

# SME in Laos

## GIZ's challenges, approaches and achievements in the business enabling environment

### The challenge

Along with large firms in the mining and hydropower sectors Small and Medium Enterprises (SME) in general, and especially in rural areas, were the main contributors to the average annual 8% GDP growth rate in recent years in Laos and provided 63% of all jobs in 2013. Nevertheless, the framework conditions for the almost 80,000 companies in Laos, of which more than 97% are SME, are less developed than those of other ASEAN member states so far. The Business Enabling Environment (BEE) today can be described by inefficient bureaucracy, intransparent and inconsistent regulations, underdeveloped entrepreneurial spirit as well as inappropriate or missing business representation, -services and -strategies.

Additionally, this BEE is subject to a major transformation process with regard to the harmonisation within the ASEAN Economic Community (AEC), effective end of 2015. Enterprises currently lack the capacity to use the BEE most effectively in order to remain or become more competitive. Also the lack of labour, especially skilled, and the poor access to finance contributes to the fact that Laos is ranking 159 out of 189 countries in the BEE assessing World Bank's Doing Business Report 2014. These general challenges for SME are even greater in rural areas.

### Our objective

GIZ strives to improve the framework conditions for the development of competitive enterprises, especially SME and aims in particular to...

- **improve the BEE** in Laos by strengthening chambers, associations and public SME promotion agencies, which represent their members and target groups legitimately (significant amount of members and outreach), appropriately (voicing their interests), informed (fact based) and are able to offer demanded business development services
- **enable enterprises** – in urban and rural areas – **to use the BEE** most effectively and remain or improve competitiveness
- increase the number of skilled labourer by reforming the vocational education system, according to the market demand

- facilitate the process of regional economic integration, especially when it comes to BEE related AEC matters and raise awareness of respective developments,
- support the development of the financial system and improve access to finance for SME especially in un(der)banked areas (**Access to finance**)

### Our approach

#### Improving the BEE

- Strengthening the capacity of the chambers of commerce and industry, local business associations as well as public SME promotion agencies as advocates and service providers for SME
- Establishing public-private dialogue processes, conducted by chambers, associations and SME support agencies in selected provinces and coordinated strategy development for economic zones and sectors
- Supporting investment promotion strategies and tools such as investment guides and promotional investment project lists in selected target provinces
- Support to integrate regional agreements (ASEAN, WTO) into national regulations and disseminate respective information to affected SME

#### Utilizing the BEE and remaining/becoming competitive

- Developing and implementing upgrading strategies for selected agricultural value chains in target provinces (rubber, coffee, tea, rice, maize, vegetables) and facilitating public private partnerships with local processors of these products
- Implementing marketing strategies for selected value chains (tourism, tea, coffee, garment) to allow better market access for Lao SME and to develop high quality niche markets
- Helping SME to improve their awareness, product quality and productivity in order to master the increasing competition and varying requirements within ASEAN



L. to r.: Coffee processing and logistics in the Bolaven Plateau; border procedures at the Lao-Thai friendshipbridge

## Access to finance

- Improving the access to and the utilisation of financial services for SME, particularly in rural areas

## Results achieved so far

### Improving the BEE

- Almost 1/3 of 1231 enterprises, which are represented by the 11 supported chambers and associations (among others: tourism alliance established in 2013 with now 130 members, Lao National Chamber of Commerce and Industry with an annual growth rate of 18% and now 495 members, European Chamber of Commerce and Industry in Laos established in 2012 with now 80 members) state an increase of their output, turnover, profit and number of staff in 2013.
- In order to assess the business and investment environment a comprehensive country wide survey is conducted every second year since 2005, interviewing more than 2350 firms in total. Findings are used for policy design and research, which contributes to an informed provincial public-private dialogue process. Consequently already 25 issues in total were commonly identified and agreed upon in 2012, of which registration procedures and quality control in the tourism sector have been solved.
- Investment strategies and promotional investment project lists have been drafted for three provinces, contributing also to a better monitoring of investment projects; 57% of projects are monitored in 2013 and allow the authorities to design their pro-poor policies more efficiently
- Laos has opened selected service sectors (e.g. logistics and construction) for foreign investment in the context of AEC integration by liberalising 20 regulations, such as foreign ownership or labour quota

### Utilizing the BEE and remaining/becoming competitive

- 5 niche products (bananas, sesame, mulberry bark, job's tears, processed fruits and vegetables) with export potential have been identified and through provincial workshops instructed to generate profit from
- A fact based joint strategy and promotion efforts of all Lao tourism stakeholders in Laos, as well as focused skill trainings contributed to a 13% (to 2.7 Mio.) increase of arrivals, a 16% (to 595 Mio. USD) increase of revenues and a 17% (to 8.4 days), increase of length of stay in 2013 compared to 2012
- Market exposure and promotion at international fares, as well as quality production and -processing trainings to farmers and factories of nearly 60% of grown tea in Laos since 2013, resulted in an initial export of 2 metric tons to Germany's

biggest tea trader. There roughly 50% higher prices can be asked for compared to the dependency on the Chinese market.

## Access to Finance

- Setting up and monthly support for more than 29,000 clients in more than 350 village banks. Two of the five institutions, that support the network of village banks are able to generate sufficient income to cover their operational expenses

<b>Project name</b>	Regional Economic Integration of Laos into ASEAN – Trade and Entrepreneurship Development (RELATED)
<b>Description</b>	RELATED aims at improving the preconditions for SME in Laos to realise their economic potentials and reduce economic risks related to AEC integration. The project focuses on improving SME competitiveness in the areas of trade in goods and services and in the liberalisation of investment flows.
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<b>Project name</b>	Human Resource Development for a Market Economy (HRDME), Component 1
<b>Description</b>	Component 1 focuses on the improvement of conditions for private sector development through the support of public and private institutions in the development of strategies, services and their information base for SME development, the promotion of public-private dialogue processes and selected value chains (tourism, coffee/tea, garment).
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<b>Project name</b>	Land Management and Rural Economic Development (LMRED)
<b>Description</b>	In its component for rural economic development, LMRED supports the development of comprehensive upgrading strategies for selected agricultural products. SME and producer groups are an integral part of these strategies. It also triggers the information exchange between public and private sector through investment monitoring and stakeholder meetings.
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## About GIZ Laos

GIZ, as part of the Lao-German Development Cooperation, has been active in Laos since 1993 and is currently implementing projects in two priority areas: rural development and economic cooperation. Moreover, GIZ participates in regional programmes on behalf of the German Government, for example with the Mekong River Commission.

Please visit our website [www.giz.de/laos](http://www.giz.de/laos) for further information on GIZ's work in Laos and worldwide.

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