



Summary of Prioritized Issues and Progress
Public-Private Dialogue through the Lao Business Forum
(2021)

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FULLY RESOLVED ISSUES AND ISSUE WITH CLEAR RESPONSE

1. Fees for registering loans backed by land title rights

Article 79 of Presidential Decree No. 003, dated 26 December 2012, states that the fee to register a loan pledge agreement for use of land title rights is equal to 0.2% of the total borrowed amount. This is considered a high rate and has a direct impact on borrowers. The latest draft amendment of Presidential Decree No. 003 revises the fees for registering loans using land title rights as proposed by the business sector at the 10th, 11th and 12th Lao Business Forum. However, the draft Presidential Decree No. 003 has not been approved and published, therefore business owners still have to pay a fee to register a loan guarantee agreement with land use rights at a high rate.

Proposed recommendation:

1. Tax Department completes amendments of Presidential Decree on Fees and Service.

Relevant government agency:

1. Tax Department.

Recent progress:

- As of June 2021, the Presidential Decree No.002/ has been officially approved and enforced (replacing the Presidential Decree No.003). Therefore, new fees have been applied for registering loans backed by land title rights, as below.

<i>The contract amount (LAK)</i>	<i>Fees on Registration of Contracts, pledged by land titles (LAK) per contract</i>
<i>Below 500 million</i>	<i>Exempted</i>
<i>over 500 million to 20 billion</i>	<i>50,000</i>
<i>Over 20 billion to 50 billion</i>	<i>100,000</i>
<i>Over 50 billion to 100 billion</i>	<i>150,000</i>
<i>Over 100 billion</i>	<i>200,000</i>

2. Policy to promote access to financial services through technology (Fintech)

Financial technology (FinTech) has the potential to promote financial inclusion in Lao PDR, especially for those with no access to formal financial services and in remote areas. The promotion of financial inclusion is also in line with the sustainable development agenda, and for Lao PDR it is crucial because 60% of the Lao population does not have a bank account. Lao PDR is lagging behind other countries in the region in the use of FinTech. Establishing an “electronic wallet” (“e-wallet”) payment system would be one way to promote the development of FinTech in Lao PDR. It would also be in line with the guidelines for expanding the control of financial services, which include:

- Increase financial inclusion in rural communities through better financial literacy, training and cost-effective products.
- Offer last-mile payment solutions to the unbanked society in rural areas and increase convenient access to financial services.
- Support Lao small and medium-sized enterprises (SMEs) in the area of payments and collections to enhance productivity and profitability.
- Offer innovative financial services to Lao businesses for expansion in collaboration with banks, microfinance, and other financial institutions.
- Provide digital solutions to general Lao consumers to minimize cash usage and connect to e-commerce.

Therefore, it is crucial for relevant government authorities, especially the Bank of the Lao PDR (BoL), to consider the importance and potential benefits of FinTech to improving financial inclusion in Lao PDR. This is especially important to the amendment of relevant regulations and policies to facilitate emerging technology intensive businesses, which aim to solve problems relating to access to financial services and staying in line with the ever-changing state of the regional economy.

Companies interested in doing business with FinTech that provides e-wallet services in Lao PDR face many issues with the rules and regulations, including:

- Lack of transparency in the evaluation process for e-wallet pilot applications on the part of the Financial Institution Supervision Department (September 2017) and Payment System Department (March 2018).
- Laws and regulations take a long time to draft and even longer to approve.
- No “sandbox” to prove project concept in a controlled environment.
- When a company applies for such a business license, the relevant authorities do not give a clear answer.

Proposed recommendation:

1. Bank of Lao PDR(BoL) has not provided any clear guidelines or instructions to implement the e-money framework, and there is no predictable timeframe to allow FinTech to operate, so BoL should review the existing regulations to support the e-money framework and provide clear feedback and clarification to the firms that apply to operating licenses.

Relevant government agency:

1. Payment System Department, BoL.

Recent progress:

- the BoL's Agreement on Payment Services No. 288 / BoL, dated 17 March 2020 has been in place and enforced. This agreement can be used as a reference by business owners who want to provide payment services.
- Most business owners see that the relevant Departments have improved legislation according to the proposals of the business sector. Thus, it is considered that this issue has been resolved.

3. Slow approval procedure for the annual import plan (Master List) of goods and materials exempts from custom duties and taxes under the Investment Promotion Law

This issue was presented by the garment industry during the 11th and 12th Lao Business Forums. It was seen that relevant departments of the public sector have made efforts to solve this issue as proposed by the business sector. For instance, The Investment Promotion Department issued Instruction No. 01/IPMC, dated 2 January 2019, on the Policy for Tax Incentives for the Annual Import Plan. This Instruction clearly specifies steps and a timeframe for Master List approval. The Instruction also eliminated unnecessary requirements such as written approval from line ministries. In addition, the Customs Department has already completed installation and started use of the electronic management and clearance system of Master List across the country.

Proposed recommendation:

1. The Ministry of Planning and Investment (MPI) should continue to coordinate with the authorities involved in approving the import plan to speed up the process of applying for an import permit under the Investment Promotion Law.

Recent progress:

- This issue was raised for discussion at a Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on 16 September 2020:

Comments from a representative from Customs Department: The procedure for applying for an import plan (Master List) under the investment promotion policy is based on the procedure specified under the law and the legislation under the law on investment promotion, while the customs department only involved after the import plan has been approved. Previously, if the goods are subject to excise tax, the calculation of taxes and duties in the Automated System for Customs Data (ASYCUDA) may be delayed. This is because in some cases, before making any adjustment to the calculation system, it must be approved by the system copyright owner. However, if there is a delay in the approval process for this reason, or when business owners need to import goods urgently, the business owner can request the customs officer to sanction the importing goods first and file the documents later. This process is considered case by case. Once sanctioned, the business owner has 30 days to complete documents submission (this is for projects listed in the investment promotion policy under the Law on Investment Promotion). It was also agreed to provide the hotline proposed by the customs department as a form of assistance to business owners.

Comments from a Representative from Department of Investment Promotion: Regarding the process of applying for the import plan (Master List) under the investment promotion policy, it has been improved in that the relevant departments are required to provide comments / feedback on the submitted documents within five working days. In

the event of invalid or incomplete documents submission, the business owner would have 15 calendar days or 10 working days to submit the revised or required documents. If the business owners fail to provide these materials according to the feedback in a given time, the application will be cancelled by default. As for the proposal of exempting value-added tax (VAT) from investment projects that are under the investment promotion policy to purchase goods supplied by domestic producers (the same as imported goods), it is unattainable. This is because there is no legislation that supports this yet. Nevertheless, MPI will further consult with the Ministry of Finance (MoF) on this proposal. MPI is currently revising Instruction No. 01 / CLT, dated 2 January 2019 on the approval of the VAT policy to be in line with the revised tax law, and other related laws.

- This issue has been monitored through the Trade Facilitation Committee meeting, and the Trade Facilitation Secretariat will continue to do so on a regular basis.
- **As of 2021, Most business owners find that the process of approving import plans for goods and raw materials that are exempt from customs and duties under the Investment Promotion Law has been streamlined, and therefore the issue is considered to have been resolved.**

Relevant government agencies:

1. Department of Investment Promotion, MPI.
2. Tax Department, MoF.

4. Current electricity rate is not adequately conducive to agricultural sector

Business owners in the agricultural sector view it as important sector to the economy of Lao PDR because it provides the majority of employment in the country, as well as being a strategic sector in ensuring food security for the people of Lao PDR. The Socio-economic Development Plan states that agricultural sector should be promoted in order to identify the high-potential agricultural products that are locally unique and could be prioritized for export in accordance with clean agricultural standards and increased agricultural productivity. The Socio-economic Development Plan also incentivizes the agricultural sector by ensuring comprehensive infrastructure development policies, for example, the provision of sufficient electricity and water to farmers and factories.

However, business owners in this sector find that the cost of agricultural production is still high, making agricultural products produced in Lao PDR unable to compete with those imported from neighboring countries. Therefore, in order to reduce costs, enable competition with agricultural products from abroad, and encourage growth and employment in this sector, there should be a policy or incentive to promote the sector by cutting electricity tariffs for agricultural producers in Lao PDR.

Proposed recommendation:

1. The Government should consider subsidizing the agricultural sector by reducing electricity tariffs to reduce the cost for these business owners.

Relevant government agencies

1. Department of Energy Policy and Planning, Ministry of Energy
2. Electricite du Laos (EDL)

Recent progress:

- LNCCI has sent several letters to the relevant authorities to follow up the proposal for electricity tariff policy for agricultural sector business owners, especially during the outbreak of Covid- 19 (March to May 2020).
- The Ministry of Energy and Mines instructed the Lao Electric Power Enterprise (No. 0438 / Phop dated 08 April 2020) to start implementing the revised electricity price structure from May 2020 to December 2025. Consequently, there has been a reduction in electricity prices for certain types of customers, including agricultural operators.
- Business owners in the agricultural sector are satisfied with the new electricity prices. Therefore, it is considered that this problem has been solved.

5. Procedures for approval of documents to pay customs duty taxes at Thanaleng warehouse

Summary of the issue: The standardized method of calculating import customs duties at Thanaleng has not been properly implemented, which delays the movement of goods from the warehouse. Generally, when paying customs duty taxes before moving goods out from the warehouse, these fees will be calculated based on the actual invoice of the goods purchased. However, in certain cases, these fees were estimated by the officials in charge, who simply guessed how much those goods were valued and calculated based on the given percentage. Consequently, business owners find this method imprecise and unfair, and that it also slows down processes.

Proposed recommendation:

1. The process of paying for customs duty taxes should be convenient and the fees incurred should be clearly defined. Payment should also be carried out in a standardized manner that is applicable to all business owners.

Relevant government agencies:

1. Customs Department, MoF.
2. ThaNaLaeng State Enterprise for Transit Goods.

Recent progress:

Based on the comments from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th September 2020 and Trade Facilitation Committee Meeting (Department Level) on 2 November 2020:

- Customs Department: Detailed customs declaration procedures, and procedures for inspecting the release of goods and payment procedures are set out in the Instruction Manual for Detailed Customs declaration by electronic system No. 00097 / EPD dated 6 January 2017. The valuation of goods is based on the customs duties laws based on the actual transaction value, and on the “six methods” of the World Trade Organization (WTO) Valuation Guidelines. In the past, the invoices of some companies were not up to standard and seemed fraudulent, resulting in a lack of good faith /confidence in the evaluations.
- At present, there is a guideline for the valuation of customs declaration for imported goods No. 1537 / Kong, dated 4 June 2012, and related regulations as a basis for implementation. However, the Customs Department will re-examine such legislation if it is deemed necessary in order to facilitate the procedures and documents for customs declarations and inspections. The LNCCI will inform the relevant business sector of the legislation.

- ✦ Issue owners acknowledged that they have already received a clear response, and are not willing to raise it further at the next Lao Business Forum. However, the LNCCI will continue to work with the Trade Facilitation Secretariat to follow up further with operators if there are any objections in the implementation as stated in the Guidelines for the Valuation of Customs Declaration related regulations, and inconsistent implementation, LNCCI will report it to the relevant authorities for further discussion.

6. Regulations governing real estate

The real estate investment situation in Lao PDR in recent years has not been as booming as in previous years due to the lack of legislation to support its growth that has been made other areas. Many foreign investors are interested in investing in apartments and condominiums in Lao PDR, and in the past, there has been a steady increase in the number of high-rise buildings, but there are still no specific laws or regulations. ASEAN countries have rules and regulations to regulate the construction and ownership of condominiums. To build trust and credibility among investors, Lao PDR should have regulations for real estate like other ASEAN countries. This issue was raised in the public-private consultative meeting of the 10th and 13th Lao Business Forums.

Proposed recommendation:

1. The relevant government agencies should set a clear time frame for the establishment of high building/construction regulations.

Relevant government agencies:

1. Department of Housing and District Planning, Ministry of Public Works and Transport.
2. Department of Land Management, Ministry of Natural Resources and Environment.

