthens compliance	Legal drafting, stakeholder consultation, and enforcement capacity	KfW, World Bank, UN-REDD	Immediate to Medium-term
Integrate forest finance mechanisms into national budget and planning systems and establish conditions for green bonds.	Embeds forest finance in public financial management, ensuring long-term sustainability, and creates pathways to tap private capital via green bonds.	Budget reform, green finance taxonomy	EU Global Gateway via EFSD+ (blended finance & budget reform), World Bank (PFM), ADB, IFC, EFSD+, commercial investors	Medium to Long-term
Introduce fiscal instruments dedicated to NPAs and protection forests (eco-tourism fees, conservation levies, earmarked natural resource taxes)	Provides predictable, long-term domestic revenue for NPAs; reduces donor dependency; ensures sustainable biodiversity conservation	Fiscal policy design, legal amendments, inter-ministerial coordination, stakeholder consultation	Government budget (tax/levy revenues), EPF, FPF, EU (Global Gateway/EFSD+ catalytic co-financing)	Medium to Long-term

for PES, carbon markets, and biodiversity credits. Closing these gaps requires fiscal reforms that ensure predictable domestic revenues, higher budget allocations, and reinvestment of forest-sector tax flows into forestry and biodiversity priorities. These measures will embed forest finance into national systems and provide the foundation for long-term sustainability.

Together, these recommendations strengthen the legal and fiscal foundations of forest finance in Lao PDR. By aligning policies, finalising PES and REDD+ frameworks, embedding forest finance in national budgeting, and introducing fiscal instruments for NPAs and protection forests, the country can build a more coherent, predictable, and sustainable financing system. This will not only help close the persistent gap for protected areas but also reduce donor dependency, enhance investor confidence, and ensure long-term financing for conservation, climate, and sustainable development goals.

6.2.2 Institutional Capacity and Governance Coordination

The analysis in Chapter 4 confirmed that forest financing remains fragmented, heavily reliant on donor projects, and uneven across forest categories. Chapter 5 further noted that while EPF and FPF are emerging as central mechanisms, they are under-capitalised and face access and fiduciary constraints. This calls for strengthened institutional capacity, better donor alignment, and governance mechanisms to coordinate and deliver finance effectively at both national and subnational levels.

Strong institutions and coordinated governance are essential to mobilise and deliver forest finance effectively. This includes creating mechanisms for donor alignment, strengthening national funds (EPF/FPF), building capacity at the subnational level, and establishing robust monitoring and reporting systems. These measures not only improve efficiency and transparency but also ensure that financing reaches local levels and supports results-based management.

Table 9. Capacity and Governance Recommendations

Forest finance solutions	Expected impact	Support needed	Source of finance	Time horizon
Establish a national forest finance coordination body, including a donor alignment mechanism.	Aligning forest finance with national priorities reduces duplication, improves donor coordination, and enhances co-financing opportunities and fund allocation.	Legal mandate, inter-ministerial secretariat, staffing, donor alignment mechanism	GoL, EU Global Gateway (Team Europe coordination), EFSD+	Immediate
Strengthen EPF and FPF mandates and capitalisation	Enables long-term, transparent fund management and coordination	Capital infusion, mandate update, fiduciary systems	GoL, WB, KfW, GCF, EU Global Gateway/EFSD+ guarantee support	Immediate to Long-term
Mobilise resources for NPAs (via GCF/GEF, capitalised EPF/FPF with earmarked revenues, biodiversity credits)	Secures long-term financing for NPAs, strengthens biodiversity protection, supports GBF & NDC targets	Fund consolidation, fiscal design, piloting biodiversity credits, donor coordination	GCF, GEF, EPF, FPF, eco-tourism revenues, private sector	Immediate to Long-term
Build subnational capacity in finance access and delivery	Enhance fund disbursement and implementation at the local level	Staff training, digital tools, TA, operational budget	JICA, GIZ, WB, GCF	Medium-Long-term
Develop a forest investment MRV module integrated into the National MRV system (REDD+, GHG inventory, NDC)	Build trust with donors and investors, track climate, biodiversity and livelihood outcomes, and support national reporting and policy alignment.	Legal mandate, digital integration with existing systems, capacity building and technical assistance	World Bank, GCF, UNDP, EU, JICA, GIZ	Medium-term

