

<p>Name of Sector Working Groups: Trade and Private Sector Working Group</p> <p>SWG Chair: H.E Malaithong Khommasith, Minister of Ministry of Industry and Commerce</p> <p>Co-Chairs:</p> <ol style="list-style-type: none"> 1) EU: H.E. Ambassador Ina MARCIULIONYTE, Ina.MARCIULIONYTE@ccas.europa.eu, European Union 2) To be appointed soon. <p>SWG Secretariat Focal Points:</p> <ul style="list-style-type: none"> - Government Officials: Ms. Lattanaphone Vongsouthi, Director of NIU Division, DPC, MOIC. - Development Partners: Souphaphone Thavonsouk, Program Manager of Trade and Private Sector, Souphaphone.THAVONSOUK@ccas.europa.eu, EU Delegation. - Development Partners: contact person to be confirmed. <p>Technical Supporting Staffs:</p> <ul style="list-style-type: none"> - Government Officials: Ms. Sonevilay Phaengtavanh, Trade Officer, NIU Division, DPC, MOIC - Development partners: TBC
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Overview of Sector Performance in 2022

Sector outputs and activities	Progress	Challenges and opportunities
A. Sectoral thematic (substantive) areas		
1. Actions/activities relating to the RTIM key recommendations as per Annex 1 (for most relevant recommendations only)		
1.1 The role of the private sector	<p>To facilitate stronger participation of the private sector in achieving social economic development goals of the country, over the past year, the TPSWG focuses its efforts in the following key areas:</p> <ol style="list-style-type: none"> 1. Improve effectiveness of policy dialogue on private sector development issues under the sector working group meetings through enhancing private sector’s participation in agenda setting, prioritization of policy recommendations, as well monitoring progress of government’s efforts in improving overall investment climate. 2. Facilitate regular public private dialogue on specific issues affecting operations of businesses under the Lao Business Forum through supporting operations of the forum secretariat and provision of technical support in identification of priority issues, development of position papers, and facilitating dialogue with concerned public agencies at both central and provincial level. Currently, structured public private dialogue 	

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	<p>mechanism is being supported by donor funded projects in Phongsaly, Luangnamtha, Oudomxay, and Champasack provinces.</p> <ol style="list-style-type: none"> 3. Continue supporting business enabling environment reforms outlined in PM Order No. 02, No. 03, and improving trade facilitation through supporting implementation of Trade Facilitation Roadmap, and WTO Trade Facilitation Agreement. 4. Key issues discussed at the SWG meeting include the impact of the COVID-19 on economy, Priority economic relief and recovery measures, SME support measures, the trade impact of LDC graduation, economic diversification policies and strategies. <p>However, implementation of the results from both SWG meetings as well as LBF remain challenging due to capacity constraints, and coordination issues between sectoral agencies, and between central agencies and local authorities.</p> <p>Similarly, while substantive technical assistance has been provided to support Government's reform program under PM Order No. 02, No. 03 and implementation of various commitments under WTO, AEC, and other subregional and bilateral framework, however, tangible results that have translated into reduced regulatory compliance cost and improved predictability in legal and regulatory environment has been quite limited.</p> <p>Going forward there is a need to explore ways to: 1) further strengthen linkage between these two dialogue processes with government policy formulation and evaluation; 2) enhance inter-ministerial coordination for business environment reform as well as implementation of commitments under international and regional framework; 3) develop mechanism to enforce consistent implementation of laws and regulations at provincial level.</p>	
1.2 Connectivity and integration	TPSWG's main contribution to improve connectivity and integration is through implementing comprehensive trade facilitation	