Recent progress:

- The Department of Natural Resources and Environment completed the revision and promulgation of the revised Land Law by the end of 2020. The conditions, supporting documents and procedures for registration of condominium construction land are specified in the revised Land Law, Volume 3, Article 106-108, which is a new article in the Land Law.
- Private sectors see this as a good step in solving the problem because the construction of condominiums in Lao PDR is now officially supported by law. Therefore, this issue will not be raised at the next Lao Business Forum.
- However, there is currently no instruction on the implementation of the revised Land Law. Thus, the LNCCI will continue to monitor its implementation with the private sector and will report if there is any problem to the relevant authorities.

7. High import tariffs – unfavorable to domestic businesses

Import tariffs have several effects besides generating government revenue; they also affect the success of the local business and the well-being of consumers. Most of the literature available regarding the impact of Free Trade Agreements and Preferential Trade Arrangements have emphasized the gains from trade focusing on the effect of tariff reduction on production inputs. Providing easier access to more varied and cheaper inputs as well as new technologies available abroad facilitates their adoption by domestic firms, which in turn makes them more efficient. Currently, Lao local manufacturers are faced with input constraints, resulting from high tariffs placed on imported intermediate inputs. High tariffs increase the prices of imported goods, thus increasing firms' production cost, and in turn, lessening the competitiveness of Lao products and services. Furthermore, domestic producers are not forced to reduce their prices from increased competition, and domestic consumers are left paying higher prices as a result. Reducing tariffs on intermediate inputs, therefore, can improve the availability and variety of inputs for Lao exporters, ease the input constraint, potentially both increasing and improving firms' output for export. The Lao printing industry is currently facing a 5% tariff on imported paper, which adds to its production costs, compared with those of neighboring countries.

Proposed recommendations:

1. Conduct an empirical study to strategically identify the sectors that may experience the most significant gains due to lower intermediate input tariffs. Carefully select the list of intermediate inputs for which tariffs should be lowered by comparing the unit value of the imported intermediate inputs with that already available to Lao manufacturers.
2. Improve export performance of Lao producers by lowering tariffs on selected intermediate inputs.

Relevant government agencies:

1. Department of Imports and Exports (DIMEX), MoIC.
2. Tax Department, MoF.

Recent progress:

Based on the comments from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th of September 2020:

- Representative from Department of Forestry: for agricultural products to be imported and exported, they must be in the agreement on phytosanitary requirements, and pass the phytosanitary standards of ASEAN and WTO. There is a total of 136 items in the agreement, and other goods will be taxed.
- Representative from Customs Department: the current imported goods that are in the ASEAN framework, there are more than 10,000 items according to the tax rate

table of which 96% of the items have an import duty rate of 0% (zero). Therefore, if the business owner has complete documents certified in accordance with the principles of the customs declaration, by applying for Form-D in the import of goods, the tax rate will be 0% (zero).

Based on the conclusions of the meeting of the Trade Facilitation Committee (Department Level) on 2 November 2020: The Customs Department has advised on the preferential tariff treatment under the terms of the Free Trade Agreements to which the Lao PDR is a member party (No. 03782 / MEF dated 16 February 2016), which clearly defines the steps and procedures for applying preferential tariff treatment within the framework agreement. Nevertheless, the Customs Department will continue to broadly disseminate such advice to relevant businesses. It will re-examine this legislation if its revision is deemed necessary to facilitate the procedures and documents for applying for preferential tariff treatment.

A clear response to this issue has been made to the issue owners (on the tariff of imported paper) in this sector, so it will not be raised for further discussion at the next Lao Business Forum. However, the LNCCI will work with the Trade Facilitation Secretariat to follow up on this issue if the business sector identifies any product or procedure that causes problems regarding the import duty on materials to be used in production; and this will be reported to the relevant authorities for later joint discussion.

8. Access to information on agricultural production in Lao PDR

Currently, the information on the production, producers, import and export of agricultural products in Lao PDR is incomplete, as is the ability of business owners to access it (i.e., producer information, type and number of annual production and yields in Lao PDR, information on exports and imports). The lack of such information makes it difficult for investors to make decisions to invest in the agricultural sector as they cannot assess the market and the competitors in it. As a result, these restrictions are seen as discouraging investment in the agricultural sector in Lao PDR.

Proposed recommendation:

1. The Ministry of Agriculture and Forestry, in collaboration with MoIC, should improve the database on the production, import and export of agricultural products in Lao PDR to create more complete and easily accessible information, especially relating to the location of producers, types and quantities of agricultural products, and imports and exports in each year. The database should also be available to businesses.

Relevant government agencies:

1. Department of Agriculture, Ministry of Agriculture and Forestry.
2. Department of Registration and Enterprise Management, Ministry of Commerce.

Recent progress:

- The outcome of the public-private consultative meeting on issues relating to the agricultural sector, dated 1 December 2020, can be summarized as follows: the Department of Agriculture replied that it regularly collects information on the production, import and export of agricultural products (excluding imports and exports through traditional checkpoints) in Lao PDR, which can be disseminated to the public. Under the Department of Agriculture, there is a dedicated unit that can provide such information to the private sector, and they can contact the Department of Agriculture for such information (at no cost). However, it is not yet possible to post such information on the Department of Agriculture website as it does not yet support the format of the data.
- The business owners received a clear response to this problem, so this issue will not be raised at the next Lao Business Forum.
- However, the LNCCI will follow up with the private sector if they find that there is still a delay in accessing the data, especially with regards to the cost of accessing the information.

ISSUES THAT WILL NOT BE FURTHER DISCUSSED AND FOLLOWED UP

1. Unfavorable electricity tariff rates for the service sector

As the tourism sector plays an important role in the socio-economic development of the country, the promotion of tourism-related businesses (hotel, restaurants, resorts) and reducing the cost of tourism products should receive more attention from the Government. At present, the service sector, especially hotels, restaurants, and resorts (unlike the industrial sector), has not received any incentives on electricity rates, making the monthly electricity costs very expensive. The service sector in recent years has played an increasingly important role in the Lao economy, accounting for 40% of Gross Domestic Product, while industrial sector contributes 33.2% of Gross Domestic Product. Therefore, the private sector, especially the hotel and restaurant association, is of the opinion that the Government should treat the service sector like the industrial sector. According to 2017 data, the electricity rates for the commercial (or service sector) are 40% higher than those for industry (for instance, low voltage electricity rate for industry: LAK 779/kilowatt hours and for the commercial sector: LAK 1,101/kilowatt hours). Compared to Lao PDR's neighbors, such as Thailand, which has more advanced tourism development, the electricity tariff rate for commercial is 30% lower than that for industry

Proposed recommendation:

1. The Government should consider adjusting the electricity tariff rates for the service sector to match that of the industrial sector to help reduce the costs of service businesses.

Related government agencies

1. Energy Policy and Planning Department, Ministry of Energy and Mines.
2. Electricite Du Lao.

Recent progress:

- According to the Response of the Department of Energy Policy and Energy Planning, Ministry of Energy and Mines No. 335 / PM, dated 28 April 2020, the tariffs of the service sector have been reduced from the old rates (as stated in the electricity price structure, Notification No. 394 / SOS dated 19 March 2020, with the implementation rate from 1 May 2020 to 31 December 2025). Nevertheless, the proposal to reduce the rate of the service sector to the same rate as the industrial sector is not feasible due to the current economic situation whereby the Government focuses on boosting productivity by encouraging large industries to be more productive. The business sector sees that this issue is still not being addressed.

- Responses from the Government representative during the public-private consultative meeting on the tourism sector, held on 17 September 2019:

Energy Policy Department: the ratio of electricity usage for the service sector is low (16.5%) compared to that of the industrial sector (42%). According to the instruction of the Government, food security is a critical concern for the country. Therefore, the Ministry of Energy and Mines will only consider the revision of the electricity rate for agriculture first. If the tourism sector receives endorsement from the Government to subsidize or support the electricity rate, the Ministry will take the issue into consideration. However, if in the future, the tourism sector is going well, there may be subsidies from the Government.

- **According to the responses from the relevant authorities as seen above, the Government clearly stated that, given the current situation, it does not have any policy to solve this problem according to the proposal of the business sector. Therefore, there will be no further presentation of this issue at the next Lao Business Forum.**

ISSUES WITH SOME PROGRESS MADE, BUT FURTHER DISCUSSION STILL REQUIRED

Issues that are related to starting a business and investment promotion policies

1. Procedure for obtaining an investment license

Attracting both domestic and foreign private investments is one of the goals of the focal plan that will ensure the national economy continues to grow steadily, constantly and in balanced. It is part of the workplan in the National Socio-Economic Development Plan. Recognizing the importance of private investment, the government issued Order No. 03 / PM dated 21 January 2020 on the improvement of the process of acquiring investment and business licenses. However, in practice, in applying for an investment license in Lao PDR, investors still face many obstacles, such as:

- Legal restrictions make it difficult to apply for investment licenses in Lao PDR, especially with regards to foreign investment. According to the OECD FDI Regulatory Restrictiveness Index (IECD) in 2020, Lao PDR still has the highest legal barriers for foreign investors compared to other countries. These include restrictions on foreign investors' shareholding capacity, investor inspection procedures and investment models, restrictions on the number of foreign employees, and restrictions on operations such as opening branches, owning land use rights, and so on.
- Unnecessary duplication of steps makes applying for an investment license time-consuming. At present, in accordance with the Decree on the Approval of the List of Controlled Activities and Concession Activities of the Lao PDR No. 03 / PM dated 10 January 2019: for ventures under the control list, the investors must go to the One-Stop Service to apply for an investment license. In applying for an investment license, the One-Stop Service also asked for feedback from the relevant authorities to research before issuing an investment license. Once the investment license has been obtained, the investor must apply for a business license with the relevant authorities, which again, must go through the same process of researching. Thus, the latter researching process was seen as a duplicate and unnecessary.
- There are too many items that are in the List of Controlled Activities. According to the Investment Promotion Law and the Decree on the List of Controlled Activities No. 03 / PM dated 10 January 2019: concerning the accreditation of Controlled Activities and Concession Activities of the Lao PDR, the Controlled Activities refers to “the types of businesses that affect national security, social order, good traditions of the nation and the environment, society and nature”. However, the current list of Controlled Activities shows that there are many activities that have low or no risk to national security, social order, good national traditions and the environment, society, and nature.
- The specific legislation of many sectors involved in the issuance of investment licenses is not in line with the Investment Promotion Law. Pursuant to the Law on Investment Promotion and the Decree on the accreditation of Controlled Activities and Concession Activities of the Lao PDR No. 03 / PM dated 10 January 2019, the issuance of investment licenses is limited to 25 working days. However, in practice this could not be achieved because some of the relevant departments have specific legislation; that stipulates a longer timeframe for submitting comments on the

issuance of investment license, which exceeded the timeframe specified in the Investment Promotion Law by 8 working days.

- The internal process of documents of the authorities involved in the issuance of investment licenses is delayed due to unnecessary consideration procedures, such as: consideration procedure of the Ministry Office, implies that the application is sent to the Ministry Office for consideration. It is then sent to the relevant department for research and consideration. Then submitted to the Minister for approval and sent back again to the Ministry Office.
- Foreign investors have limited access to information on procedures, terms and conditions related to setting up a business from the relevant sectors. Thereby, making it a difficult decision to invest in Lao PDR.

Proposed Recommendation

- I. The Ministry of Planning and Investment shall be considered as the focal point to:
 1. Coordinate with the relevant authorities to reconsider the activities in the Controlled Activities list, while aiming to reduce the activities in the current list, and periodically adjust the list to improve the investment attraction, and gradually consider removing the process of applying for Investment License, since investors still must go through the processes of applying for business registration and the business operating license, where validity and appropriateness of the investment can be examined by relevant authorities.
 2. Specify clear conditions (such as risk rating according to each specified criteria) and apply uniformly across all sectors in determining which activities should be kept in the Controlled Activities list.
 3. Specify clear conditions for consideration in issuing investment licenses, and the conditions should be shown on MPI's website.
 4. Coordinate with relevant ministries, involving with issuing investment license, with the aim of streamlining the procedure.
 5. Gather and provide information on all procedures including specific conditions and requirements of the relevant sectors that is related to starting business in Lao PDR. Make this information easily access to and available online to investors.
 6. Improve the One-Stop-Service to be the single point to coordinate with the relevant authorities for the issuance of investment license in accordance with the purpose of the establishment of the One-Stop-Service. This simply means that investors can apply, receive information, and obtain a business license in one place without having to further coordinate with other related departments themselves.
- II. Propose to the Government to periodically re-evaluate the implementation of Order No. 03/ PM on the improvement of the procedures for issuing investment and business operating license.