Together, these measures provide the **institutional backbone** for scaled-up forest finance in Lao PDR. A coordination body and donor alignment mechanism will improve efficiency and coherence. Stronger EPF/FPF mandates will secure long-term domestic and international financing. Subnational capacity will ensure funds reach communities and local implementation. A dedicated MRV module will increase transparency and investor confidence. Collectively, they will create a results-oriented, credible, and nationally owned system capable of attracting larger volumes of finance and delivering on climate, biodiversity, and development commitments.

6.2.3 Private Sector and Community-Based Forest Finance

Chapter 4 identified a severe SME finance gap of US\$1.2 billion, with women-owned enterprises particularly underserved, alongside weak financing for community forestry and eco-tourism. Chapter 5 highlighted instruments such as blended finance, SME credit lines, and value chain finance as promising

but underutilised. Mobilising private sector and community-based finance is therefore essential to unlock inclusive growth, improve livelihoods, and reduce pressure on forests.

Private sector investment and community-based solutions are key to unlocking sustainable forest finance. Measures in this area should focus on clarifying land rights, expanding access to finance for SMEs, strengthening value chains, and promoting eco-tourism linked to conservation. These interventions combine commercial opportunities with community benefits, ensuring that livelihoods and conservation outcomes advance together.

Taken together, these recommendations create an enabling environment where private investment and community action reinforce one another. Clarifying land rights and reducing regulatory risks can unlock large-scale investment, while credit lines and de-risking tools open financing for SMEs and smallholders. Stronger value chains and eco-tourism opportunities

Table 10. Private Sector and Community-Based Recommendations

Forest finance solutions	Expected impact	Support needed	Source of finance	Time horizon
Clarify land rights and streamline permitting in PFAs	Increase investor confidence and unlock capital for plantations and restoration	Legal reforms on land titles, transparent permitting, spatial planning, and public-private dialogue	IFC, GIZ, WB, EFSD+, Private sector	Immediate
Expand credit lines and de-risking tools for SMEs and investors	Enables both SMEs and large investors to access finance and reduces risk	Blended finance structuring, concessional credit guarantees, TA for structuring	ADB, IFC, LNCCI, UNEP-FI, GSF, EU Global Gateway/EFSD+ blended instruments, commercial banks	Medium – Long -Long-term
Develop value chains and access to green markets.	Improves profitability for SMEs, attracts premium buyers, and incentivises sustainable sourcing	ESG certification, digital traceability systems, export promotion, and buyer partnership	LNCCI, BAF, GIZ, EFSD+, EU Green Economy Facility	Medium-term
Promote eco-tourism linked to conservation, pilot community PES	Strengthens local stewardship, generates income, and supports conservation incentives	Eco-tourism investment promotion, skills development, TA for monitoring, community governance, and fund management	LNCCI, SME grant, EPF, ADB, GEF, EU Global Gateway/EFSD+ blended finance, private investors	Medium-term

ensure that local communities benefit directly, building incentives for sustainable practices. Collectively, these measures increase profitability, diversify financing sources, and embed conservation into economic activity—helping Lao PDR scale forest finance while balancing climate, livelihoods, and biodiversity goals.

Though not exhaustive, these recommendations provide clear, actionable steps to strengthen the foundations for forest finance in the Lao PDR. Aligned with national priorities and proven practices, and building on existing pilot initiatives, they outline scalable pathways to attract investment, promote sustainability, and advance a coordinated, country-led approach aligned with Laos’ climate and development goals.

