

Small & Medium Enterprises Development Policies in Laos



List of Acronyms and Abbreviations

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Agreement
APO	Asian Productivity Organization
ASEAN	Association of South East Asian Nations
BCEL	Banque pour le Commerce Extérieur Lao
BDO	Business Development Organization
BDS	Business Development Services
BMO	Business Membership Organization
BOL	Bank of Lao PDR
CCI	Chamber of Commerce & Industry
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOL	Government of the Lao People's Democratic Republic
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HRDME	Human Resource Development for Market Economy Programme
ILO	International Labour Organization
ITC	International Trade Center
Lao PDR	Lao People's Democratic Republic
LNCCI	Lao National Chamber of Commerce & Industry
LTPC	Lao Trade Promotion Center
MOF	Ministry of Finance
MOIH	Ministry of Industry and Handicrafts
MOE	Ministry of Education
MOIC	Ministry of Industry and Commerce
MOH	Ministry of Health
NSC	National Statistics Center
ODOP	One District One Product
PM	Prime Minister
PMO	Prime Minister Office
SME	Small and Medium-sized Enterprise

SMEPDC	Small and Medium Enterprise Promotion and Development and Productivity Committee
SMEPDO	Small and Medium Enterprise Promotion and Development Office
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WTO	World Trade Organization

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Lao-German Programme on Human Resource Development for Market Economy (GTZ)	Dr. Manfred Matzdorf (Programme Director)
Lao Trade Promotion Center (LTPC)	Mr. Phouvong Phommabouth (Deputy Director General Department of Trade Promotion and Product Development)
Lao Development Bank	Mr. Boualiane Phommavongsa (Deputy Director) Mr. Bounma Sommixay (Deputy Head of Administration Department) Mr. Sengchanh Phanmixay (Head of Loan Division)

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Faculty of Business Administration. National University of Laos	Assoc. Prof. Dr. Khamlusa Nouansavanh (Dean)
Lao National Chamber of Commerce and Industry	Mr. Khanthavong Dalavong (Secretary General)

Note: Exchange rate of the local currency(Kip) per US Dollar

Source: Bank of Lao PDR.

2009 Average 8,740.52 Kip/USD

2010 Average(8 months) 8,344.53 Kip/USD

Small & Medium Enterprise Development Policies in Lao PDR.

Chapter 1 Overview of the SME policies

1-(1) Definition¹

The definition for SMEs in various countries are different. The criteria for classifying enterprises into different categories are usually number of employees, value of assets and sales. For Lao PDR, the Ministry of Industry and Handicraft (MIH) together with GTZ have, for the survey in 1996, specified that enterprises with 1-9 employees are small, with 10-29 are medium, and with 30 or more are large. However, in 2000 the National Statistical Center classified enterprises with 1-9 employees as small, 10-99 as medium, and 100 or more as large. Currently, the definition used is in accordance with the Prime Minister Decree No. 42 officially issued in 2004 based on the number of employees, the value of assets and the annual average turnover. It states that: “Small and Medium-Sized Enterprises are independent establishments which are legally registered and are running their activities in accordance with the laws of Lao PDR.” The sizes are defined by the following criteria:

1. Small enterprises – those with an annual average number of employees not exceeding 19 persons or total assets not exceeding 250 million kip or an annual turnover not exceeding 4 hundred million kip.
2. Medium-sized enterprises – those with an annual average number of employees not exceeding 99 persons or total assets not exceeding 1.2 billion kip or an annual turnover not exceeding 1 billion kip.

¹ Source: Strategy for Small and Medium-Sized Enterprise Development Util 2010 , Ministry of Industry and Commerce

Table 1: Definition of Small and Medium-Sized Enterprises

Category	Average annual no. of employees	Total assets in kip	Annual turnover in kip
Small	<= 19	<=250 million	<=400 million
Medium	<= 99	<=1.2 Billion	<= 1 Billion

1-(2) Environment and conditions surrounding SMEs²

According report by the Bank of Lao PDR, the “Lao economy continued to maintain a steady economic growth with an annual GDP growth rate of 7.6 percent in 2009 compared with 2008, slightly higher than 7.5 percent of previous year. The total value of GDP expressed in constant price rose to 28,833.41 billion Kip or 46,796.94 billion Kip expressed in nominal terms. Compared to the performance of regional economies, GDP growth rate of Laos was relatively higher amid global financial crisis and the outbreak of influenza 2009 (A/H1N1). The key factors supporting a sustained GDP growth are mainly driven by the continued growth in mining, manufacturing and constructions as well as service and tourism sectors and so forth. The component of GDP growth in 2009 as compared to 2008, service remained a major share of GDP accounting for 38.36 percent, rising from 36.52 percent in 2008; agriculture was accounted for 31.09 percent, while industry was down from 26.23 percent in 2008 to 24.12 percent in 2009, and import duties accounted for 6.4 percent, slightly dropped from 6.8 percent in 2008. Average annual inflation was 0.03 percent, lower than the figure of 7.63 percent in 2008. In comparison with neighboring countries the Lao inflation was relatively low. This figure was the lowest for the first time for its Lao economic events.”

SMEs have an important role in the economic system of the country in various sectors, such as trade, manufacturing and services. Most of the labor force in the country are employ by SMEs which contribute to the generating income, raising the well-being of the majority of the people. SMEs are thus a main trust of the economic growth of the country.

Based on the data from the first national survey of economic conditions in Lao PDR in 2006³, there were a total of 126,913 enterprises, 126,717 of which were of

² Source: ANNUAL ECONOMIC REPORT 2009, Bank of Lao PDR Online: http://www.bol.gov.la/together_use/Annual%20report%202009.pdf

small and medium sizes accounting for 99.8 percent, and only 196 enterprises being large accounting for 0.2 percent. They employ a total of 345,138 employees, 286,575 of which were employed by small and medium enterprises accounting for 83 percent, and 58,513 employees by large enterprises accounting for 17 percent. Most of Lao SMES are in the trade sector, accounting for 64.5 percent, followed by Manufacturing at 19 percent and the remaining at 16.5 percent. The majority of the SMEs are located in the major cities with Vientiane Capital City accounting for 22.7 percent and the provinces of Savannakhet and Vientiane accounting for 11.4 and 10 percent respectively.

Table 2: Situation of SME in 2006

Characteristics	Findings
No. of enterprises ,Size	126,913 firms - SMEs 126,717 firms; 99.8 % - Large 196 firms; 0.2 %
No. of labour, Employment by size	345,138 Persons - SMEs 286,575 Persons; 83 % - Large 58,513 Persons; 17 %
Sector of SMEs	- Trade – 64.5% - Manufacturing – 19% - Others – 16.5%
Geographically located	- Vientiane Capital 22.7 % - Savannakhet 11.4 % - Vientiane 10 % - Others 55.9 %

Source: Policy and progress in small and medium enterprises in Laos, Laos-Japan Human Resource Development Institute, National University of Laos, June 2010

Based on the latest study on SMEs in the Lao PDR in 2009, collecting data from tax register which is reliable and up-to-date, the Tax records indicate that there

³ Source: Policy and progress in small and medium enterprises in Laos, Laos-Japan Human Resource Development Institute, National University of Laos, June 2010

were 83,181 enterprises in the Lao PDR by the end of the 2008/9 fiscal year, up by 1.9 percent on the previous year. The sample frame was selected from the tax register. The survey sampled 728 enterprises of all sizes from 5 provinces (see summary of results in Table 3). Although SMEs dominate the business landscape in terms of numbers (accounting for 95.7% of the total sample of enterprises), they contribute 52.8% of total employment.

Table 3: Situation of SMEs in 2009

Characteristics	Findings
Size	95.7% of the sampled firms were SMEs (employees not exceeding 99 persons); 4.3% were large (with 100 or more staff).
Employment by size	<ul style="list-style-type: none"> - The 19.9% micro firms in sample employed only 1.6% of total staff - The 60.6% small firms in sample employed 22.9% - The 15% medium firms in sample employed 28.1% - The 4.3% large firms employed 47.3% of the total
Sector	<p>The sector distribution of SMEs in the sample was:</p> <ol style="list-style-type: none"> 1. Whole sale& retail trade 41.6% 2. Manufacturing 17.6% 3. Accommodation, food service 16.6% 4. Construction 6% 5. Transportation, storage 4.5% 6. Other 13.7%
Gender	<p>Female owners accounted for:</p> <ul style="list-style-type: none"> - 41.1% of all the sample firms - 58.1% of micro enterprises - 40.8% of small enterprises - 25.2% of medium enterprises - 19.4% of large enterprises

Characteristics	Findings
Access to finance	- 31.8% of total enterprises received a loan <ul style="list-style-type: none"> • 24.1% micro enterprises. • 28.6% small enterprises. • 50.4% medium enterprises.
Business registration	Number of documents required for business registration, as per views/experience of all enterprises in the sample: <ul style="list-style-type: none"> 1-5 Days : 23% 6-15 Days : 34% 16-30 Days : 23% 31-90 Days : 13% >90 Days : 7%

Source: Enterprise Survey 2009, Lao-German Programme on Human Resource Development for a Market Economy (HRDME).Vientiane. 2010.

