

Lao PDR Systematic Country Diagnostic – Summary of discussions Consultation workshop with Private Sector, 24 February 2016

The World Bank Group (WBG) met with 83 representatives of the Private Sector in Vientiane on February 24th, 2016 to exchange views and perceptions on Lao PDR's development opportunities and pressing challenges. The discussions focused on three guiding questions:

- What are the key challenges for Lao PDR to address in the next 4 years?
- What are the main development opportunities for Lao PDR in the next 4 years?
- Are the development pathways presented earlier realistic and achievable in the next 4 years? What policies, reforms and investments will be most important?

Main sectors of concern: (i) Access to Finance; (ii) Business Environment; (iii) SME development; (iv) Education and skills.

Comments from Stakeholders

Access to Finance:

- \$ 5 billion deposit in banks = total loans in country, and has increased substantially in last years. So not problem of lack of funds, but more a problem of financial inclusion.
- Access to finance: problem when businesses don't have assurance to have access to finance when needed.
- Too high interest rates – should decrease in the future with a new regulation from 2015.
- Issue regarding Non-Performing Loans – difficulty for banks to recover the money or collateral if need to go to Court. Issue regarding Rule of Law in the country.
- Only a fraction of SMEs – less than 30% – have used bank credit, and SMEs feel largely locked out of the formal credit market. The number of firms using external sources to finance their investment is very low compared to Cambodia, Vietnam and Thailand.
- Collateral is an issue for SMEs (banks don't even look at quality of project); also banks always provide the same kind of loan, not adapted to type of project. Need to provide capacity building to banking sector to better adapt the offer to the SMEs requests / needs.
- Set up a commercial bank to support / target financial support to SMEs.
- Many banks are present in Lao PDR, so would be good to develop more this sector – many jobs in service sector.
- Acknowledgment given to the Ministry of Finance for its recent establishment of a centralized, online, notice-based registry where financial institutions can now register any security interest held over movable property.

Business environment:

- Despite significant improvement in the business environment, there are still certain gaps between policy and implementation. Regulations are not enabling for businesses (Ex: very high costs for fees/taxes). So public and private sector need to work hand in hand to improve the regulations.
- GoL should put in place tax incentives (tax holidays) and enabling legislation for businesses to operate. GoL should also put in place incentives for firms to recruit / create jobs. Ex: tax incentives, subsidies to recruit particular segments of population.
- Businesses to regroup in associations would strengthen the business sector.

Comments from Stakeholders

SME development:

- Focus on SME development, and not so much on big firms which are owned by foreigners (in nat. res. sector for example). Encourage innovation and entrepreneurship.
- Most of Lao businesses are family businesses: need to support them and allow them to be part of groups, like LNCCI, in order to be competitive and have access to finance.
- IT SMEs would need to be encouraged – big market to develop. Ex: civil servants don't have e-mails or websites for GoL and firms.

Education and skills:

- Many factories lack skilled labor – need to hire international people (ex: from Thailand) so very expensive – decreases competitiveness.
- Primary and secondary education is weak. Education doesn't prepare people to enter labor market. Get a better HR management in order to get talented people into the right positions.
- Lower skills compared to other countries / neighbors - Need to move closer to international standards.
- For SMEs, the skills deficit felt most forcibly for owners related to management, administration and innovation, while for larger business in construction / furniture making/accounting it seems that the technical skills of staff not adequate.
- Use informal education: video clips or e-library – people to learn by themselves.

Agriculture and rural development:

- Rural development is important to retain young people in the rural areas – avoid migration to urban areas. Today nobody left to work in the farms.
- Rice production: at the moment it's cheaper to import rice. How GoL can help? Irrigation, seeds, extension services...
- Agriculture: highest risk sector regarding droughts, floods or other disasters. Hard for commercial agriculture production.
- Many products cannot be sold because they are not competitive.
- Community development can help increase negotiation power.
- Land concessions have been given by the GoL to firms without looking at all aspects. Ex: reduced rattan production and thus problem for handicraft.

Connectivity and regional integration:

- How to transform Lao PDR from landlocked to landlinked country?
- Cross border engagement is key – unlock the power of Laos' markets to success in regional integration. Market access is a problem for the moment.
- Cost of logistics/transport in Lao is very high (30%), particularly compared to neighbors. Once products are available, how to sell them abroad?
- AEC integration – businesses have to understand it's free movement of investment, capital and labor, and it will affect businesses. SMEs above (90% of firms) need help to survive. Laos is behind regarding competitiveness compared to other AEC countries.

Infrastructure:

- Weak infrastructure adds to the cost of production for business, thereby reducing their competitiveness. If infrastructure from roads to transport is not improved it will be hard for local businesses that have a comparative advantage in trade, such as handicrafts, garments, wood processing, and SMEs to exploit cross-border trade / investment.
- Many infrastructure projects have been postponed by GoL – shows budget problems.
- Railroad project of GoL: give access to China market, also for tourism.

Comments from Stakeholders**Natural resources:**

- No insurance fund for natural disasters – only mobilize donations if something happens. Difficult for businesses and people to recover from damages. So need to create an insurance fund.
- Mining and logging – have not provided value added to population. Would need factories to transform raw material – creates jobs.
- Handicraft relies on natural resources (rattan, bamboo, cotton...) that can be grown back, so it's a sustainable activity.

Tourism:

- Main opportunity for Lao PDR to learn from other countries (like Thailand) to improve the tourism sector. Reduce heavy reliance on natural resources and increase jobs in services sector.

Budget and Revenues:

- Taxes to government to allow GoL to provide public services to population.
- Need to prioritize public expenditures to stay within budget, need very strict PFM and macro-economic management.