Relevant government agencies:

1. Department of Enterprise Registration, MoIC.
2. Department of Investment Promotion, MPI.

Recent progress:

- MoIC, in conjunction with the relevant departments, has updated the business start-up procedure: According to Ministry of Defense to MoIC notification No. 728 / Wok dated 21 February 2020, it states that the Ministry of Public Security has agreed to shift the background checking process on foreign investors after the business license has been approved. For the changes in the content of the business license such as changes in shareholders and directors, the consideration period is 5 working days. Furthermore, Notification No. 0805 / HOKKKT dated 2 June 2020 states that for new business registrations, the background of the investor should be checked after the business license is issued by the enterprise registration authority, which will send the copy of the enterprise registration to the Ministry of Public Security.
- MPI is coordinating with the relevant authorities to improve the investment licensing process. According to monitoring of progress with the Department of Investment Promotion in November 2020, and according to the notification of the Department of Investment Promotion, MPI No. 270 / LT 2 dated 14 July 2020, it can be summarized as follows: MPI has paid attention to monitoring and resolving the problem by sending instructions on the implementation of Order No. 03 / PM to the relevant departments at both central and local levels for implementation. At the same time, the investment permit application form and application form for the establishment of a representative office have been completed and are already being used. In addition, there has been collaboration with MoIC and related departments to research linking the database with the process of issuing an investment license and business registration. This is also to speed up the process of reviewing the investor's background and history (did not specify the expected completion period); MPI has sent a letter to the relevant authorities to comment on the improved business-controlled lists in accordance with its sector. MPI has received comments from six sectors and is waiting for comments from the remaining sectors (did not specify the expected completion period).

2. Operating license issuance by line ministries

Pursuant to the issues raised during the 11th Lao Business Forum 2018 regarding cumbersome procedures for business registration and operating licenses, relevant government agencies have taken action to address the issue, which has helped to speed up the process significantly. However, after getting a business registration certificate, it is still very difficult to obtain business operating licenses from the line ministries. This procedure has always been challenging. For instance, there are no clear guidelines or procedures to follow, the process typically takes a lot of time, and additional documents are sometimes excessively and unreasonably requested, which causes delays. More specifically:

- Several line agencies have not provided specific guidelines or clear steps and predictable timeframes for issuing business operating licenses, resulting in delays. In addition, the application form accepting system and the reporting system within the ministry in charge of issuing business operation licenses is too complicated (i.e., an application form is submitted to the ministry's cabinet for study; upon completing the study, the ministry's cabinet further submits the form to the department concerned for consideration and feedback; after a study by the relevant department the application is returned to the ministry's cabinet; thereafter the ministry's cabinet submits a report to the minister for consideration and approval of the issuance of a business operations license; thereafter the minister will submit an application form to the line sectors in charge of the issuance of business operation licenses).
- The issuance of taxpayer identification numbers to the Representative Office is still unclear because the Representative Office does not have an enterprise registration license. However, taxpayer identification numbers (TINs) are issued together with the enterprise registration. Therefore, when the Representative Office does not have an enterprise registration, the procedure for issuing the TIN of the Representative Office is unclear.
- The procedures at the MPI One-Stop Service are still slow and complicated. At present, for activities under the controlled list, investors must go to the One-Stop Service to apply for investment licenses. The One-Stop Service then seeks comments for approval from line ministries. However, after getting the investment permit, investors must obtain a business registration certificate from the Ministry of Industry and Commerce (MoIC), then obtain operating licenses from line ministries, which involves several further steps and creates complications, since the investors typically go through all steps on their own.
- The procedure to obtain a business registration certificate and operating license at provincial level is not consistent with central level's expectation.
- Foreign investors interested in establishing a business in Lao PDR still have limited access to relevant information on investment and business registration procedures, especially on new regulations and legislation, and the minimum registered capital requirement for each sector.

Even if the private sector sees significant improvements in the "Starting a Business" indicator according to the World Bank Ease of Doing Business Ranking, in reality such improvements do not necessarily reflect an improvement in the whole process of starting and operating a business in Lao PDR.

Proposed recommendations:

1. Propose to MoIC to continue take the lead and work together with line ministries to streamline the procedure for applying for business licenses, especially consider applying risk-based method for granting permission (i.e. allowing low-risk activities to be operated after obtaining business registration certificate without having to apply for a business operating license).
2. Propose to each business licensing authority to consider the followings:
 - 1) Improve its business licensing procedure, making it faster and having clear and precise requirements for investors.
 - 2) Strictly implement same procedure throughout the country.
 - 3) Create better information dissemination platforms on the requirements and procedures for starting a business, especially through an online system.

Relevant government agencies:

1. Department of Enterprise Registration, MoIC.
2. Department of Investment Promotion, MPI.
3. Other line departments.

Recent progress:

- MoIC is coordinating with the relevant departments to appoint their own staff to the Committee for the Revision of Business Licenses to compile a list of activities under its responsibility to submit to the Department of Registration and Enterprise Management (do not specify the expected completion period). In addition, the Department of Registration and Enterprise Management is drafting four guidelines for issuing business licenses:
 1. A guide to revising business licenses in Lao PDR.
 2. A guide to issuing business licenses for start-ups.
 3. A guide to revising business licenses based on business risk.
 4. A guide to revising business licensing application forms, which are expected to be completed in November 2020.

In addition, MoIC is creating a Business Portal to provide information on procedures, legislation and documents related to the issuance of business licenses in Lao PDR to investors, which is expected to be completed in December 2020.

- Regarding the procedure to obtain an operating license, MoIC issued No. 0044/MOIC.DERM, dated 18 January 2019, on the Adoption of the Industry and Commerce Activities that require operating licenses (meaning that activities not included in the list of industry and commerce can operate after getting a business registration certificate, and no longer need to obtain an operating license).

- MoIC is working with line ministries on issuing the operating licenses, targeting 30 priority licenses (out of more than 200 licenses), taking into consideration international best practices to speed up the issuing procedure for the selected 30 licenses. At present, Industry and Commerce is the only sector that specifies an activity list as a requirement for licensing. MoIC is also working to consolidate the whole list of activities that require licensing from line ministries to streamline the procedure of obtaining an operating license. After the dissemination of the new form of enterprise registration, 18 provinces have acknowledged this new form of enterprise registration. If any locality is still found to be operating differently from the central level, the business sector should notify the Registration Department directly to correct it.
- Regarding the issuance of a TIN by a Representative Office, the Investment Promotion Department has discussed plans to link its database with the tax department's online tax system.

3. Access to tax and VAT policies under the Investment Promotion Law

(Local and foreign producers receive unequal treatment on investment promotion policy)

The current investment promotion policy allows investment projects to apply for import tax exemption and value-added tax on raw materials and equipment that are imported. However, in the case of such investment projects, the purchase of raw materials and equipment from local producers to serve the project does not exempt from VAT as in the case of import. Local producers feel that such policy implementation is unfair and is putting them at a disadvantage when competing with international markets who are supplying these materials to the projects. This is because local producers have to levy a 10% value-added tax on the value of goods, which increases the price of domestic products by at least 10% compared to imported goods. The results of past discussions show that the relevant sectors, especially the investment promotion and financial sectors, have also agreed with the business sector's proposals. However, it will not be possible to implement any changes without the agreement of the two parties and until the relevant legislation is amended to accommodate this policy.

Proposed Recommendation:

Propose to the Ministry of Planning and Investment to coordinate with the Ministry of Finance to discuss and consider exempting VAT for investment projects that are under the Investment Promotion Law on the purchase of goods and raw materials that were domestically produced as same as the imported products.

Proposed recommendation:

the Ministry of Planning and Investment to coordinate with the Ministry of Finance to discuss and consider exempting VAT for investment projects that are under the Investment Promotion Law on the purchase of goods and raw materials that were domestically produced

Recent progress:

Based on the comments from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th of September 2020:

Representative from the Department of Investment Promotion (Deputy Department): on the proposal to consider exemption from VAT on the purchase of goods from local producers for investment projects that are under investment promotion law, it is not possible to implement changes as there are no legislation to support these changes. However, MPI will further consult with MoF on the proposal. MPI is currently revising Recommendation No. 01 / CLT, dated 02 January 2019 on the approval of the VAT policy to be in line with the revised tax law, and other related laws.

Relevant government agencies:

1. Department of Investment Promotion, MPI.
2. The Tax Department, MoF.

4. **Government policy to support start-ups**

The majority of startup entrepreneur businesses use new ideas and innovation with a high risk of failure, but relatively high returns. Startups have the potential for economic growth. For instance, job creation and new working styles add value to the economy, encourage new ideas and innovation and a variety of businesses and the use of new technology. Lao startups face several challenges:

- No specific law or regulations to support the establishment and administration of startups.
- Little incentive from the Government to support startups.
- Lack of a good definition of “startups” among the general public.
- The infrastructure required to support a “startups ecosystem” is still limited (for example, in relation to the quality and cost of Internet usage in Lao PDR).

In contrast, in recent years it appears that neighboring countries have shown great interest in and provided policy support for startups. For example, the Vietnamese Government has announced plans to create a business enabling environment that is attractive to businesses with high potential growth (especially businesses that use new technology and intellectual property). This can be seen in "Vietnamese Prime Minister's Instruction (no. 844/ QD-TTG, dated 18 May 2016) on the approval of policy support the creation of startups enabling business environment and transforming the country into a startup nation by 2015". In addition, Thailand announced the “Thailand 4.0” policy to support and promote business innovation and new ideas using new technology, which includes several measures to promote startups including the National Startup Promotion Center. Since startups can bring potential benefits to a country's development, the Government of Lao PDR should play a central role in taking the initiative to provide a policy strategy and action plans to support the startup community.

Proposed recommendations:

1. The relevant government sector should clearly provide a definition of “startup”.
2. Create public awareness of startups by providing a policy to support startup promotion, such as Startup Nation in Vietnam; Thailand 4.0; and Startup India, Stand up India. Such a policy should include specific measures to support and promote startups, including tax incentives, a budget for organizing activities to promote the use of new technology, and training, by bringing together private sector participation to collect feedback on the creation of policy to support the startup community in Lao PDR.
3. Incentive measures such as taxation, budgeting for activities to disseminate the results of new technology developments, and training, with the participation of the business sector in providing input into the formulation of such policies.
4. Establish and improve regulations and laws that can provide direct support to the Starting a business procedure for startups, such as a regulatory framework to govern online businesses and e-commerce.

Related government agencies:

1. Department of Small and Medium Enterprise Promotion, MoIC.
2. Department of Technology and Innovation, Ministry of Science and Technology.

Recent progress:

- The Department of Technology and Innovation, Ministry of Science and Technology has partnered with the Department of Small and Medium Enterprises Promotion, MoIC, to draft a Start-up Promotion Policy. The policy is being drafted and is expected to be completed in December 2020 and announced in the second quarter of 2021 MoIC has also completed a draft decree on e-commerce, and it is awaiting further comments and is expected to complete and announce the decree in December 2020.
- According to the answer of the Department of Technology and Innovation, No. 35 / KWTKT, dated 5 June 2020 on the Start-up Promotion Policy: the Department of Technology and Innovation, Ministry of Science and Technology, in collaboration with the Department of Small and Medium Enterprise Promotion, MoIC, is to draft a Start-up Promotion Policy, which is currently in the data collection and planning phase (no expected completion period has been specified).
- The Ministry of Science and Technology commented at the Public-Private Consultative Meeting on Policy to Support and Promote Innovative Entrepreneurship Startup in Lao PDR on 26 September 2018, to the effect that it would take the lead in promoting sciences and innovation, and pointing out six development plans up to 2030:
 - Create a better understanding of sciences and innovation development processes through television and workshops/seminars and work together with LNCCI to organize similar meetings in the future.
 - Create legislation, regulation, and policy to support startups.
 - Improve human resource development to catch up with international standards.
 - Support research and development and use the results to increase productivity across the sector.
 - Provide services on science and technology through the import of technical know-how and machines from overseas and focusing on standards and quality improvement and improving the intellectual property registration system.
 - Open doors for international cooperation.
- In addition, the SME promotion department is working on improving the Decree on SME Fund, which will be completed in 2019 and include a startups support policy as one of its key activities.