In general, the characteristics of Lao SMEs could be summarized as follow:

- Two thirds of the enterprises were located in urban areas and the majority of the sampled companies were small-sized business. However, the small number of large-sized enterprises employed almost half of the total staff working for all the surveyed companies.
- The traditionally large share of the enterprises engaged in “wholesale and retail trade” has constantly grown over the years and in 2009 made up more than 40% of the surveyed population. “Transportation and storage”, by contrast, has seen a perpetual decline in numbers of enterprises. Companies falling into the ISIC classification “agriculture, fisheries and forestry” make up less than 2% of the survey, thus underscoring the still nascent commercialization status of that group.
- 93% of the surveyed enterprises were owned by Lao citizens with a substantial share of Chinese and Thai ownership in manufacturing and Thai ownership in ‘construction’ and ‘transport and storage’.

- Female ownership has been constantly rising in the micro-sized bracket of enterprises, whereas 80% of the large-sized enterprises are owned or run by men.

1-(3) Laws related to SMEs

Doing business in Lao PDR has to comply with the new Enterprise Law No. 11/NA dated 09.11.2005, which replaces Business Law No. 03/94/NA dated 18.07.1994. The law directly relevant to SMEs is the Decree on the Promotion and Development of Small and Medium Sized Enterprises No.42/PM, which the government is on the process of converting it into a legislation expected to be completed by 2011. This Decree defines directions and policies and establishes an SME Promotion and Development Fund and support organizations together with regulations, practices and measures, to promote sustainable growth of small and medium sized enterprises aiming at expanding commercial goods production, trading and service business activities, so as to contribute to employment creation, the raising of living standards of people, and to lay the foundations for gradual industrialization and modernization and contribute to sustainable growth of the national economy. The Decree consists of 6 Chapters and a total of 29 Articles.

Summary of the Decree on the Promotion and Development of Small and Medium Sized Enterprises No.42/PM.

Definition of Small and Medium Sized Enterprises

SMEs are classified into the following size categories:

1. Small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip, and
2. Medium sized enterprises are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred million kip or an annual turnover not exceeding one billion kip.

Categories of SMEs

Small and medium sized enterprises are classified into three categories by sector:

1. SMEs operating in the production of commercial goods,
2. SMEs operating in the trade sector, and
3. SMEs operating in the service sector.

Directions and Policies for SME Promotion and Development

1. Creating an Enabling Regulatory and administrative Environment
2. Enhancing Competitiveness
3. Expanding Domestic and International Markets
4. Improving Access to Finance
5. Encouraging and Creating Favorable Conditions for Establishment of Business Organizations
6. Encouraging Entrepreneurial Attitudes and Characteristics within the Society

Establishment of the SME Promotion and Development Fund

The Government is authorized to establish the SME Promotion and Development Fund to provide support to SME promotion and development programs. The SME Promotion and Development Fund shall be managed by the National SME Promotion and Development Office. Separate regulations for the management of the SME Promotion and Development Fund will be issued.

Income of SME Promotion and Development Fund

The SME Promotion and Development Fund shall receive income from the following sources:

1. The National Budget
2. International grants or loans,
3. Voluntary donations and contributions by individuals and organizations,
and
4. Services and the collection of fees and others.

Expenditures of the SME Promotion and Development Fund

The SME Promotion and Development Fund shall be used for the following purposes:

1. To support SME promotion and development projects,
2. To provide financial support to SMEs,
3. To cover administrative expenses of the National SME Promotion and Development Committee,
4. To pay bonuses and other rewards to staff of the National SME Promotion and Development Office,
5. To develop human resources of the National SME Promotion and Development Office, and staff and workforce of the business sector,
6. To cover administrative expenses of the National SME Promotion and Development Office, and
7. To support other activities related to SME promotion and development.

Methods for Implementation of the Action Plan for SME Promotion and Development

All SME promotion and development measures will be planned and implemented in the form of projects and programs that will be in line with socio-economic development plans and the laws of the Government.

The National SME Promotion and Development Office shall issue standards and methods in developing projects and programs, and monitoring and evaluation of program implementation.

An action plan for SME promotion and development shall be prepared, consolidated by the National SME Promotion and Development Office, and submitted to the National SME Promotion and Development Committee for consideration and approval in principle prior to presenting it to the Government.

Contents of the Action Plan

The contents of the Action Plan shall be related to projects and activities supporting SMEs in one of the following areas:

1. Promoting and developing SMEs in each sector with special attention to those considering appropriate utilization of local resources,
2. Financial support,
3. Technical support,
4. Enhancing the capabilities of entrepreneurs of SMEs and their personnel in the areas of marketing, finance, production, personnel, management and development together with other managerial areas,
5. Promoting improvement of the quality of commercial goods production, trade and services,
6. Promoting domestic and international market expansion,
7. Providing information,
8. Promoting research and development, including transfer of modern and appropriate technology, to SMEs,
9. Promoting linkages and support between SMEs and large enterprises,
10. Encouraging clustering among SMEs for mutual assistance,
11. Promoting and developing various organizations that play a role in promoting the development of SMEs,
12. Promoting and facilitating investment in establishment and operation of SMEs,
13. Granting privileges and incentives and advising SMEs on taxation issues,
14. Promoting and advising on issues related to employment, health protection, sanitation and environmental protection,
15. Promoting and supporting copyright, patent, trade mark and other intellectual property,
16. Improving and revising rules, procedures and practices which obstruct SMEs,
17. Promoting the establishment of new SMEs,
18. Promoting SMEs to apply accounting systems,
19. Advising on regulations and practices prescribed in the laws of Lao PDR, and

20. Other activities related to promotion and development of SMEs in order to foster business expansion and competitiveness.

SME Promotion and Development Organizations at National Level

The SME promotion and development organizations at national level consist of:

- The National SME Promotion and Development and Productivity Committee,
- The Standing Committee of the National SME Promotion and Development Office, and
- The National SME Promotion and Development Office.

Membership of the National SME Promotion and Development and Productivity Committee

1. Minister for Industry and Commerce as Chairman,
2. Vice Minister for Finance as vice Chairman,
3. Vice Minister for Communication, Transport, Post and Construction as a member,
4. Vice Minister for Commerce as a member,
5. Vice Minister for Agriculture and Forestry as a member,
6. Vice Governor of Bank of Lao PDR as a member,
7. Vice President of Lao Women's Union as a member,
8. Rector of National University of Laos as a member,
9. President of Lao National Tourism Authority as a member,
10. President of Lao National Chamber of Commerce and Industry as a member,
11. Director General of the SME Promotion and Development Office as a member and its permanent secretary, and
12. Fifteen business people and senior people as members, to be appointed by the Prime Minister upon recommendation of the Chairman of the National SME Promotion and Development Committee.

Standing Committee of the National SME Promotion and Development Office

Not more than nine members of the National SME Promotion and Development Committee shall be appointed as members of the Standing Committee of the National SME Promotion and Development Office to administer operations of the National SME Promotion and Development Office.

Mandate and membership of the Standing Committee shall be defined by the Chairman of the National SME Promotion and Development Committee.

The National SME Promotion and Development Office

In the beginning the National SME Promotion and Development Office shall be set up as a technical office at departmental level under the auspices of the Ministry of Industry and Handicrafts to coordinate all matters related SME promotion and development.

Authority and Duties of the National SME Promotion and Development Office

1. To act a secretarial for the National SME Promotion and Development Committee in the formulation of policies and plans for SME promotion and development and to facilitate the operation of the National SME Promotion and Development Committee,
2. To define SMEs according to socio-economic conditions in each locality,
3. To manage the SME Promotion and Development Fund according to policies and decisions of the National SME Promotion and Development Committee,
4. To implement, monitor and evaluate SME support projects and annual SME development plans,
5. To report progress on SME promotion projects to the National SME Promotion and Development Committee and seek for approval of quarterly plans,
6. To disseminate information on legislation and regulations, SME support projects and socio-economic development plans of the Government to SMEs,
7. To upgrade knowledge and skills of the Government and private sector staff on SME promotion and development

8. To coordinate all parties involved in the implementation of SME promotion and development projects,
9. To cooperate with international organizations in SME promotion and development
10. To advise relevant agencies, State Owned Enterprises and the private sector in the implementation of SME promotion plans, and
11. To exercise other authorities and perform other duties as assigned by the National SME Promotion and Development Committee and as prescribed by law.

Local SME Promotion and Development Organizations

1. The Government shall support and facilitate establishment of local SME promotion and development organizations as public-business partnerships in the form of production groups, associations, cooperatives and the like to suit the actual situation in each locality.
2. Existing Departments of Industry and Handicrafts in municipalities, provinces and special zones shall perform duties of promoting and developing SMEs at the local level, and coordinate with the National SME Promotion and Development Office, production groups, associations, cooperatives and others.
3. The National SME Promotion and Development Office shall develop and issue regulations on the status, authority and duties of local SME promotion and development organizations, including associations, production groups, cooperatives and others related to SME promotion and development at local level.

Role of Provincial Government, Municipalities and Special Zones

1. Authorities of provinces, municipalities and special zones are responsible for incorporating SME development policies and measures defined in this Decree into their socio-economic development plans according to the actual conditions of their localities.
2. Authorities of provinces, municipalities and special zones shall assist cooperate and coordinate with the National SME Promotion and Development Office and local SME support organizations in development and implementing SME promotion and development projects in their localities according to the actual situation in each locality.