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	<p>roadmap and WTO trade facilitation agreement that aim to reduce time and cost associated with import and export, to increase certainty and reliability of imports and exports, and to increase trade transparency, as well as support to fulfill Laos' commitments in areas of trade in goods and trade in services under AEC blueprint, WTO, and recently concluded RCEP.</p> <p>The economic impacts of RCEP as a regional trading bloc are significant for regional and global economy. The agreement is expected to create positive impacts on output in the region, mitigating the negative effects of the COVID-19 pandemic shock.</p> <p>However, the benefits from RCEP will depend critically on the participation and positioning of the respective countries in GVCs for both manufacturing and services. Based on available assessment, Laos and other ASEAN LDCs are expected to undertake deeper structural reforms to fully benefit from the RCEP.</p> <p>However, to maximize impact of ongoing and planned investment in physical infrastructure, stronger collaboration between the TPSWG and infrastructure sector WG as well as between the National Trade Facilitation Committee, the National Transport Committee, the Committee for National Single Window, and others.</p> <p>To this end, the TPSWG devoted one of its working group meetings to discuss the impact of infrastructure development on trade and private sector development, including opportunities to leverage Lao-China railway to promote investment in agri-businesses and export.</p>	
<p>2. Other substantive actions/activities relating to overall sectoral strategies, if applicable, to support the implementation of the 8th NSEDP and preparation for the 9th NSEDP</p>	<p>i)</p>	<p>However, overall, the business environment remains complex, with barriers to regional trade and integration limiting attractiveness as an investment destination (and</p>

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		therefore job creation).
2.1 Private Sector Development Roadmap	<p>TPSWG’s Private Sector Development Roadmap, which serve as guidance for all trade related technical assistance (private sector development assistance) aims to promote more productive private sector through improving business environment, deepening economic integration, and enhancing enterprise competitiveness.</p> <p>All technical assistance projects/programs funded by donors in areas of trade and private sector development are designed to make direct or indirect contributions to the following outputs under Outcome I of NSEDP VIII:</p> <ol style="list-style-type: none"> 1. Output 1 – Sustained and Inclusive Economic Growth 2. Output 2 – Macroeconomic Stability 3. Output 4 – Balanced Regional and Local Development 4. Output 5 – Improved Public/Private Labor Force Capacity 5. Output 6 – Local Entrepreneurs are Competitive in Domestic and Global Markets 6. Output 7 – Regional and International Cooperation and Integration. 	
2.2 Trade and Private Sector Development Roadmap Update	<p>The report identifies a priority list of measures that will support Lao PDR to realize more inclusive, diversified, and resilient growth.</p> <ol style="list-style-type: none"> 1. Further business and trade reforms are required for inclusiveness, diversification, widespread job creation, and poverty reduction <ol style="list-style-type: none"> a. Rapid growth over the past decade was primarily driven by infrastructure investment and the exploitation of natural resources, with limited job creation. <p>In the period 2000-2019 Lao PDR’s annual growth rate averaged 7.2 percent. The key drivers</p>	

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	<p>were infrastructure investment financed by foreign loans and natural resource extraction financed by foreign direct investment. In 2019, GDP grew by 5.5 percent and then dropped to 0.4 percent in the 2020 COVID-19 related economic downturn. Prior to the shock of COVID-19 Lao PDRs macroeconomic framework was unsustainable with large debt levels, diminishing foreign currency reserves and a weakened financial system. Key immediate priorities include restoring macroeconomic stability and containing the COVID-19 pandemic. The World Bank has identified three focal areas for restoring macroeconomic stability. These comprise strengthening debt management and transparency, enhancing financial sector stability through improved regulation and bank restructuring, and increasing fiscal sustainability through mobilizing more domestic revenue and more efficient expenditure.</p> <p>The reliance on natural resources extraction from capital intensive mining and other capital-intensive infrastructure investments propelled the growth rate over the past two decades. However, this resulted in modest job creation and limited poverty reduction.</p> <p style="text-align: center;">b. Trade potential remains under utilized</p> <p>Over the five years ending in 2019 Lao PDR goods exports grew annually by 10 percent, while imports grew by 1 percent. Lao’s export growth during this period compares favorably with their regional comparators. However, in 2019, Lao PDR was a less open economy than its ASEAN neighbors Thailand, Cambodia, and Vietnam. Lao’s openness to trade lies below the potential level indicates by its per capita income for both goods and services. Since 2015 merchandise exports have increased towards China, Vietnam, and Thailand. Imports continued to be primarily sourced from Thailand, Vietnam, and China. Trade in services is concentrated in transport and</p>	