5. Strengthening business associations

Representatives who participated in the Financial Working Group on 3rd November 2020 at the LNCCI office discussed the global connectivity inherent in the financial services sector. Banks support international trade, foreign exchange (FX) and capital flows; insurers ensure idiosyncratic risks are transferred out of countries and into global markets; and leasing companies are likewise major players in international auto markets and financial markets. Representatives from several countries each brought different technical expertise, experiences and perspectives to the financial services issues discussed. The Lao Bankers Association (LBA) representative shared that they were supportive of greater foreign direct investment (FDI) involvement in banking sector discussions. Banking representatives pointed out that many of the members of the LBA are foreign-owned enterprises and have much value to offer, as they can provide comparative analysis of Lao PDR and other country approaches. However, decree N. 238/GOV, dated 11/08/2017 (Decree on Associations) Paragraph 7 Clause 3 on the new Decree on Associations prohibits foreigners from representing their organizations on the Boards of their Professional Association, and prevents any voting rights in the Association to elect the Board Members. Further, Article 31 point 7 prohibits foreign experts and volunteers from having permanent work in the association.

Insurance representatives likewise stated that 11 of the 14 companies within the Lao Insurance Association (LIA) are foreign owned. According to the letter of the Minister of Home Affairs, these companies could only be “Support Members” and therefore could not have a representative on the Board of Association or be allowed to vote to elect members. Practically speaking, no Board could therefore be elected for the LIA as there would be too few Lao companies with a Lao Director available to sit on the Board.

If foreign investors cannot find a voice and make relevant connections through industry associations and chambers, they are less likely to invest in Lao PDR. Indeed, the Decree deprives foreign individuals and enterprises of important discussions – and diminishes the reach of industry boards since major players are not represented. Representatives were in general agreement that Paragraph 7, Clause 3 in particular is discriminatory, as it denies opportunities on the sole criteria of nationality, therein conflicting with the overarching principles of the AIC and the WTO, of which Lao PDR is member.

Proposed recommendations:

1. Amend Decree No. 238/GOV, dated 11/08/2017, on Association to allow any nationality to join or be part of the management boards of business associations and chambers in Lao PDR.
2. MoIC should consider allowing foreign investors to be involved in business associations or the Foreign Chamber of Commerce, via consulting or volunteering, according to their competency.

Relevant government agencies:

1. Ministry of Home Affairs.
2. MoIC.

Issues Related to Trade Facilitation

1. Procedural requirements for transporting goods in transit that are not listed as “Prohibited Goods”

The issue of the process of requesting permission to transport transit goods that are not on the list of prohibited goods was raised in the mechanism of the 10th, 11th and 12th Lao Business Forums. In the past, based on transport operators’ feedback, MoF has made efforts to solve the difficulties in applying for a transit permit authorized by the Customs Department and the restrictions on international customs. This has involved, in particular, requesting a contract between the buyer and the seller is no longer required, authorization from the owner to file for the transit declaration, reducing the processing time for a transit permit from 2 months to 10 days, and setting the term of the transit agreement for transit goods at from 6 months to 1 year. However, these operators still insist that facilitation is needed to make these processes more convenient and well-referenced in accordance with other proposals that have been made to the relevant authorities. In the next step, the Customs Department will use the ASEAN Customs Transit System (ACTS). However, most transport operators still find that the use of such a system is still difficult and does not solve the problem, hence, there is no initiative to use it yet.

Proposed recommendations:

1. Propose to the Customs Department that there should be no limitations on a transit permit for general goods unless it is for government-controlled goods or prohibited goods, for which the business sector must apply beforehand.
2. While the ACTS system is not yet fully deployed, it is advisable to use the old system side by side.
3. The relevant government agency should consider allowing more customs borders for the transportation of goods, as specified in bilateral transport agreements and GMS-CBTA (responded).

Relevant government agencies:

1. Customs Department, MoF.
2. Department of Import-export, MoIC.
3. Transport Department, Ministry of Public Works and Transport.

Recent progress:

- Based on the results of the discussions in the Trade Facilitation Secretariat Meeting and the 3rd December 2020 National Trade Facilitation Committee Meeting: the Department of Import and Export is revising the agreement on import for re-export and temporary export of controlled goods and the Agreement on the Movement of Controlled Transit Goods through Lao PDR. With the completion of this revision, it is expected to be able to determine the procedures, documents and timing for the issuance of transit permits for

imports in order to facilitate business sectors that temporary import and import for re-export. In addition, it is also expected to clearly define the list of goods that must be licensed and those that are banned from movement through Lao PDR. The two pieces of legislation are expected to be completed in the first quarter of 2021.

- Based on the comments from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th of September 2020:

Representative from Customs Department: According to the principle of transit goods, the transshipment of containers within the country will not be allowed. In future, the ACTS will be used, which will clearly specify the criteria and conditions, including the list of goods allowed for transit within the ASEAN framework (expected to be launched in November 2020).

The system will replace paper-based procedures, and it will not be necessary to apply for a transit permit for general merchandise that is not on the list of banned, regulated and reserved goods, as the system will be inspected and approved automatically once the business owners have declared the imported goods. At the same time, the Customs Department is revising its customs laws and regulations to bring them into line with international conventions.

Representative from Customs Department: Goods Transport Checkpoints are subject to negotiation on bilateral agreements (there are currently bilateral agreements between Lao PDR and Thailand, Vietnam, and Cambodia), tripartite agreements (between Lao PDR, Vietnam and Thailand, and Vietnam-and Cambodia) which have not yet been implemented), and the ASEAN Agreement (currently the ASEAN Agreement is being piloted using Route 9 and will be officially implemented soon). Lao transport service providers who want to transport goods to neighboring countries can refer to these agreements as a basis for the use of cargo checkpoints, while foreign operators who want to transport goods through Lao PDR to third countries without the transfer of goods in Lao PDR can refer to the Greater Mekong Subregion Cross-Border Transport Facilitation Agreement (GMS-CBTA) framework. However, the GMS-CBTA signatories have not fully implemented the terms of the agreement. Although six checkpoints are open in Lao PDR along Routes 3, 13 and 9 to allow trucks from the country of origin to pass through Lao PDR to a third country, other countries have not yet opened up for trucks to transport goods from the Lao PDR to the third country. For this reason, there are limitations on the implementation of GMS-CBTA.

2. Competition from the informal sector

Informal practices by individuals and firms running businesses are still widespread in Lao PDR. These businesses do not pay taxes or abide by the rule of law. Informal businesses can take several forms, such as: distributing imported goods without Lao language labeling as specified in the Instruction of the Minister of MOIC no. 2501/MOIC, dated 16 December 2015, on Lao Language Labeling; selling illicit products that have health consequences, without a pictorial health warning or tax stamp; and other services provided by individuals or firms without business registration and licenses. Such unlawful practices have a serious impact on the potential loss of government tax revenue and create an unfair advantage over the formal firms in Lao PDR.

Proposed recommendations:

1. Relevant government stakeholders must reinforce regular inspection and impose strict measures against violators (importers, distributors, sales representatives, and service providers), and any form of illegal business practices).
2. Appoint a taskforce under MoIC and MoF to receive complaints, issues and information regarding unlawful business operations, and take necessary action accordingly.

Relevant government agencies:

1. Department of Domestic Trade, MoIC.
2. Department of Imports and Exports (DIMEX), MoIC.
3. Customs Department, MoF.
4. Tax Department, MoF.

Recent progress:

- Pursuant to the Response of the Department of Internal Trade, Ministry of Industry and Commerce No. 0322 / MEA, dated 5 May 2020: in terms of competition from foreign traders who do not comply with the rules and regulations in Lao PDR, progress has been hindered because many provinces are not ready to implement Instruction No. 0651 / OCCO dated 12 July 2019, on the issues of foreigners operating informal business practices. As for competition from the import and sale of goods that are not in accordance with the rules and regulations, the Department of Internal Trade plans to draft law on trade inspection to upgrade Decree 508. Moreover, there are plans to inspect imports, sales of goods that evade obligations, such as customs duties, taxes on shops (did not specify the expected completion period).
- Discussion of this issue with the Central Trade Facilitation Secretariat shows that this is a broad problem that needs to be addressed on a case-by-case basis.

3. Collection of fees not in accordance with legislation (some cases are solved)

Although all government fees and charges are already specified in Presidential Decree No. 002/ (former Presidential Decree No. 003), in actual practice, many central and local units have issued regulations on the collection of fees and service charges, which is contrary to the Decree. The following are just a few examples that the business community has encountered:

Example 1 (Solved at the end of 2020): The import of agricultural products (such as fertilizers) requires an import license approved by the Ministry of Agriculture and Forestry. In the past, business owners in the relevant sector found that the fee for applying for such a permit was too expensive and unreasonable (LAK 50,000 per time, although Decree No. 003 / PPT, Article 41, Clause 10.1 states that the fee is LAK 25,000 per time). At the consultation meeting held on 16 September 2020, the representative from the Department of Agriculture explained that the collection of fees for importing crops and agricultural products in excess of those specified in Regulation No. 003 / PPT is because there are chemicals and equipment that are required to use in lab testing. Previously, the Department of Agriculture and Forestry found that the costs of such testing equipment were higher than the fees for importing crops and agricultural products collected in accordance with Regulation No. 003 / PPT. Therefore, an additional collection was made from that provided in Decree No. 003 / PPT. The business sector believes that if the agriculture and forestry sector deem it necessary to collect additional fees from those specified in Regulation No. 003 / PPT, the fees should be revised and stated in Decree 003 / PPT formally before collection, and that the business sector should be informed.

Example 2: At present, the technical standards inspection of Vehicle Weighing Systems by the Science and Technology Department has collected fees that are not in accordance with Regulation No. 003 / PPT, affecting private sector costs every year. At the consultative meeting on 4 August 2020, representatives from Phongsaly District Office of Science and Technology commented that the charges that did not fall under Regulation 003 / PTT included:

- Inspection certificate (LAK 5000 / set).
- Weighing Scale sticker (LAK 2,000 / unit).
- Lead ball (LAK 5,000 / unit).
- Wire rod (LAK 5,000 / unit).
- Inspection service fee as specified in Phongsaly District Governor's Decision No. 89 /, dated 18/2/2016.

Example 3: In the implementation of a loan agreement and collateral, the Court Registration Department (Ministry of Justice) collects a fee of LAK 20,000 / set (specified in Decree 003 / PPT), and a service fee of LAK 5,000 / set (not specified in Decree 003 / PPT)

Proposed recommendation:

1. The Tax Department should coordinate with relevant departments to establish a monitoring mechanism to ensure the implementation of Decree No. 002 / at all levels throughout the country. **Relevant government agency:** Tax Department, MoF.

4. Incomplete use of the Lao National Single Window system

In mid-2019, the Customs Department started using the Lao National Single Window (LNSW), which is a contemporary system using a single window to declare customs duty taxes that can link relevant processes to the approval of imports. The system was only used for a brief period before it came to halt, causing difficulties for the business owners who had already started using the system.

1. Case example 1: Business owners who import automobiles that were using LNSW realized that the system was not linked to the Ministry of Public Works and Transport (License Registration Unit). This causes serious problems for the buyer, who has fully paid for their car including all the taxes that were paid via the LNSW system. These new car buyers were unable to get their license plate. This caused serious problems for the business owners and caused customers to lose faith in their business.
2. Case example 2: In order to pay tax through the LNSW system, it is necessary to make individual payments for the imported goods, so when the business imports goods at high volume, they will not be able to complete the tax payment on the same day. This means that the business would have to pay extra costs incurred because the shipping trucks would have to stand by at the border or warehouse until the tax payment is cleared in the next day. As a result, the business sector finds that the LNSW system is incomplete and may cause harm to business.

Proposed recommendations:

1. The Customs Department should consider upgrading and completing the LNSW system before it is implemented, to avoid later difficulties for the business sector.
2. The Customs Department should expand and accelerate the scope of use of LNSW in terms of goods and customs.