3. SME development promotion programs and projects using State budget resources in the localities shall comply with the guidelines to be issued by the National SME Promotion and Development Office.
4. Authorities of provinces, municipalities and special zones shall provide six monthly reports on results achieved, the difficulties encountered and the solutions recommended on SME promotion and development in their localities to the Government through the National SME Promotion and Development Office.

1-(4) Planning and implementation of SMEs policy

In the Lao Economic and Social Development Plan, the vision is to bring the country out of developing country status by the year 2020, having political stability as well as social security and harmony. The goal is to facilitate the economy enabling it to grow at the annual rate of at least 7.5 percent, raising the per capita income from 490 U.S. dollars in 2005 to 1,200 U.S. dollars in 2020.

Table 4: Vision, Objectives ad Goals of the Government

2020	
Vision	Lead the county out of LDC status
Objective	Maintain strong political stability, social security, achieve proportional stable economic growth and enhance the living conditions of the people
Goals	<ul style="list-style-type: none"> - 1,200 USD income per capita and year - Better living conditions, 3 times better than present - 7.5% average economic growth per annum

Source : Strategy For Small and Medium- Enterprise Development Until 2010, SMEPDO Ministry of Industry and Commerce,2006.

To implement the Economic and Social Development Plan, the Lao PDR government started to promote and develop the small and medium enterprises. It issued the Decree on the Promotion and Development of Small and Medium Sized

Enterprises No.42/PM. in 2004 officially laying down the policy and directions for the concrete development of small and medium enterprises for the first time.

The direction of the Decree focuses on the promotion of SMEs to produce goods and services as well as trading in order to create employment, raising the living standards of the people as an important step toward industrialization and modernization of the country. This will certainly contribute to the high growth rate for the economy. There are six priority policy areas as shown below:

Decree 42/PM defines six priority policy areas or directions as basis for the development of the strategy and action plan in SME Promotion and Development Policy

- 1. Creating an enabling regulatory and administrative environment**
- 2. Enhancing competitiveness of SMEs**
- 3. Expanding domestic and international markets**
- 4. Improving access to finance**
- 5. Encouraging and creating favourable conditions for establishment of business organizations**
- 6. Enhancing entrepreneurial attitudes and characteristics within the society**

The policy areas were put into operation by the formulation of a comprehensive national strategic plan called “STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISE DEVELOPMENT 2006-2010”, the details of which are summarized in Table 5 below:

Table 5: Vision, Main Objectives and Targets for SME Development in Lao PDR to 2010

<p>Vision</p>	<p>Small and Medium Sized Enterprises are an important part of the national economy, able to be integrated into the production and trade mechanism of the region and the world, operating under enabling conditions and benefiting from an effective support mechanism.</p>
<p>Objectives</p>	<ul style="list-style-type: none"> - To contribute to continuous and stable economic growth according to the economic structure based on agriculture-forestry in combination with industry and services - To create a variety of opportunities for increasing self-employment and employment for the people - To mobilize assets and intellectual resources of the people for production, trading and services - To increase income and distribution in order to increase the living standard of the people and to overcome economic disparities among people from different ethnic groups, contributing to poverty alleviation - To contribute to the foundation of the basis for industrialization and modernization of the country.

Targets	<ul style="list-style-type: none"> - Growth of output of SMEs by 12% p.a - Increase of number of registered SMEs by 12% p.a. - Increase of employment by 10% p.a. - SMEs shall provide for approx. 50% of total employment
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Upon coming to an end in 2010 of the said Strategic Plan, the National Small and Medium Sized Enterprise Office (SMEPDO) has revised the plan and lay down the directions for the promotion efforts for the next five years during 2011-2015 as follows:

Direction and focus tasks in SME promotion for the period 2011-2015

Direction and focus tasks

1. Improving the regulatory environment and public administration of economic activities

- (1) Improving the system of business registration
- (2) Improving the system of issuing licenses
- (3) Development of Public-Private Dialogue for a

2. Improving access to finance

- (1) Enhancing efficiency in the field of enforcement of business relevant laws
- (2) Strengthening of banks and financial institution including micro-finance institutions
- (3) Developing a diversity of financial products services for SMEs
- (4) Enable businesspeople to formulate realistic business plans, stimulate book-keeping and financial reporting of economic activities
- (5) Providing access to finance to banks in order to create conditions for the extension of their credit networks and for solving their liquidity situation
- (6) Strengthening of SME Promotion and Development Fund

3. Formation of new entrepreneurs

- (1) Continue the inclusion of the subject of entrepreneurship into the general, vocational and higher education systems
- (2) Stimulate young people and students to consider business careers through different projects and activities
- (3) Creation of business incubators in order to achieve experiences in business management and application of technologies before being exposed to the market competition
- (4) Training for people interested to start new business
- (5) Increase the promotion for women to become entrepreneurs
- (6) Promoting Franchise business

4. Increase the provision of support and Business development Service (BDS)

- (1) Strengthening of public and private institutions involved in the provision of support and BDS
- (2) Develop different tools and techniques for use in SME promotion
- (3) Establish database of institutions and experts with experiences and knowledge in different fields and use those institutions and experts for the provision of support and services

5. Enhance business linkages between large enterprises and SMEs

- (1) Establish a database of business opportunities arising from big investment projects for SMEs
- (2) Create a mechanism encouraging cooperation between large enterprises and SMEs
- (3) Research and identify incentives for large enterprises to make use of products and services provided by local SMEs

6. Promote the increase of productivity for upgrading the quality and standard of products and services of SMEs

- (1) Elaborate a national action plan for upgrading productivity of work in the public and business sectors

- (2) Enhancing the cooperation with the Asian Productivity Organization (APO) in order to acquire experiences and funds for the tasks of promotion of productivity
- (3) Use of tools for ameliorate and upgrade productivity in the administration of governmental and business institutions
- (4) Establish a system and institution for certification of quality and standards

7. Enhancing access to markets and enlarge markets for SMEs

- (1) Establish a database and provide data about business and market opportunities
- (2) Research and indentify sectors, products and services were SMEs of Lao PDR have potentials and comparative advantages
- (3) Support SMEs in participation at local and international fairs and trade exhibitions
- (4) Implement the Trade and Export Promotion Strategy
- (5) Value chain promotion

The National Small and Medium Sized Enterprise Office (SMEPDO)⁴

SMEPDO was established by Prime Minister's Decree No. 42/PM, 20 April 2004, entitled "Decree on the Promotion and Development of Small and Medium Sized Enterprises" (the SME Decree). The main objective of SMEPDO is to promote the establishment and sustainable development of Lao SMEs.

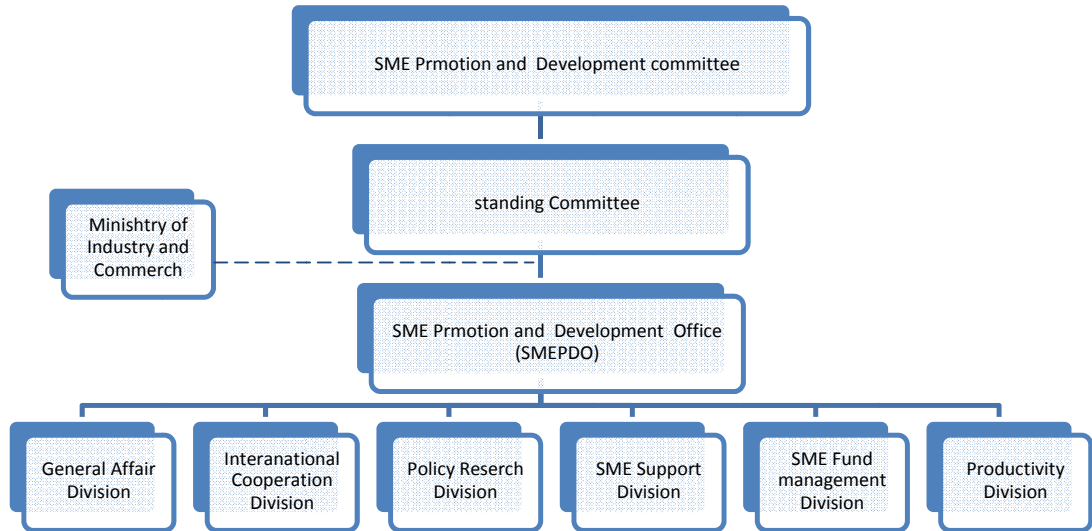
In addition to SMEPDO, the SME Decree provides for the establishment of the National Small and Medium Sized Promotion and Development Committee (SMEPDC) as well as its Standing Committee. SMEPDO acts as the secretariat of SMEPDC.

⁴ Source: SMEPDO Background , Online: <http://www.smepdo.org/info/1/?lang=en>

Structure of the SMEPDO

There are 30 employees within SMEPDO having the following organizational structure.

Figure 1: Structure of the SMEPDO



Source: SMEPDO, 2010.