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	<p>travel rather than in the modern services that drive competitiveness.</p> <p>In 2017, total exports surged by almost 90 percent as Lao PDR began exporting electrical power from the new hydropower plant. Minerals and precious metal exports continue to be significant exports although, over the period 2013-2019, their share of total exports declined, and the value of copper exports fluctuated widely with the changes in commodity prices. Agricultural and manufacturing exports declined in relative importance; however, both remain significant and registered high growth rates. From a relatively small base in 2012-2013, exports of vegetables, fruit and nuts, electrical assembly, rubber, and plastics all experienced rapid growth. Another notable change over the period 2013-2019 was the rapid growth in pulpwood exports from less than \$1million to \$286 million. The earlier labor-intensive apparel sector, exporting mainly to the region and the European Union, remained broadly constant.</p> <p>Since the last DTIS (2012), Lao PDR has exported an increased the range of products. In 2012 Lao PDR exported 550 products out of a total product set of 5205 (the maximum number of Harmonized System codes at the 6-digit level). By 2019 this had doubled to 1,082 products. The increased range of products was reflected in their trade with neighboring countries.</p> <p style="text-align: center;">c. Diversification through leveraging natural assets, land-linked geographical location, and improved transport infrastructure</p> <p>Agriculture provides the main source of income for approximately 70 percent of the population. Investment and growth in this strategic sector, which is key for reducing rural poverty, remains constrained by unnecessary regulations. Notwithstanding the commitment to improving agriculture, outdated and cumbersome regulations and administrative procedures</p>	

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	<p>increase the costs of doing business, impede farmers' access to new and improved inputs and hold back smallholder productivity. Most of the regulatory agencies at both the Central and Provincial levels target 100 percent physical inspection, testing, and certification, rather than adopting a risk-based approach. Farmers are also vulnerable to unexpected policy changes, including price setting, which serve to discourage the transition from subsistence agriculture to commercial farming.</p> <p>Tourism experienced rapid growth prior to the onset of the COVID pandemic; despite the current setbacks the medium and long-term future for the tourist sector remains positive.</p>	
<p>B. Communication and outreach activities with the sector and across Sector Working Groups</p>		
	<p>Main communication and outreach activities include: 1) Trade and Private Sector Working Group meetings; meetings of private sector working group meetings under Lao Business Forum and provincial level public private dialogue process; 3) Trade for Development Website at T4DLaos.org; 4) social media; 05) Lao Trade Magazine; 6) Merchandise; 7) Events and speeches; 8) Banners and posters; 9) Press releases; 10) Media relations; and 11) T4D logos.</p> <p>In addition, several information portals have been developed, supported, and are being regularly updated. These include: Laotradeportal.gov.org, Laoservicesportal.org, LBF webpage under LNCCI website.</p> <p>Regular information and experience sharing mechanism was established with Agriculture WG and its Northern Uplands Sub-WG. Informal relationship is being established with infrastructure working group.</p> <p>There are clear opportunities for further promoting collaboration between TPSWG and other sector working groups, namely Macro, Infrastructure, Agriculture, and other working groups.</p>	

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	<p>Several new TRTA are being implemented or designed to support trade and private sector development in selected provinces. Linkage between the national Lao Business Forum with a few provincial dialogue platforms has been established.</p>	
C. Cross-sectoral thematic areas applied to all SWGs		
<p>1. Partnership for Effective Development Cooperation (in accordance to VDCAP 2016-2025) (Only narrative on each principle)</p>	<ol style="list-style-type: none"> 1. Ownership. Well-functioning mechanisms for policy dialogue/strategy formulation, Aid for Trade Governance framework, public private dialogue operational. Although some challenges in coordinating TRTA with different implementation modality, Laos has been increasingly recognised as one of best practices in strong government ownership and donor coordination with well-established AfT governance framework. 2. Harmonization and simplification. Multi-donor trust fund facility has been operational for more than 10 years, adoption of single governance framework for all TRTA. full alignment of project reporting cycle with government fiscal year. 3. Alignment. All TRTA are designed to support priorities defined in the roadmap. 4. Managing for results. Project result framework is part of all new project documents, which support overall result framework of the sector development Roadmap. 5. Mutual accountability. Common result framework is part of the sector development Roadmap. Mid-term and final project evaluations are encouraged. 	<p>Increasing fragmentation of donor support, and more limited degree of coordination with some development partners, risking duplication or inconsistencies.</p>
<p>2. Innovation and technology</p>	<p>On the assumption that in the foreseeable future the bulk of innovation and product development will be coming from within the private sector itself and for the most part will be generated because of a favorable incentive structure and the entrepreneurial talent that exists in these enterprises. The role of public</p>	