Relevant government agency:

1. Customs Department, MoF.

Recent progress:

Based on the conclusions of the meeting of the Trade Facilitation Committee (Department Level) on 2 November 2020, National Trade Facilitation Committee Meeting on the 3rd December 2020:

- The Customs Department will continue to work with the joint venture company to develop a LNSW system that can be used at all international checkpoints throughout the country, including linking payment systems such as Smart Tax, banking. At the same time, it will conduct research and expand the LNSW system to other import-export licensing sectors, including agriculture and forestry, and health, in order to fully utilize

the system. The development of the LNSW system has been delayed due to technical problems (no expected completion date has been specified).

Based on discussion at a meeting between the relevant public and private sector (issues related to trade facilitation and taxation) on 16th September 2020:

- Representative from Customs Department: After declaring a tax payment through ASYCUDA system, it can be made through various channels including the banking system or at the bank. Previously, the payment of taxes through the LNSW system may have been delayed, which perhaps was caused by problems with the connection of the banking system and the LNSW system.

5. Facilitating the logistics and transportation of goods within the country

Business owners from the manufacturing industry, trade, and transportation have observed that there are difficulties in transporting domestically due to the repetitive process of checking documents, the checkpoints set up along domestic shipping routes, and the levy of high fees, for example:

- Case example 1: In the case of domestic agricultural transport, there are road inspections and fees are charged.
- Case example 2: Previously, the transportation of white charcoal domestically was to operate in accordance with 0050/ກບ, dated 18 /09/2017. However, in practice, there are still difficulties due to the many layers of inspection and involvement of district and provincial levels/authorities. As a result, there were high associated fees levied unofficially. It is recommended that the Department of Agriculture and Forestry should be the issuer of transport permits, and that other associated fees should be levied according to existing regulations.
- Case example 3: In the garment sector, even though there are specified periods for trucks to bring materials into the factory, there are still permit processes that cost LAK 200,000 to 300,000 per trip that cannot be processed in advance. It is recommended that this permit process be eliminated.

Proposed recommendation:

- MoIC should be the focal point that coordinates with the relevant sector to facilitate more convenient domestic transportation.

Relevant government agencies:

1. Department of Domestic Trade, MoIC.
2. Department of Imports and Exports (DIMEX), MoIC.
3. Department of Public Works and Transport, Vientiane Capital.

Recent progress:

Based on the results of the meeting of the Trade Facilitation Committee (Department level), November 2020, and the 3rd meeting of the National Trade Facilitation Committee in December 2020: The Department of Import and Export will continue to coordinate with the relevant authorities to implement the Order on Facilitation of Import-Export, Temporary Import, Transit and Movement of Goods in Lao PDR No. 12 / October 3, 2020, dated 2020. The Traffic Police Department is drafting legislation to implement Order No. 12 / PM aimed at reducing illegal and inappropriate practices by traffic police officers. It is expected to be completed within the first quarter of 2021. At the same time, the Department of Forestry will continue to improve the licensing process

for the transit and export of white charcoal to facilitate the business sector because it is a processed product. This amendment is related to the revision of the instructions on the harvesting and removal of mampat (ໄມ້ຕົ້ວ), the movement of white charcoal produced from mampat (ໄມ້ຕົ້ວ), and exported to foreign countries No. 0050 / KP, dated 18 September 2017. It is in the process of re-evaluating the implementation of these recommendations.

Comments from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th of September 2020:

- Department of Forestry: it is the Department of Agriculture and Forestry at district and provincial level that approves the transportation of white charcoal between districts and between provinces. If the business owners want to change these procedures, the relevant legislation will have to be amended accordingly. The Department of Agricultural and Forestry has nothing to do with any truck inspections and levies occurred at traffic checkpoints.
- Department of Import-Export: The Trade Facilitation Secretariat has collected data from various provinces from the implementation of Order No. 12 / PM dated 16 October 2019 on Facilitating Import-Export, Temporary Import, Transit and Transportation of Goods in Lao PDR. It has found two unresolved issues: the overlapping of the documentation approvals process; and the setting up of checkpoints along the trade routes. To address these two issues, at the national level of Trade Facilitation Committee has suggested drafting an order letter from the Prime Minister's Office on the transportation of goods and setting up of checkpoints along the trade routes. This is to clearly identify the authorities who can approve the transportation of various types of goods, especially for timber, wooden products, animals, and plants. It is also to clearly determine the scope of inspections and checkpoints made by the authorities from different departments (in accordance with Order No. 12 / PM, only the public security, public works and transport and customs departments are allowed to conduct inspections). The Trade Facilitation Secretariat has finalized the draft of the order letter, which will be discussed and commented on by the relevant authorities. It is expected to be approved in November for implementation in December 2020.

6. VAT collection from international and cross-border freight charges

At Lao Business Forums 10,11 and 12, the private sector proposed that local tax authorities should neutralize legislation related to transit transport created under their own jurisdiction, and recommended that transit transport be exempt from VAT charges based on the general rules as specified in the law on VAT. This is because it increases the cost of transit transport compared to neighboring countries. MoF responded by issuing a notification to remove all VAT charges on transit transport (Khammuan, Savannakhet). It also stated that VAT law no. 48/NA dated 20 June 2018, Article 12 stipulates that transit transport services shall be exempt from VAT charges. The Tax Department also issued Official Notification No. 2798/MoF.TD, dated 8 July 2019, to provincial tax authorities to fully comply with the Amended VAT Law no. 48/NA.

However, in practice, MoF will not waive international transit of goods in the event of a transfer or lifting of a container in Lao PDR due to fact that it is considered as provision of cross-border transport services. At the same time, the transport of goods from Lao PDR to another country or from another country to Lao PDR shall be subject to VAT. Nonetheless, the private sector found that these actions and treatments are not in line with international standards and procedures, which does not promote logistics within Lao PDR. It also increases transportation costs, which affects the competitiveness of Lao PDR's exports and imposes higher prices on local consumers. In addition, the business owners found that the collection of VAT on cross-border goods is not consistent nationwide, with VAT only being collected at certain checkpoints.

In the meantime, during the outbreak of Covid-19, trucks (shifting container) transiting through Friendship Bridge 1 had to be unloaded at the CY warehouse in accordance with Public Works and Transport Department regulations. The cost of loading and unloading the trailer is 60 USD / container / time, which is a relatively high cost for business owners.

Proposed recommendations:

1. In order to enhance the competitiveness of the transportation services in Lao PDR, as well as following the government's direction to transform a landlocked country into a land-linked country, it is proposed that the Customs Department consider exempting the collection of VAT from international transit and transit services. This is also because it is in conflict with international principles and conventions to which Lao PDR is a party.
2. Provide specific details in the legislation under the law on the implementation of the VAT law.

Relevant government agency:

1. Customs Department, MoF.

Recent progress:

According to the Department of Revenue notification to the LNCCI No. 4015 / MOF dated 18 November 2020:

- The collection of VAT from the operation of international and cross-border freight services is limited to the exemption of international transit transport. Under Article 12, Clause 2.10 of the VAT Law, transportation is defined as stated in Article 3, Clause 13 of the Law, which is subject to VAT. This means that only the service of transporting goods from one country through Lao PDR to a third country is considered as international transit, which is VAT exempt in accordance with the Law.
- Cross-border transport services are subject to VAT as defined in Article 11, Clause 2, 3 and 4 of the Law on VAT. Cross-border transport VAT is collected according to the actual operating distance in Lao PDR as defined in Article 13 of the Law on VAT. VAT is not considered a cost of goods or services to the service providers because there is a deductible system or a refund at the entry point that is related to the export goods. However, where goods and services are VAT exempt at the entry point, this will be considered a cost to the service provider.

7. Shipping fees collection method

Expensive transportation costs are a major obstacle to all aspects of doing business in Lao PDR, and an important factor in attracting foreign investment, as they have a direct impact on commodity prices and production costs. Overall, the factors that make Lao PDR transportation costs much more expensive than neighboring countries are due to trade imbalances and the high costs associated with both formal and informal shipping notices. By addressing issues at the 10th and 11th Lao Business Forums, the Department of Finance has improved the collection of fees and services related to the transportation of goods by collecting through the SmartTax system at various custom checkpoints, such as the service fees for the declaration of goods (LAK 350,000 / truck) and taxes (LAK 100,000 / set). Business owners find this an improvement that could be audited. However, many fees associated with transporting goods have been traditionally levied in cash, which should be addressed as soon as possible. These fees include:

- Bridge toll (10-wheeler or more): LAK 135,000 / vehicle.
- Entry-Exit fees (18-wheeler / trailer): LAK 120,000 / vehicle.
- Plant quarantine fee for transit goods (Friendship Bridge 3) LAK 15,000 / vehicle.

In addition, there are service fees and other fees that are collected in cash not covered by Presidential Decree No. 002/, or without a receipt. The cost of these fees differs at various checkpoints. The fees that business owners have reportedly encountered are:

- Entry-Exit Vehicle fees form 53: KIP 20,000 / set / vehicle.
- Driver's Record Stamp: LAK 5,000 – LAK 20,000 / person.
- Service fee and unofficial fees relating to inspecting documents (ASYCUDA Room): LAK 20,000 – LAK 100,000.
- Inspection fees for official: LAK 20,000 – LAK 100,000 / vehicle.
- Cost of removing barricade of immigration: LAK 20,000 – LAK 50,000 / vehicle (at Dansavanh Checkpoint in particular).
- Road Maintenance LAK 500,000 / vehicle.
- Overtime (after office hours 16:00 or weekends and public holidays): LAK 50,000 – LAK 200,000 /vehicle.
- Service fees related to taxes, levies, etc. that vary from checkpoint to checkpoint, and expenses of traffic police on different routes.

Proposed recommendations:

1. Financial departments (Customs and Tax) should coordinate with various parties to consolidate the collection of fees related to the transportation of goods, and use contemporary systems for reporting and collecting fees for maximum benefits.

2. Customs Department should consider allowing the use of Form D in electronic form for customs declarations in order to reduce the time and cost of sending the original Form D (in hard copy) from its country of origin to Lao PDR. The requirement for the original hard copy of Form D will prolong and increase the cost of customs declaration process.

Relevant government agencies:

1. Tax Department, MoF.
2. Customs Department, MoF.
3. Department of Monetary Policy, MoF and Legislation.
4. Department of Transportation, Ministry of Public Works and Transport.

Recent progress:

Based on the results of Trade Facilitation Committee Meeting (Department Level) on 2 November 2020 and National Trade Facilitation Committee Meeting on the 3rd December 2020:

- The financial sector (Department of Customs, Department of Taxation) will continue to develop a centralized system for collecting fees related to the transportation of goods, imports and exports, and using a contemporary system for submitting documents and collecting fees to enable the thorough and transparent collection of revenue.
- Relevant authorities shall coordinate with their local divisions to strictly comply with the decree on the collection of fees and services issued in each period.
- For high transportation costs: the Department of Transportation has submitted a report to the Government to consider and approve the legislation on the determination of freight rates to serve as a basis for transport businesses to implement uniformly (a completion date has not been specified).

Based on the comments from from the Public-Private Consultative Meeting (Issues related to Trade Facilitation & Taxes) on the 16th September 2020:

- Department of Transport: regarding the issue of high transportation costs, the Ministry of Public Works has been instructed by the Office of the Prime Minister to adjust the transportation price structure to serve as the standard for all goods transportation, but not by forced pricing. This means that transportation costs will depend on the market mechanism. At the same time, the Ministry of Public Works and Transport is implementing a logistical strategic plan, which aims to reduce transportation costs by building and using warehousing and distribution centers (dry ports) and transport stations at nine locations across the country. A port in Savannakhet province has already been used, and ports are being built in Vientiane Capital (Thanaleng) and Champassak Province, while feasibility studies are being conducted at other locations.