1-(5) Financial support for SMEs policies

Despite the limited budget resource of the country in providing public administrative services by the Lao PDR government, and the unavailable data on the amount spent by the government in the promotion of SMEs, it may be stated that the financial support for SMEs Promotion activities come from 3 sources:

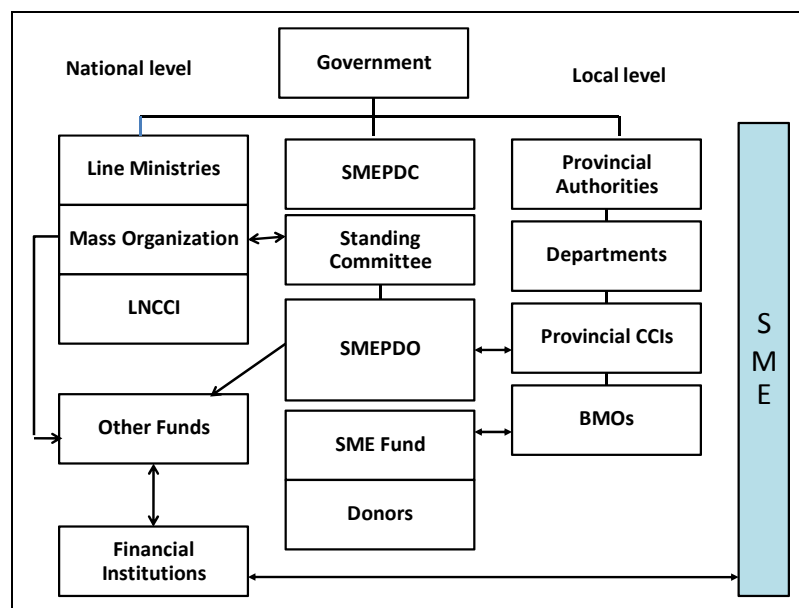
- (1) Government budget,
- (2) SME Development Fund and other funds and
- (3) funding from development partners and other possible sources.

It is also known that the private sector, including the SMEs would be expected to contribute in several ways to financing strategy implementation, including payment in full or in part for services rendered, e.g. training, study tours, productivity and quality improvements.

1-(6) Breakdown of Responsibilities for central and regional governments

The implementation of policies and strategies drawn up for the promotion of SMEs in Lao PDR under the Decree 42/PM involves many different organizations both governmental and private sectors, both central and regional as show in Figure 1 below.

Figure 2: Institutional Implementation Framework for SME Development Strategy



Source : Strategy for small and medium-sized enterprise development until 2010, Ministry of Industry and Commerce

Figure 2: Several government ministries, departments and agencies, both at national and provincial levels, have responsibilities for various aspects of the strategy, as specified in the action plans This reflects the importance of coordination of various government departments and agencies. SMEPDO will play the coordinating role and report to the MOIC. In the provinces, the Departments of Industry and Commerce will serve as the coordinator of SMEPDO in implementation and monitoring. It is expected that SME development priorities and measures will be incorporated into the sector programmes and work plan of relevant government agencies.

The responsibilities of the relevant government organizations are as follows:

Secretariat of the Government

The office is responsible for gathering and reporting on the implementation of the strategic plan for submitting to the government.

**SME Development and Promotion and Productivity Committee
(SMEPDC)**

Its responsibility is to provide advices directly to the government on policy and promotion projects of SMEs. It periodical makes proposal on the strategies for promotion and development of SMEs for the approval of the government and report on the outcomes of its implementation.

SMEPDO Standing Committee

This is responsible for the operation of the SMEPDO including the assessment of its progress on the promotion and development effort for SMEs, especially against the strategy.

Ministry of Industry and Commerce (MOIC)

SMEPDO is a technical agency at the department level under the supervision of the Ministry of Industry and Commerce. Although the task of promotion and development of SMEs falls SMEPDO, the Ministry of Industry and Commerce still has to oversee and coordinate the implementation of the projects closely in order to fulfill the set objectives.

These are the responsibilities of the Ministry of Industry and Commerce:

- Coordinate with other ministries, bureaus and sections of the provinces to facilitate their participation in the implementation of SMEs' development Plan.
- Provide support to the sources of fund for the implementation of measures, projects and activities as set out in the development Plan.
- Create linkages between the SMEs Development Strategies with the National Strategies such as the National Economic and Social Development Plan, the National Strategy for Economic Growth and Poverty Reduction.

Small and Medium Enterprise Promotion and Development Office (SMEPDO)

SMEPDO is the main body coordinating all the activities for the promotion of SMEs in Lao PDR. It is the first entry point for various development agencies to contact for cooperative efforts in the promotion and development activities in accordance with the set Strategies by:

- Coordinate with various organizations involved in the promotion and development of SMEs.
- Identify the sources and raise fund for the implementation of projects in accordance with the Strategy.
- Disseminate the Strategy and Action Plan to authorities and organization involved as well as monitor and evaluate the results.
- Coordinate with relevant national and local authorities in the implementation and evaluation of the Strategy.
- Report the progress and compile an annual assessment of the status of SMEs.

Private Sector/Business Associations

Approximately half of the members of the SMEPDC and the Standing Committee come from the private sector. Thus, private organization and business associations have an important role in the implementation of the Strategy, especially in the field operation and the receiving end of the impact from the Strategy implementation.

Banks and Financial Institutions

Banks and financial institutions will facilitate the organizations or authorities, public or private, having the roles of promotion of SMEs in providing credits directly by adopting the plans in the Strategy as their own.

International Development Organizations and Donors

These will provide financial and technical support from the stage of formulation of policy and strategy for the development of SMEs, building on their experience in other countries.

Central and local government ministries, departments and sections

They are instructed to contribute to the implementation of the action plan and measures set in accordance with the Strategy as laid down in their operational plans.

Chapter 2 Specific Schemes of SME Development Policies

2-(1) Financing

Obtaining finance is still a big problem in the operation of SMEs in Lao PDR. The percentage of enterprises that obtained a loan declined slightly in 2009 compared to 2007 and 2005. Only 31% of total enterprises received a loan in 2009 compared to 46% in 2007 and 28% in 2005. (A baseline survey done by GTZ in 2005, 2007 and 2009) The state has very limited budget to support the plan for development and assistance of SMEs. The existing financial institutions prefer to lend to large firms more than to SMEs. Further, institutional limitations such as underdeveloped or inefficient legal framework and regulatory infrastructure pose significant barriers to effective financing. As a result, SMEs' share of available financing resources is disproportionately less than their relative contribution to employment, value added and economic growth.

The role of commercial bank financing of business operations in the economy is increasing, but it is still at a very low level compared to other countries. The ratio of bank loans to GDP during 2007 - 2009 are only 9.47%, 13.63% and 18.68% respectively

The financial instruments offered by commercial banks to business firms are Term loans, overdrafts, factoring and leasing. Term loans are the most utilized. The under-development of both the financial markets and legislative framework make the same instruments less viable in the transition economies. Hence, the bulk of funding types available is of short duration and trade-based.

Lack of access to the source of funds limits the ability of SMEs in investment, expansion of business, and creation of new innovations. It is also a major obstacle to start a new business. Many businesses are facing common problems such as limited capacity to prepare the financial statements needed for making a loan application or lack of collateral, which make it difficult for banks to assess borrowers' capacity and willingness to repay.

Improvement of access to financial resources⁵

To ensure better access to a variety of financial resources, the government has considered various forms of financial service to SME, including drafting regulatory conditions for providing more credits to SME. In pursuing this purpose, the Lao Development Bank has been improved and transformed into a bank whose major role is to provide credits to SME, making amendment to existing laws as well as enacting new laws which are related with business development in order to improve credit provision conditions and control. Some of these laws include the law on contract abiding guarantee, the law on commercial banks, and other. In addition, various studies have been done on how release credits without putting any fixed assets as collateral, resulting in amending the decree of 1999 on credit leasing in order to provide credit supports on business procurements such as machinery, vehicle and equipment procurements.

Along with considering how to improve credit provision to SME in various ways, the government has also done a series of studies on how to better provide technical supports to them, particularly providing know how on loan management, business plan development, accounting management and financial reporting capacity strengthening through conducting trainings and seminars. Additionally, studies have been done and a preparation has been made toward establishing SME development promotion fund. Up to now, a prime ministerial decree on SME development promotion fund has been made (in principle, this decree has also been approved by the government), preliminary financial sources have also been identified, and a future plan has been drawn in order to complete the establishment of the fund and ensuring its smooth operation. Various microfinance institutions, including village development funds or village banks have been established spreading throughout the country. These ensure improved access to finance for SME in rural areas.