6.2.4 Scaling a “Khammouane Green Growth Model” for Investment-Driven Forest Finance

The financing landscape presented in Chapter 4 showed how production forests dominate investment flows, while protection forests and NPAs remain underfunded. Chapter 5 demonstrated that instruments like PES, carbon finance, eco-tourism,

and biodiversity credits have strong potential but require integration into a coherent framework. Scaling the Khammouane Green Growth Model offers a way to bring these instruments together in a landscape approach that combines production, protection, and NPAs into one sustainable financing model.

Lao PDR is well-positioned to transition from fragmented, project-based efforts to a cohesive Green Growth Model that applies a landscape approach across all forest categories - production, protection and protected forests (NPA). This model links forest management with rural development, climate action, and inclusive economic growth, supported by strong policy frameworks, clear land-use zoning, and growing private sector interest.

Khammouane province offers an ideal environment to pilot and scale this approach. The province brings together:

- Production forests, where private sector investments (e.g. Mekong Timber Plantations, SilviCarbon) are driving plantation forestry, certified value chains, and carbon markets.

Table 11. Green Growth Model Implementation

Action	Expected impact	Support needed	Source of finance	Time horizon
Secure land tenure and clarify rights for communities and investor	Enhances confidence for long-term investment and sustainable management	Legal reforms, cadastral surveys, participatory land-use planning	GoL, IFC, WB, GIZ, EU Global Gateway/EFSD+ incentive funds	Immediate to Medium-term
Empower communities through vocational training and cooperative models	Builds skills and local ownership in forestry, eco-tourism, and green value chains	Training centres, extension services, technical assistance	GIZ, ADB, LNCCI, NGOs, EU Global Gateway (Education & Skills pillar), private sector	Medium-term
Strengthen governance and coordination at provincial and national levels	Increases transparency, reduces overlap, and aligns projects with national priorities	Clear mandates, coordination bodies, results-based monitoring	GoL, EU Global Gateway (Team Europe framework), WB, donors	Immediate
Expand sustainable revenue streams (carbon markets, PES, eco-tourism, biodiversity credits, certified value chains, NPAs)	Generates predictable long-term financing, incentivises conservation, and strengthens NPA management	PES policy framework, biodiversity credit piloting, eco-tourism investment promotion, certification schemes, fiscal instruments	EPF, FPF, GCF, GEF, eco-tourism revenues, private investors, EU Global Gateway/EFSD+ for carbon/PES/ biodiversity credits	Medium to Long-term
Integrate NPA management (e.g., Hin Nam No National Park)	Secures biodiversity finance and links conservation with tourism and local livelihoods	Fiscal instruments (eco-tourism fees, conservation levies), co-management structures, donor and private partnerships	EPF, FPF, GCF, GEF, eco-tourism revenues, private sector, EU Global Gateway/EFSD+ for NPA financing	Medium to Long-term

- Protection forests, which safeguard watersheds, reduce erosion, and provide ecosystem services vital for hydropower and downstream agriculture; and
- Protected Areas (NPAs), including the UNESCO-listed Hin Nam No National Park, generate global biodiversity and climate benefits, while offering opportunities for eco-tourism and co-management with local communities.

By addressing all three forest categories within one framework, the Khammouane Green Growth Model demonstrates how conservation, livelihoods, and investment can be integrated into a sustainable financing system.

Rooted in four interlinked pillars—secure land tenure, empowered communities, strong governance, and sustainable revenue streams—the “Khammouane Green Growth Model” provides a practical and scalable framework for investment-driven forest finance. Four Pillars of the Khammouane Green Growth Model:

- Secure land tenure across all forest categories – clarifying rights in production, protection, and NPAs builds investor confidence and empowers communities to manage resources sustainably.
- Empowered communities – vocational training, cooperatives, and SME finance enable participation in forest value chains, eco-tourism, watershed management, and conservation.
- Strong governance – coordinated mandates, provincial-level leadership, and transparent monitoring strengthen implementation across production, protection, and conservation areas.
- Sustainable revenue streams – diversified financing from carbon markets, PES (watershed services in protection forests), eco-tourism (NPAs), biodiversity credits, and certified products (production forests)⁵⁶- ensure long-term incentives.