Issues that are related to access to finance

1. Credit and security interest registration procedures

Secured lending is very common and formal registration requirements are imposed by law and the Bank of the Lao PDR (BoL). High processing fees and complicated procedures are barriers to small and medium sized enterprises (SMEs) seeking access to formal credit. Land titles are the most readily available collateral. Most lending by financial institutions requires collateral (especially “golden-border” land titles) and must strictly follow the rules set by the BoL. In the past, the process of obtaining land titles was time-consuming and costly, making it difficult for borrowers, especially those in rural areas, low-income earners, and small enterprises without land titles as collateral. Even for those who already have a gold-border land title, the process of applying for a loan with collateral still requires too many steps and is very costly. This is because it has to go through the village chief, then the Land Management Division of the Ministry of Natural Resources and Environment, and then to the court registry office for approval. This is so costly for some SMEs that many entrepreneurs are reluctant to take out bank loans and resort to informal lending, despite the high interest rates. In the period before 2017, some banks were able to issue small loans using “white border” land titles approved by the village head. However, since the beginning of 2018, this has not been possible because BoL issued Notification No. 818 / HK, which does not allow the use of land certificates from village chiefs as collateral. Therefore, the business sector sees this notice as a hindrance to small enterprises gaining access to finance through the banking system as much as they should. Information gathered from business sectors shows that loan documentation and registration consist of six main steps, involving four government agencies. Details of time and costs are as follows:

- Total time to complete the entire process: between **2** and **4** weeks, not counting time spent on agreements between the bank and the customer.
- Total number of government office visits involved: between **7** and **11**. Some office visits involve regional travel and/or long waiting time at the office.
- Service fees associated with the loan range from LAK **2** million to LAK **4** million (excluding out-of-pocket expenses, own time, travel costs and bank fees).
- Formal requirements present an unnecessarily high burden on the lending process, restricting access to finance, specifically:
 - Notary Office.
 - Registration of collateral using fixed assets involves the Department of Land Management and the Department of State Property Management. Unofficial fees are being collected at a village and district level. Sometimes, it is required to pay extra to speed up the documenting process. At present, due to the unfeasibility of online verification of land titles and court judgments on that land, only land titles that are officially registered are enforced. As a result, there are restrictions on access to finance, especially for small businesses.

Proposed recommendations:

1. Online service for request for authentication of land title, encumbrances and pending government land projects.
2. Notarization of loan and security agreements should be eliminated or performed online. Fixed amount/capped fees for sets of documents, not based on number of pages or loan amount.
3. Registration of the security interest in immovable assets at the Department of State Asset Management should be eliminated.
4. Consider ways to accelerate the improvement of securities registration fees related to land use rights in Presidential Decree No. 003 in order to create a mechanism that allows business owners to run their business smoothly. This is intended to reduce production costs and enable competition with foreign markets.
5. Collect fees uniformly across all levels, especially at the village level, and have a label or a sign that indicates fees clearly at the village, district and other administrative offices.
6. Where possible, fee payments should be made via bank transfer or accepted via a Point-of-Sales terminal only.
7. Permission to use village head-certified land titles for “soft collateral” lending in areas with low rates of formal land titling under certain circumstances (< amounts, pledging of security interest, authentication by the village head and reporting to the CIC).

Relevant government agencies

1. Department of Commercial Bank Management, BoL.
2. Department of Land Management, Ministry of Natural Resources and Environment.
3. Court Registration Department, Ministry of Justice.
4. Department of State Property Management, MoF.
5. Department of Taxation, MoF.

Recent progress:

- Procedures for registering loan agreements and collateral:
According to the response from the Department of Management of Commercial Banking No. 516 / KKT, dated 17 June 2020, which compiles the answers from the relevant departments related to this issue, and based on the results of the consultative meeting between the relevant public-private sector (issues related to financial services) on August 6, 2019, progress can be summarized as follows:
 - Court Registry Department (Ministry of Justice): Reassure that the certification of loan agreements and collateral in the past did not take more than 15 days. The fee for verifying the loan agreement is LAK 20,000 per copy (set) and the service fee is LAK 5,000 / paper; During the consultative meeting between the relevant

public-private sector (issues related to financial services) on August 6, 2019, it was commented that: since court registration is a validation of the contract and other documents, it is necessary to have this procedure in place. However, the remedial plan is to remove some of the bottlenecks associated with the court registration that it deems unnecessary. Propose to arrange meetings between relevant government departments to remove duplicate and unnecessary steps.

- Department of State Property Management (MoF): For loan agreements and collateral, it does not fall under the responsibility of the Department of State Property Management.
- The Ministry of Natural Resources and Environment has completed the revision of the Land Law and announced its use by the end of 2020. The next step will be to improve the legislation under the law, such as the instructions on the registration of land legislation (no expected completion period was specified). During the consultative meeting between the relevant public-private sector (issues related to financial services) on August 6, 2019, it was commented that: The future improvement plan is to accelerate the issuance of land titles nationwide by 2025 and develop an online land registration system that can be used nationwide. Currently, it takes about 10 days to register for a loan guarantee. Land service centers were being built across the country from 2019. Registration related to land use rights will be provided by the centers as a service provider and fees will be collected through the banking system. Initially, the service was piloted in Vientiane. The establishment of such a center requires the cooperation of the relevant authorities, especially the court registration and tax authorities.
- BoL: The draft agreement with credit guarantee companies is basically completed. It is currently reviewing the consistency of the draft legislation by the relevant departments. Upon completion, it will be submitted to the Governor of the BoL for approval, signature and promulgation (no completion period was specified).

2. Legal procedures for resolving disputes

The issue of legal procedures for resolving disputes was also a cross-industry concern of the financial service sector, raised by both banks and insurers. Both sectors said that excessively prolonged commercial judicial cases are impacting business viability for some types of products and consumers. This is affecting financial inclusivity while also impacting consumer protection indirectly. In addition, inconsistent interpretation of the laws and the perceived inexperience of the judiciary in relation to financial services was discouraging foreign investment in Lao PDR.

The banking sector shared firsthand experiences of protracted commercial judicial cases involving Lao businesses that had defaulted on loans. These cases had stretched over three years (and still continue), and bank representatives stated that despite each level of court finding in the bank's favor, businesses were allowed to continue to operate unimpeded. Indeed, the defaulting business could continue to exercise rights to appeal without any wind-up proceedings or appointment of liquidators, while the bank had to continue paying for insurance on assets to protect value as well as ongoing legal fees to pursue repayment through the wind-up of business and sale of assets.

- According to the Doing Business Report 2020, contract enforcement in Lao PDR takes about 50% longer than the average for similar cases in East Asian countries. It takes on average 828 days to process a simple commercial litigation proceeding in a first instance court in Lao PDR. Within this timeframe is the execution of the judgment itself, which once rendered by the judge, can take the enforcement officer 365 days to attach and execute on the judgement debtor's assets. When the appeals process is included, commercial litigation cases stretch on for many years.

The banking sector emphasized that the protracted period of litigation was a large disincentive to SME lending altogether. For those banks choosing to continue with this target market, the expectation of high legal costs, enforcement administration and asset protection costs is factored into borrowing costs that are passed onto consumers.

Naturally, with a narrower pool of banks prepared to continue SME lending, and with the additional pricing factored in, there is a widening gap in bank lending access for SMEs. The banking sector highlighted that unregulated and unscrupulous lender were already stepping in to fill this void, which has several drawbacks:

- Lack of regulatory oversight, including on taxable income.
- Lack of consumer protection, including on pricing terms.
- Illegal enforcement and acquisition of assets, including violent or outsized collateral possession.

Financial Service sector Working Group (FSWG) finds that that inconsistent interpretation and implementation of commercial contracts was widespread and most commonly due to a lack of experience and understanding of financial contracts on the part of relevant authorities, especially those at local level such as village chiefs.

The insurance representatives presented examples relating to enforcement of claims through the justice system in Lao PDR. In particular, insurance representatives said that there had been confusion in court between the liability of the insurer and the liability of the insured claimant. There was not a clear understanding that the obligations and limits of each party are dictated in the insurance contract. They also noted that generally these smaller court decisions were confirmed in appeals to the Supreme Court without any further examination of the contracts. For example, if the liability of the at-fault person or company is full, the insurance contracts set up limits in amounts (up to a certain sum) and exclusions (cases that insurance will not cover due to behavior of the insured, such as alcohol intoxication in a car accident) or cases of force majeure which cannot be covered by insurers.

Exclusions and limits in contracts allow insurance companies to offer affordable insurance to protect consumers. Insurers calculate the probability of claim events occurring and price premiums on this basis. Generally, the lack of understanding of financial contracts meant that judges would find in favor of insured claimants, disregarding the terms and conditions of the mutually binding insurance contract. Excessive litigation and disregard for contract terms creates a disincentive for insurers to continue to offer some insurance products and forces pricing up, making insurance less affordable and negatively impacting inclusivity.

Proposed recommendations:

1. Conduct an examination of the existing legal and regulatory framework that addresses debt recovery (civil procedure and judgment enforcement laws, as well as elements of commercial, banking, secured transactions and tax law, which are relevant to court procedure in civil and commercial courts in Lao PDR).
2. Carry out an empirical assessment of the way the Vientiane Capital District Court handles / processes commercial cases – including relevant aspects relating to legal, organizational and court processes and practices that may be contributing to process inefficiencies and delay, and thereby also contributing to case above.
3. To the extent that judiciaries feel that consumers of financial products are prejudiced in contracts, make greater effort to improve contract wording templates at inception (such as simplifying language, and improving financial literacy and the provision of financial advice), rather than through the court system upon contract enforcement, as this creates uncertainty and hurts long-term consumer protection goals.
4. For insurance, consider:

- A First Instance Court for all insurance litigation with judges assisted by representatives of the insurance industry and from civil society. Such a court could reasonably target 90% of cases reaching a final decision (i.e., with limitations on appeals), with only very high value or complex cases being escalated to higher courts.
 - Training local jurisdictions on insurance contracts and the legal aspects of the claims process.
 - Setting up an Insurance Advisory Board comprised of Lao Insurance Association (LIA) members as well as members of the MoF, Department of State-Owned Enterprises Management and Development and Insurance (DSI), who can advise on pending cases.
5. In consultation with the Financial Sector Working Group, prepare a detailed action plan to address the limitations found by the examination of the legal and regulatory framework, and an empirical assessment of the process of handling commercial cases. Regularly update implementation of na agreed action plan.

Relevant government agencies:

1. Department of Court Judgment Enforcement, Ministry of Justice.
2. Department of Commercial Banks Management , BoL.
3. Department of Financial Institutions Management, BoL.
4. Department of State-Owned Enterprises and Insurance Management, MoF.

3. Enhancement of the credit information sharing system

Credit information sharing has a positive impact on easing financing constraints. Public and private credit registries exist to improve the information available on borrowing firms and individuals. The information they make available – including a borrower’s total number of current loans, repayment history, and previous bankruptcies – can allow lenders to extend greater credit at more favourable interest rates.

Under Decision 928 from the BoL, dated 20 September 2012, a Credit Information Centre (CIC) was established as the place for accumulating credit information from commercial banks and financial institutions in Lao PDR, and to provide information to commercial banks and financial institutions to be referenced in the consideration of extending credit. According to its rules and regulations, financial institutions such as banks, microfinance institutions, and leasing companies must be members of the CIC system in order for information to be widely disseminated and trustworthy.

Lao PDR's access to credit rating was relatively good in the World Bank's Doing Business ranking last year, ranking 73rd. However, the number of individuals and firms covered by the CIC is only 14.5% of the adult population, which is lower than the East Asia and Pacific region average.

As a public credit registry, the CIC has been improving its services, but Lao PDR does not have a fully-fledged credit bureau. CIC does not provide sufficient information to meet the needs of users. The sector has raised concerns before about information coverage and the quality of customer credit information provided by the CIC, which has the following limitations:

- Information coverage is seen as too limited.
- Retail and utility provider data not included.
- CIC not linked to other government databases.
- Data quality issues, caused by:
 - Monthly refresh and manual data upload, prone to errors and delays.
 - Limited data validation performed by CIC and cross-referencing other databases.
 - Limited enforcement of the membership rules on obligation to provide accurate data.
- Limited search capability and reporting.
- Database search through manual query, but no system-to-system interface.
- No automated set of standard reports.
- Lack of value-added services, such as credit scoring and credit trend reports, bespoke reporting of sectoral data, and historical evolution of credit grades (A/B/C).

Proposed recommendations:

1. There should be a plan to upgrade the credit information center to expand the coverage of information and integrate it with relevant sectors.
2. Increase the strict enforcement of related regulations on the inspection of credit reporting standards by the Department of Commercial Bank Management and the Department of Financial Institutions Management.
3. Organize regular meetings with members to report on progress in improving the credit database, or to report on progress through various channels such as websites and notices.
4. Consult with credit system users to create or update new information systems so that actual users can participate in the creation and improvement of the system, including participation in the selection of system developers, system simulation, trial and user certification.
5. In order to encourage more usage of the database, all fees should be included in the annual membership fee to reduce costs.