Department of Production and Trade Promotion, Ministry of Industry and Commerce in its Strategy for Export Promotion 2011-2015, on Trade Financing, sets out these measures (which are of valuable benefits to SMEs involved in exporting);

- (1) All financial institutions must improve their service system and build good and strong relationships with borrowers; seeking a source of long-

⁵ Source: Policy and progress in small and medium enterprises in Laos, Laos-Japan Human Resource Development Institute, National University of Laos, June 2010

- term of financial resources in various ways in needed (such as, selling lucky bonds, the issuance of certificate of share transfer, joint venture with foreign banks, etc.);
- (2) Create a real model of turning the property of household farmers into collective capital for commercial production and trading groups with simple, clear, transparent and stringent funding regulations so that they can apply immediately, especially the creation of commodity funds among commercial production and trading groups;
 - (3) Turning some personal lending of the banks into group lending with more effectiveness. All group members share responsibility and avoid using the fund with the wrong objectives. There will be no problems about paying monthly interest because in the group, some members will sell products and pay for them on behalf of the group (its members), which will be calculated in detail for fair profit distribution at the end of the year;
 - (4) Improve the existing L/C system so that it can be used extensively in the export-import business and review the understanding of the concept of good-money, especially inventories that are ready to export, but still cannot by uses to prove that, in fact, the loan in already included in those inventories;
 - (5) Change the creditors and debtors terms into investment partners between cash providers (banks) and cash borrowers (customers) because the value of equipment (materials, commodities) of borrowers are higher than amounts withdrawn from the banks (creditors);
 - (6) Organize public seminars (workshops) prior to the inauguration of the Lao Stock Market in 2010 so that all communities and people can understand the investment concept as well as more diversified financial institutions (many emerging), because in the past the number of banks were small, and most of them state-owned;
 - (7) Revise the existing administrative regulations of the fund at grass-root levels and turn them into village banks, step-by-step, so that they can provide credit for small projects or simple production units and trading activities at village and village development group level;

- (8) Implement strict rules in lending contracts, making them legislatively effective, enforcing penalties on customers who violate the terms of contract. In this way customers are aware of their responsibilities, which create an honest and sincere culture among all bank customers, and create a good image for the bank.

Available Credit Information Facilities

From the point of view of loan and/or credit facilities providers, they need accurate and reliable credit and business information of prospective clients to assess their ability to pay and to determine the appropriate interest rates as well as to manage their portfolio of loans. In ASEAN countries, financial providers rely on various sources to obtain and/or verify information on their borrowers. One reliable source is from the interbank exchange of information. In some countries such as Malaysia, Thailand, Indonesia, and Viet Nam central credit bureaus have been established to provide the required information to financial institutions. Currently there are no central credit bureaus operated by either the government or private sector in Lao PDR. Databases maintained on SMEs or industries by certain government agencies in Lao PDR (e.g., Department of Industry)

Lao Development bank

Lao Development bank is considered the SMEs bank of Lao PDR. It is a state bank licensed by National Bank of Lao in 2003, through the merging of New Lao bank, Limited and Lan Chang Bank, Limited. Its primary responsibility is to offer financial loans/credits to SMEs.

SMEs Credit Facilities

This is the service of providing credits to promote the production of goods and services, trading and other services by the SMEs in various modes, such as a line of credit, loan, overdraft, revolving fund, L/C financing, and guarantees of various kinds.

Objective of Credit Facilities

The objective of providing credits to SMEs is to promote and develop all types of SMEs with a view to enhance economic growth and the improvement of living standards of the people.

Qualifications of Borrowers

- Operate a legal business
- Have valid business registration, tax registration and relevant license.
- Have a certain amount of capital
- Have a definite source of income
- The criteria for granting of credit is based on the feasibility of the proposed project or the main business operation without any consideration of collaterals.

2-(2) Tax system

There is no specific tax law or provisions for SMEs in Lao PDR. Persons or juristic persons of any size are treated the same under the tax law. There are some tax incentives for investment in special economic zones or underdeveloped regions, or investment in priority fields through an investment priority plan, but these are not limited to small and medium enterprises.

Types of Taxes⁶ Types of taxes consist of

1. Indirect Taxes.
2. Direct Taxes.

⁶ Source: Decree of the President of the Lao PDR. No. 46/OP., Tax Law and Decree of the President of the Lao PDR. No. 03/OP., Value-Added Tax

1. Indirect Taxes

Taxes [refers to] taxes which are collected from the consumer of goods³, from the importation of goods, [and from] sales of goods and general services through persons who conduct [such activities] within the territory of the Lao PDR.

Indirect taxes consist of:

- **Business turnover tax**

Business turnover tax [refers to] an indirect tax which a consumer of goods or general services pays into the State budget through persons who conduct businesses. There are 2 business turnover tax rates for domestic production, importation, sale [and] services: 5 % and 10 % .⁷

- **Excise tax**

Excise tax [refers to] an indirect tax which is collected from certain types of luxury goods and services.

Note: List of goods and services subject to Business turnover tax and Excise tax and the applicable rates can be obtained from the Decree of the President of the Lao PDR. No. 46/OP, on the Promulgation of the Tax Law

- **Value-added tax**

The value-added tax is an indirect tax that is collected on the proportion of value added to goods and services occurring in all processes, ranging from production, distribution, service supply to consumption; and is [also] collected on the value of goods and services imported into the Lao PDR.

The value-added tax is an obligation of end consumers who consume goods and services. Business operators calculate and add value-added tax to the sale price of goods and services and pay it to the State budget.

Individuals, organizations and legal entities that consume or import goods and services have the obligation to pay value-added tax to the State completely and comprehensively in accordance with the laws and regulations.

2. Direct Taxes

Direct taxes [refers to] taxes which are collected from individuals, legal entities [and] organizations including foreign persons which generate income in the

⁷ List of goods and services subject to Business turnover tax and Excise tax and the applicable rates can be obtained from the Decree of the President of the Lao PDR. No. 46/OP, on the Promulgation of the Tax Law

Lao PDR as well as from those which reside in or have a place of business in Laos [but] carry out activities in a foreign country.

Direct taxes consist of:

- **Profits tax**

Profit tax [refers to] a direct tax which is imposed on the profit of individuals or legal entities which conduct business in manufacturing, trade and services.

- **Profit Subject to Tax**

Profit from business operations [refers to] the profit which arises from conducting agricultural and forestry production business, industry and handicrafts [business], including exploitation of natural resources, import - export trade, wholesale, retail and general services such as: logging, mining, transportation, postal [services], telecommunications, construction, repair, land development for sale of the right to use, contracting for or operating markets, bidding and construction of various projects sponsored by State funds, aid funds or foreign loans, banking activities, activities of financial institutions, insurance, hotel activities, tourism, food and beverage operations, casino activities, lottery activities, artistic activities, sports, agency or brokerage activities.

The profit tax rates consist of general rates and reduced rates as follows:

1. General Rates:

- The rate of 35 % applies to businesses of legal entities.
- The profit tax rate of foreign investors is stipulated in the law on the promotion of foreign investment³⁹ in the Lao PDR which is in force;
- Sole-trader enterprises, enterprises which pay tax based on a basic accounting system and freelancers shall follow the table below:

Level	Taxable Profit at Each Level [Kip]	Basis of Calculation [Kip]	Tax rate	Profit Tax at each Level [Kip]	Total Taxes Payable [Kip]
	2,400,000 and below	2,400,000	0%	0	0
1	2,400,001 to 5,000,000	2,600,000	10%	260,000	260,000
2	5,000,001 to 10,000,000	5,000,000	15%	750,000	1,010,000
3	10,000,001 to 30,000,000	20,000,000	20%	4,000,000	5,010,000
4	30,000,001 to 60,000,000	30,000,000	30%	9,000,000	14,010,000
5	Above 60,000,000	35%

2. Reduced Rates:

Reduced rates are determined in the law on promotion of domestic investment or the law on promotion of foreign investment which are in force.

- **Minimum tax**

The minimum tax [refers to] a direct tax, which is a minimum obligation of business persons and freelancers who pay profit tax based on the advanced or ordinary accounting system and who have declared a loss or have a profit under a certain level as provided in the law.

Business persons and freelancers within the territory of the Lao PDR, regardless of whether they are individuals or legal entities, Lao, resident aliens, apatrids [or] foreigners, who pay tax based on the advanced or the ordinary accounting system and who have declared a loss or have a profit under a certain level must pay a minimum tax.

Persons who are exempt from the minimum tax include:

- Foreign investors who are in the period of the annual profit tax exemption pursuant to the law on the promotion of foreign investments in the Lao PDR;
- Domestic investors who are in the period of the annual profit tax exemption pursuant to the law on the promotion of domestic investments;
- Taxpayers who pay profit tax based on the basic accounting system.

- Companies which make a loss or have a profit under a certain level and which have been certified by an audit organization or audit firm which is recognized by the government of the Lao PDR.

The minimum tax consists of two rates as follows:

- The rate of the minimum tax shall be 0.25% of the annual total business income excluding business turnover tax, for all types of domestic manufacturing activities;
- The rate of the minimum tax shall be 1% of the annual total business income excluding business turnover tax, for trade and services including freelancers.

- **Income tax**

Income tax [refers to] a direct tax imposed on the income of individuals or legal

Scope of Income Tax and Income Tax Obligations

Organizations, individuals or legal entities whether Lao, [resident] aliens, foreigners, including apatrids[,] generating income in the Lao PDR in accordance with the provisions of Article 56 of this law must pay income tax to the State budget.

A resident of the Lao PDR who works abroad for less than 180 days and who earns income has the duty to declare and pay income tax in the Lao PDR if that person is exempt from having to pay income tax abroad.

Lao employees working in embassies, consular offices or international organizations abroad must declare and pay income tax in accordance with the regulations of the Lao PDR.

Foreign persons working in the Lao PDR who receive their salaries abroad must pay income tax in Laos if they reside in Laos for more than one hundred eighty days in [any] tax year, unless there is a separate agreement between the government of the Lao PDR and the relevant party.