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	<p>sector should therefore be more of a facilitator or stimulator of this change as opposed to an implementer. This concept is being promoted under business matching grant scheme under Business Assistance Facility (BAF). For more detail information see: www.baflaos.com</p> <p>Past and on-going efforts of investing in e-government has so far had limited impact on improving public service delivery. However, provision of regulatory information through well developed and maintained information portals such as LTP, LSP, IBL Portal, Official gazette is proved to be very useful.</p> <p>According to recent World Bank study, by almost every measure, Lao PDR is lagging significantly in terms of accessibility, quality and affordability of internet services compared to other comparable regional economies. To take advantage of digital connectivity, Laos will be required to stimulate investments in infrastructure for digital services, increase private sector participation, and review the status of national network to identify bottlenecks and infrastructure needs and others.</p>	
<p>3. Promoting gender equality and women’s empowerment and accelerating the adoption and implementation of the National Youth Policy</p>	<p>Recognizing the fact that the impact of growth on poverty reduction and sustainable development more broadly, can vary significantly and it is critically important to design trade and growth policies and programs to maximize the positive linkages between trade and sustainable development. Hence, the Private Sector Development Roadmap has strong focus on the need to further mainstream and develop trade to ensure sustainable growth, thus maximizing the socioeconomic impacts (such as poverty reduction and gender equality) as well as environmental sustainability. One of the key objectives of the sector Roadmap is to enhance the diversification of exports into sectors with high social impacts to ensure that trade has the maximum impact on improving the livelihoods of the poor. Many factors related to poverty, gender</p>	

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	<p>and the environment have been considered and included in the analysis and priorities of the sector Roadmap.</p> <p>The discussion on how trade impacts on gender and vulnerable groups in the NSEDP VIII is not explicit. However, gender has been increasingly mainstreamed in the industry and commerce sectors during the last few years, through several case studies prepared by the government in collaboration with the interested development partners.</p> <p>The latest study on women Entrepreneurs and Business Environment identifies several business environment constraints. Business registration for women appears to be constrained by lack of awareness of benefits to registering, lack of information about the process/information on where to register, and time, fees and paperwork. Women who perceive there to be benefits from firm registration are motivated by better access to finance, better access to materials, less bribes to pay and access to potential customers. Yet, men and women have differing views on the fairness and consistency of business regulations and enforcement. Business licensing was perceived as a greater constraint, due to confusing documentary requirements often overlapping at various agencies. Raising awareness on business registration and licensing could benefit women entrepreneurs, as well as ensuring that line ministries eliminate redundant or conflicting policies/information. Tax policies and administration may affect women more greatly than men due to lower education levels, numeracy, and literacy. Women appeared to prefer the lump sum method to the accounting method, due to limited accounting and bookkeeping skills – as well as tending to operate firms with lower capital. In some cases, women’s lack of awareness of tax policies resulting in them being fined for “non-compliance”. In other cases, small scale traders (perhaps due to being</p>	

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	<p>disempowered from lower levels of awareness), were less likely to challenge or negotiate taxes/fees at the border, resulting in higher tax rates that further eat into their already narrow profit margins. Training and awareness approaches could help women entrepreneurs to better navigate tax reporting requirements. Access to finance did not appear as a top constraint to women owned and operated firms, yet women's update of financial services is behind that of men's in nearly every dimension. This suggests women could be so unaware of financial products and services available to them, that they are unaware of what they are missing out on. Land titling did not appear to be a major constraint to women in Lao PDR, given reforms over recent years through the land titling project. However, based on findings from Enterprise Survey data, women in the hotel/restaurant sectors do perceive that access to land is a greater constraint than women operating in other sectors. This could be due more to physical access of land, however, rather than land titling and registration. Commercial courts and ADR do not appear to be a major constrain to women, most likely because they tend to be operating smaller firms and firms that are more likely to use commercial courts or, even, ADR, tend to be larger. However, awareness of both topics appears low and educating women entrepreneurs, particularly on ADR, could prove useful.</p>	

Please see detailed sector priorities for 2023 and beyond in Annex 1 of this report.