Related government agencies:

1. BoL.
2. Credit Information Company of Lao PDR.

Recent progress:

- Update of National Credit Database: According to the response of the Credit Information Company of Lao PDR No. 193 / KSOL dated 29 April 2020: BoL has completed the creation, promulgation and dissemination of the Decree on Credit Information, which was promulgated in July 2019,
- The Credit Information Company of Lao PDR has signed a memorandum of understanding with utility companies (Electricity, Water Supply, Telecommunications) to improve the credit database by making it more complete. In addition, preparations are underway to develop a new credit information system, which has completed the research phases on the business needs and technical requirements of the system (although no expected completion date has been specified). There has been regular communication with consumers through the credit information system. There are no further updates on credit information charges / fees.
 - There has been regular communication with users through the credit information system.
 - There are no further updates on credit information fees charges.

Issues that are related to the implementation of specific laws and regulations

1. Legitimization of the parallel market and enforcement of foreign exchange regulations

Laos has a single official exchange rate for conversion of US Dollars (USD) to Lao Kip (LAK), which is set at a trading band of +/-0.25 of the Bank of Laos' (BOL's) reference rate (9,533 as of 23 July 2021).

However, there are many exchange shops and bureaus who fail to comply with the BOL Agreement (No. 801 / BOL dated 05 October 2015) by setting the exchange rate of the US dollar in excess of the limits set by the BOL.

During July, the parallel market was reaching LAK 12,000 at some venues.

Financial Services Working Group Observations

Prior to the financial services working group meeting, it was observed that it was increasingly difficult for banks to source USD within the trading band of the official exchange rate, even without any profit margins (i.e. buying at the selling rate).

Customers that require foreign currency, for imports, debt repayments or dividends are having their orders unfulfilled and in desperation are forced to buy USD in the parallel market, thus perpetuating the problem and increasing the margin of difference.

Based on the experience shared by the banking sector, it is estimated that the parallel market has ~10x the depth of the official market during normal times, although from time to time there are short bouts of illiquidity.

Perceived Legitimacy

The Financial Services Working Group observations indicate that the supply of USD to the parallel market is not merely the scattered remittances of travellers or offshore remittance from individuals. During COVID-19 times this would be minimal. Rather, USD is arriving from larger exporting companies, who are availing of the shortage in USD to demand higher pricing and increase their profits. They perceive this as legitimate business gains.

Individuals and customers who buy USD in the parallel market do so because they have no choice and indeed from an accounting perspective it is difficult to explain why LAK assets lose more value than the official rate when converted.

However sellers of USD in the parallel market do so for profit alone. This also makes it possible to book according to official rates in accounting by removing the illegal FX gains from company records at personal gain to individuals.

Consequences are unlikely because rules, including the Law on Foreign Currency Management, No: 55/NA, dated: 22 December 2014; the Agreement on Foreign Currency Business, No: 393/BOL, dated: 2 July 2020; and the Agreement on reference exchange rate between LAK and USD and foreign currencies exchange rates of commercial banks and money exchange shops, No. 801, dated 5 October 2015 are not widely enforced. Indeed the parallel market is perceived to be legitimate as one can even go to the BOL website to see observed parallel market rates https://www.bol.gov.la/exchang_rate_all. Likewise, almost all invoices from companies in Laos have a USD equivalent that is discounted relative to the official LAK equivalent. This is considered 'Business As Usual'.

Implications for Lao economy

The parallel market for foreign currency deprives the Lao PDR economy of its monetary policy sovereignty. It limits the role of the BOL to merely regulation because the central bank cannot ensure scarce foreign currency inflows to the country are prioritized, for example to purchase necessary imports or repay debt, when most of the flow is through parallel markets.

The BOL acknowledges some of these negative implications and awards exemptions to some priority industry companies or state-owned enterprises to permit domestic USD payments and/or hold capital in USD. However, these exemptions likewise reduce the supply of USD available for conversion. It means transactions are not flowing into the domestic economy, and only net amounts are converted in LAK, thus perpetuating supply-side challenges in official markets.

Implications for Lao PDR as an investment destination

The Financial Service Working Group observed that there are winners and losers to Lao PDR's parallel market, however the 'winners' are few, including the exchange bureaus and commercial banks that breach licensing requirements by trading outside of the trading band, as well as individuals and companies who receive USD and can convert to LAK through parallel market counterparties at higher rates.

Meanwhile any and all other individuals, businesses, as well as the Lao PDR Government itself, lose. By implication, the parallel market reduces the quality of foreign investment and decreases business competitiveness and ease.

The concern from a foreign investment and business competitiveness perspective is that the low quality, low integrity companies that do not abide by laws are rewarded, while high quality companies are penalized. For example, the biggest losers are those high-quality foreign investors

and companies who are left with convertibility challenges when they refuse to use the parallel market to source USD and strictly abide with laws and regulation. They end up with trapped LAK capital, which is depreciating at ~5% per annum and no means to buy imports, pay foreign currency debts or repatriate local currency profits to overseas parent companies.

Developments since the Financial Services Working Group meeting

The BOL responded in a letter to the LNCCI on the Financial Services Working Group observations. This letter addressed the methods employed by the BOL for enforcement, including regular and ad-hoc inspection/monitoring both legal and illegal foreign currency exchange shops.

However, since the Financial Services Working Group meeting in October 2020, the parallel market rates have deteriorated even more.

Based on the sophistication with which the parallel market operates, it can be difficult to trace the flows, which can be masked with several offshore and onshore bank accounts, or as payments inwards and outwards for goods and services rather than foreign currency conversions. Higher rates can be masked with rounding, payments in kind or by service fees.

In their response letter, the BOL also acknowledged its objective to gradually convert illegal operators to operate legally. To this end, earlier this month, the BOL outlined a proposed model which aligns foreign exchange shops to banks through the Agreement to Change the FX shop to be the FX Agent of Commercial Banks No. 758, dated 12 July 2021.

If this notice results in fewer illegal operators, and improves transparency of foreign currency transactions through the alignment of FX agents to commercial banks, this could be a breakthrough. However, as with existing rules, the true test will be on enforcement.

A single account through which foreign currency inflows and outflows are traceable from agents to the banks would make audit of rates, relative to the trading band, easier for the BOL. However, the BOL will need to be vigilant for other payments-in-kind, fees or off-record payments between counterparts which gross-up the rate paid for USD beyond official rates and create an uneven playing field among banks.

Proposed Recommendations:

1. **Penalties:** Increase penalties for exchange bureaus or commercial banks in breach of their licensing who trade outside the official rate. Given how time-consuming and resource intensive audit can be, financial penalties should be highly discouraging to illegal operators.

- Audit and identify these parallel market operators by following the supply of USD (i.e. from exporters) to LAK.
 - Greater penalties for companies who provide pricing which reflects parallel rather than official rates when invoicing in USD and LAK.
2. **FX Flexibility:** Introduce greater exchange rate flexibility and transition to a more market-based exchange rate regime (like the Thai Baht (THB) to LAK market).
- A market-based exchange rate regime would also promote the establishment of FX forwards as a hedging product, which companies could use to manage risks; and promote a deeper interbank market and greater competition.
3. **Level the playing field so businesses can compete for FX flows:** Given the heightened difficulty to source USD, consider a period of forbearance for foreign companies in Laos to retain capital in USD or make domestic USD payments and gradually transition to LAK-only domestic payments, LAK capital and LAK-only lending (this phasing in is similar to how Cambodia applied). As an alternative, consider removing legacy special exceptions granted to some businesses which allow them to make domestic USD payments, or hold capital in USD (i.e. level the playing field so businesses can compete for FX inflows).
- For example, when Vietnam faced foreign currency shortages 10 years ago, they required that exporters, including state-owned companies, convert their export proceeds to local currency and then convert back to foreign currencies when they are required to make import payments.
4. **Financial Incentive to Hold LAK:** Require that no interest be paid on foreign currency deposits, therein encouraging individuals and companies to hold a greater proportion of funds in local currency deposits (this method was also used by Vietnam).

Relevant government agencies:

1. Monetary Policy Department, BoL.
2. Department of Management of Commercial Banks, BoL.
3. Department of Financial Institutions Management, BoL.
4. Department of State Enterprise Management, Development and Insurance, MoF.

2. Dematerialization and digital agenda

Business sectors acknowledged that Lao PDR remained very paper-based when it came to regulatory engagement. Most contracts require wet-ink signatures and engagement with the Government bodies is largely through physical letter delivery, rather than through global norms such as email and e-forms. Although digital access is high in Lao PDR, including amongst Government officials, this relates to highly informal channels such as WhatsApp, Facebook and Gmail, rather than certifiable e-channels, such as Singapore's digital identity platform ('Singpass'), classified government email and/or digital signatures that can be accepted by business.

The banking sector provided an example, with BoL advising that financial returns could be provided digitally as part of measures to reduce physical contact during COVID-19. However, the digital channel provided was a 'Gmail' account, which would not meet the security expectations of bank customers or most international information security standards. Very few BoL officers have their own government email addresses and many rarely use their government email accounts, instead using Gmail and WhatsApp. This practice exposes the bank to phishing and other cybersecurity risks as the Gmail accounts are not easily identifiable as BoL officer accounts and are only as strong as the personal security measures of the account holder (i.e., password protection). It was noted that the financial returns as an information asset would be classified as "Restricted/Highly Confidential" as they contain private information on bank performance as well as customer details, including their commercially sensitive lending facilities.

Another example cited by banks was e-signatures. According to the Law on Electronic Signatures (No. 59/NA, 12 December 2018), individuals and enterprises wishing to use e-signatures in their business operations are required to obtain a signature certificate from the relevant department within the Ministry of Posts and Telecommunications. Once issued with an e-signature certificate, such e-signatures would be considered legally effective in the same manner as signatures and seals put on paper documents. However, the Ministry of Posts and Telecommunication has not yet established an office for issuing e-signature certificates. Therefore, in practice e-signatures are not currently legal in the Lao context. This delay is hindering the overall process of automation of public services, and the

development of e-commerce and e-submission of reports by banks and other financial institutions to the BoL.

The insurance sector agreed with the sentiments of the banking sector and cited the example of e-commerce being “legally” allowed but impossible to implement in practice as physical documents must still be submitted. For example, the insurance industry can sell policies and purchasers of insurance can make payments online. However, the BoL requires that the contract be sealed with wet-ink and submitted, which defeats the purpose of online purchase and payments.

Proposed recommendations:

1. Dematerialization – Ministry of Posts and Telecommunications (MoPT) should accelerate the establishment of a unit in charge of issuing e-signature certificates to enable immediate implementation of the Law on Electronic Signatures.
2. Dematerialization – Official email accounts should be used for receiving e-reports by the BoL to ensure the protection of bank customers’ personal data.

Relevant government agencies:

1. Ministry of Posts, Telecommunications and Communications.
2. BoL.

3. VAT refund for exporting producers

The VAT Refund issue was discussed at Lao Business Forums 10 and 11, and some good progress has been made. Article 17 of the Amended VAT Law No. 48/ NA dated 20 June 2018 stipulates that exporting goods is zero-rated. In other words, if goods are exported from Lao PDR, 0% VAT will be charged. However, in practice, it is seen that only some large enterprises have already received partial refund of VAT, and some companies face delays without proper explanation from the tax authority.

Companies producing goods via the Cut-trim-make (CTM) approach are not given clear guidelines on the refund procedure. Many are refused refunds by reason of incorrect accounting records. Since the CMT producers only receive payments from the owners of the goods overseas on the service they provide, it is not possible for them to keep accounting records of the total value of the exported goods that are outsourced. Difficulty in getting a VAT refund has a negative impact on export businesses, especially those performing CMT activities. Therefore, the private sector, especially exporters, have requested that the relevant government bodies should find a concrete solution to this issue to enable exporters to obtain a VAT refund as specified in the VAT Law.