Income Subject to Tax

Income subject to tax is as follows:

1. Income from salary, general labour wages, bonuses, position and title honoraria, annual allowances, allowances relating to board of directors meetings of a company and other benefits received in cash or in kind;
2. Income from movable property such as: distribution of dividends or other benefits to the partners or shareholders of a company, profit from the sale of shares, interest income from loans, guarantee fees received according to a contract or other binding obligations except when there is a separate agreement between the government of the Lao PDR and the relevant party; Income from dividends or other benefits which are subject to tax, including profits which have been used in any form whether directly or indirectly, except profits which have been maintained in the reserves or which have been [re-]invested in the company capital; annual allowances, allowances relating to board of directors meetings, benefits received from the increase or the decrease of the company's capital, merger, the transfer of shares, value added arising from the winding up or liquidation of a company;
3. Income from immovable property such as: lease of land, houses, or other property including other benefit sin kind;
4. Income from patents, copyright, trademarks or other intellectual property

Income Tax Rates

1. Income from salary is subject to a progressive tax rate as provided in the tables below:

Table 6: Tax Schedule for persons who have an income of not more than one million five hundred thousand Kip:

Levels	Taxable Salary ⁸ at Each Level [Kip]	Basis of Calculation [Kip]	Tax Rates [Kip]	Salary Tax at each Level [Kip]
1	300,000 and below	300,000	0%	0
2	300,001 to 1,500,000	1,200,000	5%	60,000

Table 7: Tax Schedule for persons who have an income of more than one million and five hundred thousand Kip:

Levels	Taxable Salary at Each Level [Kip]	Basis of Calculation [Kip]	Tax Rates [Kip]	Salary Tax at Each Level [Kip]
1	From 1 to 1,500,000	1,500,000	5%	75,000
2	1,500,001 to 4,000,000	2,500,000	10%	250,000
3	4,000,001 to 8,000,000	4,000,000	15%	600,000
4	8,000,001 to 15,000,000	7,000,000	20%	1,400,000
5	15,000,000 Kip and up...	25%

Note: exchange rate is 8,020 Kips :1 U.S. dollar on 8 October, 2010

- **Fees and other service charges**

Fees and service charges are direct obligations of persons, organizations or legal entities which use services in relation to documents or other public services.

⁸ The salaries in Tables 5 and 6 are monthly salaries.

Government organizations shall collect fees and other service charges from the use of services relating to documents and other public services such as: the issuance of enterprise registration licenses, tax registration licenses, business licenses, permits, certificates or other official documents, the use of roads, the entry into and exit from the country, the issuance of visas to enter and exit the country, residency in Laos, the use of radio and television satellite receivers, the affixing of advertising signs, shop signs, and other services in the Lao PDR.

The rates of fees and service charges of each government sector are determined in Prime Minister decrees in order to meet the actual socio-economic conditions from time to time.

2-(3) Provision of Information, Human Resources for Existing SMEs

Provision of Information

SMEPDO is the central body responsible for the dissemination of information on relevant laws and regulations, the planned SME support projects, and the socio-economic development plans of the Government to interested SMEs, but currently it can do only a little of this.

Provision of information beside SMEPDO, provision of information is also performed by other government authorities and certain private organizations including some international development agencies, such as departments of economic ministries, banks, the Chamber of Commerce and Industry, etc. The modes of dissemination are often in the form of leaflets, brochures, posters and handbooks with some internet access. With the current advance in information technology and availability of internet access, SMEs can receive, share and exchange data, information, opinions and knowledge readily and keep their information up to date. A survey found usage of computer by SMEs increasing from 41.8 percent in 2005 to 42.2 and 44.1 percent in 2007 and 2009 respectively. Thus, almost half of the SMEs have accessed information from the internet.

Human Resources

Lao SMEs are dispersed all over the country. Their operations require low capital investment, utilize local inputs, and of small sizes. However, they are an important source of employment. Compared to large enterprises, SMEs' share of employment accounts for 83 percent, while 17 percent for the large companies. An important problem in the development of SMEs to increase their competitiveness in

the marketplace is quality of human resource. According to the survey in 2009, it is reported that the smaller the size of the enterprise, the lower the level of education attainment of its owner or manager. In addition, the level of technical training of employees in smaller enterprises is found to be lower than in larger companies.

SMEPDO sets the objectives of human resource development as one of the seven measures to achieve a higher competitiveness of Small and Medium Sized Enterprises, being:

1. increasing the participation of the private sector in technical vocational training.
2. increasing the role of the private sector in the National Training Council (NTC).
3. developing new professions according to the demand of the labor market.
4. promotion of job opportunities in different professions.

Assistance is also provided by foreign and international technical assistance organizations in the development of human resource, such as the Lao-German Programme on Human Resource Development for Market Economy, World bank, JICA, etc. These are provided through relevant ministries or departments, such as Ministry of Education, Ministry of Industry and Commerce, Trade Associations, etc.

2-(4) Support for obtaining management resources for existing SMEs

Currently, there are no public services supporting for obtaining management resources for existing SMEs, whether directly or indirectly through the provision of research and development assistance, IT related support, Industry, academic, and government support, assistance with market cultivation, ISO authorization support, development measures for small and medium scale commerce, and measures to promote subcontractors. However, there are some services comparable to the support for obtaining management resources for existing SMEs, these are:

- **Development of business development services**

The extension of support and business development services including the strengthening of service providers alongside stimulating demand for business development services is one of the most important tools and most efficient methods to strengthen SMEs.

Business development service⁹ has been improved through various mechanisms such as providing information supports, training, consultations in various aspects (accounting, financial, legal, marketing, design, technology and other), skill improvement for laborers, study tours inside the country and abroad, distance learning through the satellite system and other supports. So far about 200 training course have been conducted, involving about 3,000 persons, about 200 trainers have been trained, 30 business units have been diagnosed and analyzed, 6 model companies/factories have been developed, 6 productivity experts have been developed, the internet has been installed in the small and medium enterprise promotion and development office in order to provide internet services to SME, productivity documents and handbooks have been translated and published. So, now more than 2,500 copies of pamphlets, 5S handbooks and others have been published. Business units have been diagnosed and analyzed, 6 model companies/factories have been developed, 6 productivity experts have been developed, the internet has been installed in the small and medium enterprise promotion and development office in order to provide internet services to SME, productivity documents and handbooks have been translated and published, So, now more than 2,500 copies of pamphlets, 55 handbooks and others have been published.

2-(5) New business/venture support

In a growing economic, a number of people would consider starting their own business. They face problems and need advices on production technology, government services and support, information on rules and regulations, patents, searching for business partners having the technology, market or financial resources. They also need access to research companies or institutions both domestic and international.

In support of new entrepreneurs, SMEPDO set out in its action plan to provide ongoing supporting services as a part of the Strategy ending in 2010. The next plan for 2011-2015 will have the following Directions and focus tasks with respect to this issue:

⁹ Source: Policy and progress in small and medium enterprises in Laos, Laos-Japan Human Resource Development Institute, National University of Laos, June 2010

Formation of new entrepreneurs

- Continue the inclusion of the subject of entrepreneurship into the general, vocational and higher education systems
- Stimulate young people and students to consider business careers through different projects and activities
- Creation of business incubators in order to achieve experiences in business management and application of technologies before being exposed to the market competition
- Training for people interested to start new business
- Increase the promotion for women to become entrepreneurs
- Promoting Franchise business

For the provision of venture capital support to SMEs, the Lao government does not have any plan due to the limitation of its budget.

2-(6) Promotion of fair dealing and maintenance of markets for SMEs

It is the policy of the Lao Government to enforce fair and transparent trade practices. However, it is also apparent that large enterprises command greater economic power and bargaining ability than small and medium-sized enterprises. Left on their own, SMEs may not be able to compete in the marketplace. The government provides assistance to SMEs with respect to fair dealing through various channels, such as the facilitation of trading group formation into trading associations. In addition, Fair Trade Laos association¹⁰ was established by a small group of motivated business people and NGOs that see the potential of Fair Trade to improve producers' and farmers' lives and at the same time offer customers a high quality product.

The group is still being developed, and plans to work on a range of activities, including:

- Providing information to and awareness raising on fair trade amongst Lao producers, consumers and government.
- Information exchange on fair trade, marketing and other relevant issues among the members.
- Identifying markets to undertake joint marketing and branding activities.

¹⁰ Source: Fair Trade Laos, Online: <http://laosfairtrade.net/> (accessed 20 Sep.2010)

- Setting an example to business and the government of a Fair Trade model of business based on partnership, people-centered values and sustainability.

2-(7) Regional SMEs policies

A specific set of Regional SMEs policies is not present. The general policy is aiming at the promotion and development of SMEs, both centrally and regionally. One of the measures that could be relevant to the promotion and development of SMEs in the regions is the One District One Product program (ODOP)

SMEs Strategic Plan for specifies the measures relating to ODOP as follows:

Research on and promotion of the approach “One District One Product”

(ODOP)

In order to promote market access for a large variety of products, the state shall research on and promote the approach “One District One Product”. This will allow each district to develop its own product and goods for distribution on local and international markets.

