

RIN Online Workshop

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# **“Improving the business environment in order to support SMEs in Laos”**

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# Overview

- The government take steps to reduce regulatory requirements to encourage companies to register formally, improve transparency, and remove informal charges levied on enterprises.
- Strengthen coordination between the concerned sectors to implement the Prime Minister's Order No. 02/PM, dated 01/02/2018 on Improving Regulations and Coordinating Mechanism for Doing Business in Lao PDR.
- Since 2018, the government have been reduced the cost and the processing time of business registration by one-third.
- The regulatory environment for business development has improved across all provinces in the Lao PDR, but more needs to be done to accelerate the country's economic recovery from the coronavirus disease (COVID-19) pandemic,



# SME sector

- Micro- small and medium-sized enterprises (MSMEs) play important roles in socio-economic development especially in the production of goods, trade and services,
- According to the 3rd National Economic Census, in 2020, there were 133,997 enterprises nationwide.
- By the classification on enterprises with less than 99 employees, MSMEs accounted for 99.8% of all establishments or 133,772 enterprises.
- Number of enterprises with less than 5 employees (micro enterprises) accounted for 94.2%.
- MSMEs also contribute to more than 80% of employment created by all enterprises in the Lao PDR



# Strengthening the institutional, regulatory and operational environment

## *Framework for strategic planning, design and coordination of SME policy*

- The Decree No. 42/PM, dated 20 April 2004 promulgated by the government. Under the Decree, the Small and Medium Enterprise Promotion and Development Office (SMEPDO) and SME Development and Promotion and Productivity Committee were established. After the establishment of SMEPDO
- The first Lao SME promotion policy (2006-2010)
- The SMEs Development Plan (2021 – 2025)



# Strengthening the institutional, regulatory and operational environment (Cont.)

## *Company registration and ease of filing tax*

- The improvement of the enterprise registry resulted in the reduction of 10 processes and 174 days of enterprise registry to 3 processes and 17 days.
- The Order No. 03/PM regarding the issuance of investment and business permits improvement to be more convenience and comply with international good practices.

## *E-governance facilities*

- The government of Lao PDR has started e-government initiatives since 2006. However, many initiatives had heavily relied on foreign donors' technical and financial support and not sustainable after projects ended.
- As a result, its performance in this area has seen ups and downs as illustrated by its UN E-Government Development Index ranking (improved from 152th in 2014 to 148th in 2016, but went down to 162th in 2018 and to 167th in 2020).



# Facilitating SME access to finance

## *Legal, Regulatory and Institutional Framework on Access to Finance*

- In July 2019 Decree on Credit Information No.224/GOL was promulgated.
- Following the issuance of the Decree, the Bank of Lao PDR upgraded the Credit Information Bureau (CIB) under its IT department to be the Lao Credit Information Company (LCIC),
- In December 2020, the Bank of Lao PDR issued the Decision on Credit Guarantee Company, No. 730/BOL, to provides principles and regulations for establishment and operations of credit guarantee company.



# **Enhancing access to market and internationalization**

- The government of Lao PDR have seen importance of enterprises' access to market and internationalization and have clearly set increasing export and regional and international integration one of targets in its policy agenda, including
- However, the large increase has been driven by export of electricity, mineral products, and industrial crops, which are owned by large companies or foreign investors.
- In addition, the MSMEs Development Plan (MSMEDP) 2021-2025 points out that only 6.07% of a total number of MSMEs export their products overseas.
- To increase MSMEs' access to market and internationalization, the MSMEs Development Plan 2016-2020 and 2021-2025 identify measures to be implemented.

# Enhancing access to market and internationalisation

## (Cont.)

**Export promotion:** supporting enterprises on branding and marketing, trade fairs showcasing Lao products.

**Integration to Global Value Chains:** The Amended Law on SME Promotion enacted in 2022 illustrates well the government's continued commitment to support MSMEs integration into regional and global value chains.

**Use of e-commerce:** In 2021 a Decree on Electronic Commerce was promulgated to set principles, regulations and measures pertaining use and management of electronic commerce.

**Trade facilitation:** A Trade Facilitation Roadmap for 2017-2022 was adopted with aims to support implementation of the country's TFA commitment and reduce the time taken for completing the regulatory formalities.





## *Boosting productivity, innovation and adoption of new technologies*

**Productivity measures:** Department of SMEs Promotion is designated as the country's National Productivity Organization, which coordinates with Asian Productivity Organization (APO).

**Business development services:** The Lao SME Service Center (SSC) was established in 2017 in Vientiane capital and currently has 7 provincial branches,

**Technological innovation:** There is no specific innovation strategy in place. However, promoting innovation is, to some extent, integrated into the 9th Five-Year Socio-Economic Development Plan 2021-2025 (the 9th NSEDP).

**Environmental policies targeting SMEs:** In 2018 the government of Lao PDR launched the National Green Growth Strategy of the Lao PDR till 2030.



# The Way Forward

## *Strengthening the institutional, regulatory and operational environment*

### *Institutional framework for SME policy*

- **Accelerate setting up the MSME Promotion Committee at central and provincial level.** Therefore, it is recommended that setting-up the MSME Promotion Committee at Central level and in all provinces should be accelerated as the current MSME development plan will end in 2025 and process of developing a new plan should begin soon..
- **Carry out studies to support MSME development plan and policies formulation.** Formulation of the current MSME Development Plan is based on information, data from existing studies, relevant ministries, and stakeholders' consultations.

### *Legislation, regulation and tax*

- **Keep a momentum for improving business environment and tax simplification.** The government has made a good progress in improving business registration and modernization of tax services. It should keep that momentum and ensure a nationwide rollout of electronic tax system.

# The Way Forward

## *Facilitating SME access to finance*

- **Accelerate establishment of credit guarantees scheme.** one of key recommendations made for enhance SME's access to finance has been establishment of credit guarantee facility.
- **Expand coverage of MSME Promotion Fund.** The MSME Promotion Fund provides long-term low interest rate loans to MSMEs through financial institutions (a two-step loan). However, the requirement to get credit are still high.

# The Way Forward

## *Enhancing access to market and internationalisation*

- **Develop clear strategy and policies to promote SMEs' participation in GVCs.** The government might consider designing policies that can incentivize FDIs or large companies to integrate SMEs into their chains.
- **Learning from experiences from other countries** (such as Thailand, Viet Nam and Cambodia) on how they develop industrial cluster from industrial estates or special economic zones.
- **Develop a comprehensive programme to support SMEs internationalization.** Programmes often focus on providing market information and requirements but provide limited support for SMEs to meet those requirements especially on non-tariff measures and quality compliance.

# The Way Forward

## *Boosting productivity, innovation and adoption of new technologies*

### *Productivity, technology and innovation*

- **Improve data collection on SMEs' productivity and technologies adaptation.** The Lao Bureau of Statistics (LBS) carry out Economic Census (EC) every five years. Ministry of Industry and Commerce might consider discussing with LBS on possibility of including information needed to calculate firm-level productivity and technology adaptation into EC questionnaires.
- **Enhance policies that can incentivize SME's innovation and technology adaptation.** Most of matching grant programs are supported by foreign donors' projects and might not be sustainable financially in long-term and coverage might be also limited.

### *Environmental policies and SMEs*

- **Enhance policies that can incentivize greening.** Similar to promotion of innovation and technology adoption, the government might consider designing financial or fiscal incentives to promote greening of SMEs such as green financing.



thank you