⁵⁶ SilviCarbon currently undergoing validation under the VCS; Payment for Ecosystem Services (PES) , already operational in the Nam Theun area; and certified products with both MTP and SilviCarbon holding FSC certification

Table 12. Indicative Pipeline of Bankable Projects

Project / Focus Area	Indicative Ticket Size (US\$)	Lead Proponent(s)	Instrument(s)	Linked Finance Gap (Section 4.2)	Private Sector Role	Government Revenue Potential
Khammouane Green Growth Model – integrated landscape (NPAs, plantations, SMEs, carbon/PES)	~ US\$30–50m	MAF, Provincial Gov't, EPF, EU/ Team Europe, Private Sector	Blended Finance, PES, Carbon Markets	Part of the US\$4.8 bn forest & climate finance gap	Co-investment in plantations, eco-tourism, carbon	PES fees, eco-tourism revenues, carbon levy to EPF
National PES Framework & Pilots – multi-payer (hydropower, tourism, agribusiness)	~ US\$3–5m annually	EPF, MoNRE, Hydropower Operators	PES, Green Bonds (bundled)	US\$ 13m annual protection forest gap	Hydropower & tourism firms as payers	PES fees channelled to EPF
Private REDD+ Projects – Green Synergy (1.19m ha), Burapha, SilviCarbon	~ US\$20–30m	Green Synergy, Burapha, SilviCarbon, DoF	Carbon Finance (VCM, Article 6)	Contributes to the US\$4.8 bn climate gap	Developers finance projects, buyers purchase credits	Tax share of carbon revenues; FPF benefit-sharing
Community Forestry & SME Credit Facility – concessional lines for agroforestry, NTFPs, restoration	~ US\$15–25m	Local Banks (APB, JDB), IFAD, GGGI, EPF	SME Credit Lines, EFSD+ Guarantee	US\$1.2 bn SME finance gap	SMEs borrow with de-risking, banks co-finance	Loan repayments, SME tax revenues
Biodiversity Credit Pilot – NPAs + eco-tourism tied to habitat restoration	~ US\$5–10m	MoNRE, UNDP BIOFIN, Eco-tourism Operators	Biodiversity Credits, PES	US\$19.7 m annual NPA need	Investors buy credits, eco-tourism sector engaged	Credit fees + eco-tourism levies to EPF
Debt-for-Nature Swap Facility – debt restructuring tied to NPA/climate	~ US\$10–20m annually	MoF, UNDP, Bilateral Creditors (China, Thailand)	Debt-for-Nature Swap, EPF/FPF	US\$10–15m NPA gap	Indirect – creditor governments & IFIs	Fiscal space redirected to EPF/FPF
Sustainable Plantation Value Chains – FSC-certified timber, pulp, carbon, out-growers	~ US\$25–40m	Burapha, MTP, SilviCarbon, Sun Paper	Concession/Value Chain Finance, Carbon	US\$50 m SFM/ community forestry gap	Private firms finance plantations, processing	Royalties, export duties, carbon revenues
Green CUP Value Chains (tea/coffee) – EU market access, green processing	~ US\$5–7m	AFD, EU, Local SMEs	Blended Finance, Green Bonds	SME share of US\$ 1.2bn gap	SMEs, processors, EU buyers	Export taxes, SME revenues

Scaling the Khammouane Green Growth Model demonstrates how a landscape approach—integrating production, protection, and protected forests—can create a balanced system that generates revenue, supports local livelihoods, and safeguards biodiversity. By embedding secure tenure, community empowerment, governance reform, and diversified revenue streams, the Lao PDR can move from fragmented, project-based initiatives toward a coherent, nationally owned financing framework.