The rural society of Laos has been said to embrace potentially marketable products, but the product unfortunately have yet to realize their market values due to quality problems or limited market access, among other constraints.

Against this background, Government of Laos has requested Japan to assist its efforts to launch the so-called One District One Product Movement (ODOP) to promote local small businesses and thereby improve the livelihood of local residents. Currently, the ODOP program is supported by the Japan International Cooperation Agency (JICA)

The Japan International Cooperation Agency (JICA) did a survey of the villages having potential to produce handicrafts in 2000. JICA has officially agreed with the Lao Government to start a technical assistance project for this purpose, with a Record of Discussion signed between the Ministry of Industry and Commerce

(MOIC) and JICA. A Pilot project was scheduled for operation at Savannakhet and Salawan Provinces during January 2009 - December 2011 (3 years).

The Project has been running more than 20 Pilot projects with potential ODOP products. They are divided into several sectors, namely “Handicraft”, “Agriculture, Forestry, and Fisheries”, “Processed food”, “Small & Medium Manufacturing”, and “Associated with overseas”.

2-(8) Supporting the internationalization of SMEs

Most Lao SMEs are not ready to invest or do business overseas, and will concentrate their operations locally or nationally. The promotion of SMEs would be in the form of enhancing export competitiveness of the products or services of SMEs in international markets. This is under the responsibility of the Ministry of Industry and Commerce, whose Export Promotion Department has drawn up an Export Promotion Strategic Plan. Under this plan, the products targeted for promotion relevant to SMEs are Organic Agricultural Products , Lao Silk and Cotton Handicrafts, Medicinal Plants and Spices, Products from Local Talent (see more details under heading 2-(11))

Lao Trade Promotion Centers are set up under the Ministry of Commerce, the Lao Trade Promotion Center (LTPC) with the aim to assist Lao manufactures and exporters to fulfill their potential in the production and marketing process. It assists the Minister in the areas of research planning and implementation of rules and regulations concerning export promotion, trade promotion, exhibitions and trade fairs, overseas market analysis and information services. It has a small showroom at its office in Ban Sihom and also operates the Km 5 Exhibition Center

2-(9) Employment/work policies for SMEs

In Lao PDR, there are no specific employment/work policies for SMEs. SMEs operate under the general labor law No. 06/PO dated 27 December 2006

2-(10) SMEs organizations and networks

The Lao government attaches great importance to the formation of SMEs organizations and networks by providing support to trade grouping or trade associations to enable them to assist their members efficiently and strongly in accordance with the set objectives of respective trade associations. The government has issued a prime ministerial decree on the establishment and operation of business group or associations in order to ensure common understanding and practices on how to establish and operate business groups or associations throughout the country. Currently, 14 provincial chambers of commerce and industry have been established in 14 provinces, and a training manual on business group or association establishment and operation has been prepared. Based on that manual, trainings at the grass root level have been conducted.

There are many organizations which related to the SMEs sectors such as Lao National Chamber of Commerce and Industry with 17 sectoral groups, SMEPDO, Ministry of Industry and Commerce (Promotion Center and Department of Domestic and Foreign Investment), Committee for Planning and Investment, and Gender Resource Information and Development Center are very helpful on assistant to Laos entrepreneurs and also useful sources of information for business enterprises.

Other international assistant or donor and information providers such as ADB, WB, ASEAN, GTZ, UNIDO, etc are study on business operating, aim to support the government for implement reforms in the private enterprise sector and also reliable sources where you can find information in different field of interest including that concern private sector and SME in particular.

2-(11) Development policies for Small scale SMEs

For very small-scale enterprises or micro enterprises, the definition for such enterprises by SMEPDO would be included as part of the small SMEs employing no more than 19 employees. No specific policy is set for this group. Through a survey of Lao SMEs with very small scale, these Micro SMEs are mostly offering handicrafts, medicinal plants and herbs. The promotion of these enterprises is found under the Department of Production and Trade Promotion, Ministry of Industry and Commerce with the aim to export their products. The targeted groups of products are:

- Organic Agricultural Products Export Strategy
- Strategy on Export of Lao Silk and Cotton Handicrafts
- Medicinal Plants and Spices Export Strategy
- Export Strategy on Products from Local Talent
- **Organic Agricultural Products Export Strategy¹¹**

The vision of the Organic Agricultural Products Export Strategy is: **“To turn domestic consumption into a market for organic agricultural products within a holistic and comprehensive system. Organic products for export and for domestic consumption are of the same quality with packaging being the only difference”**.

As a result of underdevelopment and backwardness, the country’s environment of natural resources, land fertility, and water has held its original diversity. The use of chemical fertilizers in the Lao PDR was on average, only 12 kg per hectare and in many remote areas there is no use of chemical fertilizers at all. Compared to neighboring countries, Laos has shown great potential and opportunities exist for the development of organic agriculture. Currently, varieties of organic agricultural products have started to be developed, such as Homsangthong rice, Kaynoy rice, vegetables, fruits, Ban Katouat coffee of Paksong District (Champasak Province), coffee of Laongam District (Saravan Province), and fingernail beans of Thateng District (Sekong Province).

The Organic Agricultural Products Export Strategy will emphasize the following issues:

- (1) Build a unified standard for organic agricultural products in the producer markets (for their own consumption), markets in the big cities and wholesale markets for restaurants and hotels, and export;
- (2) Build and a network for farmers along with quality control and packaging warehouses and price setting based on quality standards, GI (product geographical indicator) and existing guarantee logo already widely accepted by domestic and foreign consumers;
- (3) Allocate specific markets for organic agricultural products in provincial areas starting as a pilot activity in a suburb of Vientiane Capital and

¹¹ Source: National Export Strategy for period 2011-2015, Department of Production and Trade Promotion Ministry of Industry and Commerce.2010

- reduce the import of chemical substances in crop plantations that aim to reduce costs and save foreign currencies, (currently there are 6 markets in four provinces established under the Small Holder Development Project using loans from ADB, which can be used for this purpose);
- (4) Build the Lao Promotion Organic Product Association's network with foreign sales agents (distribution) via exhibition centers, seminars and study tours in organic crops gardens, and place advertisement through the mass media etc.;
 - (5) Use organic crops gardens as various tourism sites, as training centers for youth studies on the eco-system etc.

- **Strategy on Export of Lao Silk and Cotton Handicrafts**

The vision of this strategy is: **“Cotton and silk handicrafts are our heritage passed down through generations and used to reflect the national customs of Lao citizens such as government officers, and used in decorative items, uniforms for schools, colleges, institutes, universities, hospitals, resorts, hotels, restaurants, community touristic sits etc., also used as gifts and souvenirs for visitors. In addition with efforts of designing and developing them consistently, they became attractive and demanding items for overseas customers”**.

Cotton and silk handicraft products are one of the locally handmade products that were the result of heritage effort from previous generations to our current generation (such as naturally dyed clothing, cotton plantations, silkworm-raising or sericulture). We can say that cotton and silk handicrafts are not only gifts and general goods to buy and sell in the market, but they also demonstrate our Lao treasure, heritage and culture as well.

However, taking into account the difficulties and challenges the sector is facing, the cotton and silk handicraft products export strategy will emphasis the following issues:

- (1) Turning the supply of raw materials (cotton and silk) to be secured and systematic in cotton promotion, silkworm-raising, the allocation of forest areas for colouring bark, cotton plantation areas and sericulture;
- (2) The supply of equipment and efficient technology to provide strong support to the sector:
- (3) The joining as a group to create a trade bargaining power. Skills development training is a must and be paid serious attention;

- (4) The establishment of a handicraft development fund as one of the alternatives for handicraft groups including the cotton and silk sector. For those who can already have access to a bank, they shall concentrate on creating sustainable sources of raw materials for the sector, especially cotton plantations and sericulture to be able to increase more coverage in terms of the bank credit system;
- (5) The arrangement of booths/stands and regular shops, within the country and overseas, is needed. In countries where these products have already penetrated the market, an additional in-depth and serious market study of handicraft products is needed.

- **Medicinal Plants and Spices Export Strategy**

The vision of this strategy is: **“The Pharmaceutical industry is the main market for rural people living in 47 of the poorest districts who grow and collect traditional medicinal plants from natural forest. Small scale export of these products will be carried out by traditional medicine (e.g. medicinal plants) business units. The use of traditional and main-stream medicines in the country is considered as an export-in-place, with knowledge spread by the word-of mouth of patients. To promote use of traditional medicine, as well as the use of modern medicines, and administering to patients from the first signs of illness will cure the patient rather than just leaving to the hands of alternative medicine doctors”.**

This Strategy will focus on the following issues:

- (1) Instructions, guidelines and advice on how to take tablet in the right manner, explaining the dangers as well as usefulness of various traditional medicines; the building of village clinics where both non-traditional and traditional physicians jointly and advertise their importance of place;
- (2) Forests, as major sources of traditional medicines have been destroyed due to the ignorance (lack of knowledge) of local villagers. Therefore, it is essential to preserve forests and replant them for sustainability;
- (3) The promotion of exporting traditional medicines with national high quality standards that are certified by traditional physicians and the national medical profession;
- (4) Promotional activities related to the preservation of plantations, the buying and selling of products from medicinal plants and spices is

considered as a profession for rural people to regularly supply raw materials to factories so that they become activities of poverty eradication. Currently, there are 195,709 poor people living in rural areas, mainly in the northern part of the country accounting for 51% in the central part about 32%, and in the southern part about 17%

- **Export Strategy on Products from Local Talent**

The vision of the Strategy on Export of Products made from Local Talent is: **“Talent passed on from previous generations. As human beings, mankind must learn and observe. Spirituality in product will lead to country civilization”**.