The EU Global Gateway and EFSD+ provide catalytic tools to de-risk private investments, mobilise blended finance, and strengthen national funds, ensuring the model can attract investment at scale. If replicated nationwide, this approach will embed sustainable forest finance into Lao PDR's national systems, reduce reliance on donors, and deliver results aligned with the Forest Strategy 2035, the NDC, the Kunming–Montreal Global Biodiversity Framework, and the Sustainable Development Goals — including Lao PDR's unique SDG 18 on UXO clearance.

6.2.5 Indicative Pipeline of Bankable Projects

To translate recommendations into a practical action agenda, this assessment proposes an indicative pipeline of 8 bankable forest and climate finance projects. The pipeline highlights initiatives with strong potential to mobilise private investment, strengthen national financing platforms, and generate revenues for the government while addressing key financing gaps.

The ticket sizes and figures are indicative estimates, intended to illustrate the scale of investment required

and the types of financing instruments that could be applied. They are not fixed commitments, but serve as a starting point for stakeholder dialogue, validation, and eventual structuring into fully bankable projects.

Together, this pipeline provides a snapshot of how bankable projects could contribute to closing the Lao PDR's Forest and climate finance gap—estimated at US\$4.8 billion by 2030 (equivalent to ~ US\$480 million per year to 2035). While not exhaustive, the examples demonstrate how targeted instruments—ranging from PES and carbon finance to biodiversity credits, SME facilities, and debt-for-nature swaps—can be scaled to cover different segments of the financing need. While this indicative pipeline provides a practical snapshot of how bankable projects could address key financing gaps, it should be emphasised that further in-depth detailing will be required. This includes technical and financial structuring of each project, confirmation of ticket sizes, governance arrangements, and identification of implementing partners. The pipeline should therefore be seen as a starting point for stakeholder dialogue and prioritisation, rather than a definitive project list.

Forests will remain essential to the Lao PDR's sustainable development. Closing the forest and climate finance gap will take time, stronger institutions, and closer collaboration with the private sector and development partners. The opportunities outlined in this report do not offer complete solutions but provide a foundation to build upon. With gradual scaling and continued cooperation, the Lao PDR can make steady progress and contribute meaningfully toward its national and global commitments.

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Annexe

Annexe 1: A Summary of the Roundtable Workshop on Financing Forests in Laos, organised by EUD to Laos, in Vientiane on 30 April 2025

The **objectives** of the workshop were to bring together stakeholders and key actors from across the forest finance landscape in Laos to share experiences and examples of effective forest finance instruments and solutions; identify key opportunities to scale up sustainable financing mechanisms; assess how existing finance instruments align with national forest management objectives, including production, conservation, and restoration targets; explore challenges and barriers to implementation; and to define practical next steps and priorities for engaging stakeholders, improving coordination, and strengthening the enabling environment for sustainable forest finance.