By definition, any product from local talent always refers to products using local raw materials, historical and cultural items (products) that do not require huge investment and expensive technology that are beyond the capacity of local people.

Some products made from local talent may cover the “One District One Product ODOP which is an active ongoing commercial production process across the country”.

Furthermore, products made from local talent will also include artistic products, cultural products, cotton and silk handicraft products, sculptured wood products, decorative products made from diamonds, gold silver, brass and precious stones. These products are of low weight with compact forms, and high in price. They can be shipped by air by parcel, or carried in passenger suitcases. Transportation costs do not affect the profitability of producers and traders.

Currently, there are a variety of products in our country locally made by local talent. Full information (statistics) on these products is still not available.

Therefore, the Strategy on Export of Products made from local talent will focus on the following issues as below:

(1) The main market for products made from local talent is: export-in-place (selling to tourists; selling to domestic and foreign guests in forms of gifts; selling at festival events and trade fairs);

(2) Some product made from local talent are “ODOP” products. Their markets are domestic festival events; offices, schools, hospitals, companies, hotels (selling in the form of uniforms); art performance shows; clothing or logos for various conferences, such as Party, Youth, Women, Trade Union’s conferences at different levels. The use of these products will help to economise hard currency as well as make for import substitution;

(3) Products made from local talent also include high-skill handicraft products, such as clothing, cotton and silk cloths, woodcrafts, pictures crafted into silver plates, decorative products, silver, gold and bronze items designed by skilled designers, difficult to imitate or copy. These products have a high value without the need of price bargaining general markets, have compact forms, and are light-weight easily carried by air transport, and sent overseas for participating in international exhibitions and trade fairs.

Chapter 3. Challenges of and Suggestions on Promotion of SMEs

The Lao government has given importance to the implementation of the Strategy and Policy on SMEs' Promotion and Development 2006-2010. Actions have been carried out on the improvement of surrounding conditions on laws and regulations, on the provision of public services to facilitate business operations, on the raising of competitiveness of Lao businesses, on the expansion of domestic and international market opportunities, on the access to financial resources, on the establishment of business or trade associations, and on the promotion of positive public attitude toward the business entrepreneurs. These have provided a clear direction for the SMEs promotion efforts of the Lao government. Nevertheless, several challenging issues remain to be tackled, as follows:

Finance:

Most SMEs still face problem of insufficient capital and unable to access formal financing for their investment, expansion or working capital. This is due to their lack of a formal book keeping system or collaterals, turning them to rely on informal money-lenders paying high interest rates.

Human Resource:

Both business owners and workers still lack business training and skills. Most of the SMEs are family businesses and often hire members of the family whose skills and knowledge of business operation and production technology are insufficient. In cases of hiring workers outside the family, these labor are mostly of very little skills.

The Public Sector Issues:

SMEPDO: The budget and personnel resources are limited and insufficient to implement the projects according to the set Strategy and Plan, requiring financial support from international and foreign assistance organizations.

Not understanding the need and importance of SMEs promotion and development, the government agencies and departments involved according to the Plan often fail to extend their crucial support and coordinating roles.

Marketing

SMEs mostly offer their products and services to the local or domestic markets. They do not have the knowledge of the broader markets nor the international markets. On the other hand, the improving transportation facilities and the expansion of free trade area agreements have allow large firms and foreign imports to pose greater and greater competitive threat to the markets of products produced by SMEs.

Production Technology

Production technology employed by SMEs is mostly unsophisticated due to the low level of capital investment and the lack of modern technical knowledge of the owner. Thus, they are unable to develop their product, or to establish good quality standards.

Compilation of Data on SMEs

At present, the country still need substantial support from international assistance organizations to compile an adequate database of the SMEs. If in the future, the availability of financial and personnel resources are not forthcoming the establishment of valuable database would be intermittent. It would then be unfortunate that it would be unable to see the changing trends of SMEs. (the HRD-ME makes a survey of Lao enterprises every two years starting in 2005. The data compiled are very good providing a picture of Lao SMEs' character, changes, development, problems, and obstacles.)

To assist SMEs in overcoming the above-mentioned challenges and obstacles enabling them to develop their enterprises, the following are suggestions on the issues to be addressed:

- Financial Area

- Establishment of The Small Business Credit Guarantee Corporation (SBCG) as a non-profit organization. The main purpose is to provide credit guarantee to unsecured part of loans to SMEs. SBCG would be the key institution for facilitating the provision of credits to SMEs,

strengthening of credit worthiness of the financial institutions which provide credit to SMEs and promotion of industrial development for achieving targets of national economic development.

- Facilitate the establishment of Micro Finance as a source of funds for those SMEs unable to access the formal financial services of the commercial banks.
 - Investment incentive for venture capital, for example, the exemption from taxes imposed on dividends from SME.
 - Investment Incentive for the promotion of small investment project
 - Expediting the formation of SMEs Promotion and Development Fund as soon as possible. The Fund will be the vehicle for stable and systematic collection of funds and budget to support the promotion and development activities or SMEs in line with the Government's policy. Although the government considers this Fund to be of high significance, but its creation still lacks progress. Therefore, the government should give high priority to the formation of the Fund.
 - Facilitate the creation of Community Based Financial Services to provide access to credits for SMEs and community members based on the principle of the pooling of fund built upon self-reliant practice and the provision of service relying on folk wisdom.
 - Establishment of credit bureaus to assist financial institutions in the credit assessment of their customers applying for credits/loans more efficiently.
- **Human Resource:** The problems exist both at owner/management level and at employee level. These measures are suggested.
- Provision of appropriate training for SMEs owners/managers on general business management as well as all the functional areas of management such as finance, accounting, marketing, production and drawing up of a business plan. Such training should be offered in the remote areas as well because they would be unable to access the pool of knowledge residing in educational institutions offering courses in business administration located mostly in Vientiane and larger provinces at great distance from them.
 - Establishment of more technical and vocational educational institutes.

- Development of skill labor. Create incentive for the private sector to participate in the development of skills and skill labor in order to improve the quality of labor and upgrade the standard of labor in response to the need of enterprises in the community. Workers would also receive fair wages for their employment.
- **Management Know-How**
 - Consultation service
 - Establishment of The SMEs Coordination and Service Center to provide consultation on these issues: 1. Method for establishment of enterprise, 2. finance and investment, 3. Product design and improvement, 4. Franchise, 5. Marketing, 6. Business laws, 7. Service sector, 8. Export marketing.
 - SME Development Institute : The Institute has the Consultant Division. It consists of Pre Advice Group, Clinic Group for Small Enterprises, Business Plan Group, Business Analysis and Diagnosis Group and Business Fostering Project.
 - Educational Institutions such as the National University of Lao should be encourage to establish SMEs Studies and Research Center to provide consultant service, training, as well as being the pool of knowledge and the incubator for new entrepreneurs.
- **Quality of Goods and Services**
 - Establishment of Industrial Standards Organization for goods and services to grant certification of compliant to recognized standards.
 - Provide supporting facility to enable SMEs to gain certification for their goods and services at national and international levels.
- **Other Issues: Related Organizations, Plan/Policy**
 - Encourage the formation of a link between Foreign Direct Investment (FDI) and SMEs, allowing SMEs to be a part of the production supply chain of the large international companies, supplying raw materials or components. Incentives could be the granting of tax privilege on the condition of purchasing of goods from local SMEs.

- With a wide scope of responsibilities from planning, implementation, assignment to tasks to other relevant organizations and assessment of outcome, SMEPDO is bound to face problems and challenges in its operation. Some of these are:

1. Budgetary Limitation. The majority of SMEPDO's budget is use for salaries of its personnel. To implement the tasks or projects set out in the action plan, financial support from foreign development agencies is needed. Thus only the projects meeting the interest of these supporting partners would be undertaken. Only 80 percent of all the projects set out in the Strategic Plan for 2006-2010 have been implemented.

To achieve the promotion of SMEs according to its objectives, the government has to allocate sufficient budget for the implementation of the proposed measures/projects.

2. Insufficient personnel for the expected output. Currently, there are only 30 employees. There is a need to increase the number of employees and to improve the knowledge and competency of the existing personnel.

3. Assignment of officers responsible for SMEs promotion in the provinces. Currently, this task is taken up by the staff of the provincial office who perform mostly coordinating functions, often resulting in unnecessary delay. SMEPDO should appoint its own officer to perform this duty, especially in larger provinces such as Laung Prabang, or Savannakhet.

- A coordinating mechanism or system should be established for the coordination of activities among the relevant ministries, departments, divisions, in order to generate a concerted effort in the promotion and development of SMEs in accordance with the Strategic Plan and Policies. Such coordination should extend to include foreign aid organizations, both governmental and inter-governmental, to ensure successful implementation of the cooperative activities.

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