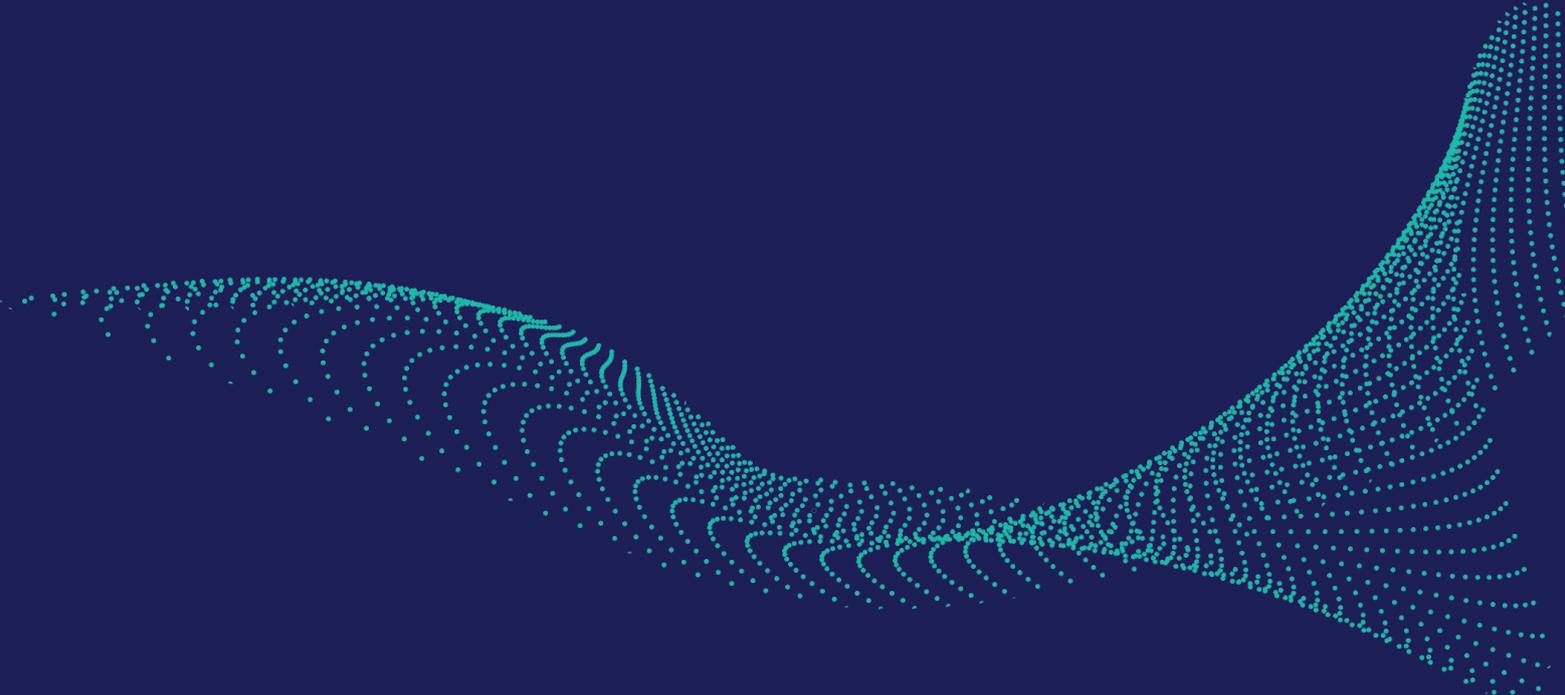
Participants agreed on several **key priorities** for future work:

- Scaling PES, biodiversity offsets, and result-based payments based on successful models from neighbouring countries.
- Developing consistent legal frameworks and national standards for mitigation hierarchies and innovative finance instruments.
- Facilitating community access to finance and supporting smallholder and village forestry enterprises.
- Expanding the use of green bonds, debt-for-nature swaps, and blended finance to attract private capital.
- Enhancing coordination among ministries, the central bank, and development partners to align investments with national forest targets.

Participants described several **key barriers** that limit the scale-up of these instruments, including: a lack of consistent legal frameworks and standards; weak enforcement and institutional capacity for MRV, transparency, and revenue tracking; limited access to finance for communities and smallholders; investor confidence and predictability that deter private-sector investment in plantations; and low awareness and demand in financial markets (e.g., green bonds).

The participants identified several key **priority actions** and **recommendations** to advance forest finance in Laos, including:

1. Developing and adopting consistent legal and regulatory frameworks to support essential instruments, such as the national decree on PES, national standards for mitigation hierarchies and biodiversity offsets, and the implementation of Article 82 of the Forestry Law to allow for the collection of additional fees.
2. Strengthening enforcement and monitoring systems, which include the collection of taxes on non-timber forest products (NTFPs) and the establishment of robust Monitoring, Reporting, and Verification (MRV) systems to track financial flows and demonstrate measurable conservation outcomes.
3. Facilitating access to finance for communities and smallholders through tailored financial products and capacity-building initiatives.
4. Expanding innovative financial instruments, such as a national green finance taxonomy.
5. Promoting and fostering coordination among government institutions, development partners, and the private sector.



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