Implementation examples from neighboring countries:

1. The tax law of Vietnam states that: Materials imported for production or processing for export (with a contract with a foreign partner) are considered tax-exempt (meaning there is no VAT), and a 0% VAT rate is applied to exported goods and services.
2. Article 80/1 (2) of the VAT Code of Thailand states that: The provision of services that occur in Thailand and are used abroad is subject to the 0% VAT rate.
3. Article 24 (3) of the Value Added Tax Law of Bangladesh states that: Provision of repair, maintenance, cleaning, refurbishment, modification or other related matters shall be subject to a rate of 0% if the conditions are as follows:
 - If the goods are temporarily imported into the country under the customs regulations of Bangladesh.
 - If the goods are temporarily imported into the country to receive a service order and after receiving a service order within the country, then exported from Bangladesh (without being used in the country for any purpose).

Business owners view that Lao PDR's VAT laws are not conducive to the manufacturing and service providing business, especially those that are using the CMT format, even though they form the majority of the businesses in this industry in Lao PDR. The private sector sees that the implementation of the VAT laws that the Customs Department has imposed are impeding and unattractive to foreign investment, which may direct these investors' interests to neighboring

countries where the business environment is much more favorable for investment and the export of goods and services.

Proposed recommendations:

1. The Tax Department should urgently finalize and start using the Implementation Instruction of the revised VAT Law.
2. The Accounting Department and Tax Department should agree on the method of revenue recognition for CMT exporters.
3. The Tax Authority should urgently take necessary action to resolve this issue, or at least provide specific reasons as to why they cannot refund, and to set deadlines for export producers who have already submitted all documentation but are still waiting for a response regarding when and whether they will get a VAT refund.

Relevant government agencies:

1. Customs Department, MoF.
2. Accounting and Finance Department, MoF.

Recent progress:

- The notification of the Department of Revenue to the Lao National Chamber of Commerce and Industry No. 4015 / MOF dated 18 November 2020 stated that with regards to the Collection of tax from conducting manufacturing business for export (in CMT format) refer to Article 36 of the Law on Value Added Tax. It states that Individuals, legal entities or organizations doing business in the VAT system must hold an account in accordance with the Law on Accounting. This means it is necessary to have a financial report of the business on the basis of a complete proof of business income and business expenses. In other words, bookkeeping must not indicate less than or more than the actual value of the export, so that it will be considered as a valid account. Therefore, in the manufacturing of goods for export, the business owners only record the income generated from labor services and do not record the value of the goods exported in the financial report of the business. Thus, this is considered to not have meet the conditions of the VAT refund; and therefore, is illegible to claim for the VAT refund. In addition, when business income is only coming from providing labor services, it is still considered as a service providing business, which is subject to VAT as specified in the law and it must comply with the rights and conditions of the VAT deduction as stipulated in Articles 21 and 23 of the Value Added Tax Law.
- According to the notification of the Department of Revenue, No. 2113 / MoF dated 10 July 2020, the Ministry is drafting guidelines for the implementation of the VAT Law, which is expected to be completed by October 2020. Following the proposal for MoF to refund the

VAT to exporting producers who have already submitted all documentation but are still waiting for a response, the status remains unchanged.

- The outcome of the public-private consultative meeting on tourism, dated 22 October 2019, can be summarized as follows: The Tax Department suggested that, for the time being, companies with pending VAT refunds can submit official letters to the Tax Department. For CMT companies (who only provide the services, but are not the owners of the goods), the Accounting Department asserts that the importation of goods for processing and re-export can be traced by an accounting system provided that there is proof of contract of the services between the companies and their overseas counterparts, and that the transactions of the service fees can be recorded without including the total value of the goods in their balance sheets. The Tax Department, Customs Department, Accounting Department, and Import-Export Department will further discuss this issue to find a concrete solution to tracking the movement of the goods imported to be processed for re-export under the CMT regime. In addition, the Tax Department will include more details in the Implementation Instruction of the Amended VAT Law.

4. Transparency, simplicity and equity in tax regulation

Representatives from financial institutions observed that within the Tax Department there was a very hierarchical approach, and this meant that bottlenecks were frequent as officers were not empowered to respond, and senior official capacity is limited. Many representatives stated that it was commonplace not to receive any response to letters, or to receive a response which just referred back to the Law, without answering the question. Such cases were typically complex and would require interpretation, for example, for capital gains tax and liability transfer during entity restructuring, and retroactive implementation of new taxation laws, such as changes to concessions for expatriates.

Representatives from financial institutions found greater responsiveness when using telephone and WhatsApp with Tax Department employees when following up on mailed enquiries. However, this meant that representatives' companies are reliant solely on verbal, informal advice from Tax Office employees. Representatives stated that this was untenable, particularly given the regular turnover of staffing within the Tax Office. For example, it is common practice for new teams to interpret tax laws entirely differently from previous verbal advice - and usually in unfavorable terms for the company.

Another concern is that companies must remain in this untenable, uncertain situation for many years because the Tax Department is behind schedule on tax audits. Representatives noted that their Tax Audits from 2015 were still outstanding as at the date of this forum – and unlikely to be closed before year-end, despite requesting audits from the Tax Department for many years. Therefore, some companies have had to manage uncertainty around taxation liability for more than five years.

Representatives from financial institutions also stated that taxation laws are administratively difficult and weigh heavily on working capital in Lao PDR for taxpayers. Examples cited included:

- Double consumption taxation, whereby they must charge and pay VAT in full on the sale of their insurance policies and pay VAT in full again when they buy reinsurance for the same underlying policy. This “double-up” of VAT payments creates a large outgoing taxation expense and working capital requirement because approximately 67% of risk in Lao PDR is reinsured. The insurer must then apply to the Tax Department for reimbursement of the doubled-up VAT. Representatives also said that although there is a Thailand double taxation treaty, a company cannot apply the taxation treatment as documented without first writing to the Tax Department for consent, creating additional delays and burden.
- A leasing representative shared an experience where they had paid taxation to district officials but had failed to maintain an adequate documentary record of that payment.

When the provincial authorities sought the same tax payment, they had been unable to rely on the district officials to provide the documentary evidence and therefore had to make another payment for the same tax amount. While it was acknowledged that retention of a receipt or other documentary evidence would have protected the leasing company, there was still a question as to why both district and provincial tax authorities were pursuing the same type of taxation revenue. It should be very clear to companies which locality level is responsible for each type of taxation payment, and if it is under the central level, there should be a record of payments at the central database.

Proposed recommendations:

1. Introduce an Advance Tax Ruling (ATR) process to promote clarity and consistency regarding the application of the Tax Law for both taxpayers and the tax authority.
 - Instead of first filing a return and potentially facing consequences from the Tax Department because it may have a different interpretation, an ATR System can facilitate a resolution that applies to the individual company's circumstances for a given period. For example:
 - Insurers could request a ruling whereby they only pay VAT once, rather than doubling-up and recouping, which will apply for a stated period.
 - When evaluating an entity restructure or making an investment in Lao PDR, a company can seek a ruling whereby they know in exact terms what tax rates and approach will be applied for a stated period.
 - The ATR should be managed by a central team of experts that includes MoIC, and the Tax and Justice Departments.
 - Applications should be registered and there should be a given period for response. Some countries use an e-form and online register to record such rulings, although the contents of the rulings may be private and only applicable to the applicant, thus no "precedents" are created.
2. Adopt a culture of service excellence, empowerment and equitable decision making.
 - Tax departments in other countries have worked on cultural shifts to address concerns from industry. For example, the Australian Taxation Office (ATO) received feedback from the community that helped it prioritize a cultural shift from being "tax police" to "stakeholder managers". The community feedback asked the ATO to "fix the basics, provide certainty, tailor services to their needs and help them navigate the system", which dictated the ATO's forward strategy on culture.
3. Given the high backlog of outstanding tax audits, including from 2015, consider approaches that can capitalize on synergies of scale. For example:

- Select an industry and try to complete the backlog from 2015 to 2019 at once, rather than completing 2015 for all companies in all industries before starting on 2016 for all companies and so on. This will make it easier for tax auditors as they get the experience of industry and can compare approaches across time periods and same-industry peers for faster resolution.
- Instead of requesting all data and documentary evidence, make greater use of sampling requests.

Relevant government agencies:

1. Department of Taxation, MoF.
2. BoL (as an intermediary liaison with the financial services operator).

5. Implementation of rules and regulations on labor health examination

Currently, the business sector or employers recognize that the Government pays close attention to the importance of the health and safety of workers in order to provide them with a good and safe working environment. As a result, relevant government agencies have enacted legislation (the revised Labor Law article 126 on the health examination of workers) that requires employers to have annual health check-ups for their employees. Despite the good intention of the Government, however, the implementation of these laws has affected the business sector because:

- It increases the cost for employers: article 24 of the Decree on Labor Health and Safety No. 22 / MOF dated 05/02/2019 stipulates that “In the health examination of workers, the employer must have a contract with a health examination center that is licensed by the health department, and labor and social welfare.” Business owners view this as limiting the choice of employers, making the cost of health examinations unreasonably high, because employers cannot use other options for workers' health check-ups (e.g., other licensed hospitals). At the same time, limiting the location of health check-ups in this way also makes the process inadequate and slow. According to reports from the private sector, only two state-run health clinics are currently licensed as occupational health centers across the country. The private sector sees this as a monopoly hindering competition in the healthcare businesses, which results in unreasonably high business costs.

Example 1: Letter from the Department of Labor Management, Ministry of Labor and Social Welfare to business, production and service units in all economic sectors in Lao PDR No. 540 / SS-KH dated 22 November 2018 specifies that all business units (including projects and special economic zones) must use the Health Check-Up Services at the Friendship Hospital Health Inspection Center (150 beds).

Example 2: A Memorandum of Understanding between the Office for the Promotion and Management of Special Economic Zones (SEZO), MPI, and the Ministry of Health's Internal and Expatriate Health Inspection Center was established on June 12, 2020, stating that all labor units in the country are required to use the annual labor health check-up service at the Friendship Hospital's Labor Health Screening Center.

- It is a significant cost to employers: many health check-up items are required, some of which the business sector finds unnecessary. This adds significant costs to businesses, especially those that are factories where they have to cover the costs for all of their labors.

- The enforcement of regulations related to occupational health examinations is still not uniform across the country. This means that those who abide by the rules are adding costs to their business, while the rest are not.
- It is unfair to the public to restrict the number of healthcare service providers. The notification of the Ministry of Labor and Social Welfare No. 2.957 / dated September 7, 2020, Clause 2, stipulates that annual labor check-ups must be carried out only at Occupational health services or occupational health examination facilities where the Ministry of Labor and Social Welfare has issued a permit approved by the Ministry of Health. The only reason for limiting the venue for health check-up is because they want to keep accurate health records and collect the data of these workers. However, this implies that healthcare providers, such as hospitals, that are licensed to conduct health examinations by the health department in accordance with the law, are restricted from competing.

By lengthening the approval process, will further delays the time and budget for those businesses that are capable of providing services in this work. As a result, this practice is considered wrong and not widely acceptable.

The private sector agrees that raising the level of occupational health and safety to make the working environment safer for workers is a good thing. However, the current approach has significantly increased the cost of doing business and has had a negative impact on attracting foreign investment in this sector. Hence, if this problem is not resolved, it may prevent foreign investors from investing and existing companies may relocate their production bases to countries with better policies.

Proposed recommendations:

1. The Ministry of Labor and Social Welfare should coordinate with the Ministry of Health to review the mandatory list for workers' health examinations, focusing on only certain items that are most necessary for each sector.
2. The Labor and Social Welfare Department should consider eliminating the licensing of its own health examination services and allow competition in the healthcare services business. This would give more options for customers to choose from, thereby reducing the cost due to competition among these service providers. Consequently, the labor force / office can collaborate with the health department to share or manage workers' health information.

Relevant government agencies:

1. Department of Labor Management, Ministry of Labor and Social Welfare.
2. Administration Office, Ministry of Labor and Social Welfare.
3. Ministry of Health.

Issues related to the Financial Service Sector

1. Improving consumer protection for vulnerable persons

Representatives from the leasing sector shared that one of the biggest risks to their asset value is when the consumer is at fault in an accident and uninsured. Many leasing contracts require the consumer to have (1) third party liability insurance; (2) third party property liability insurance; and (3) comprehensive insurance of the financed vehicle.

For (2) and (3), different leasing companies have different approaches. However, for (1), it is required in Laos that all vehicles are insured for third party liability. In practice though, it is often the case that when the time comes to renew this policy, it is allowed to lapse as there is no systematic checking process.

While leasing companies all sight insurance in the first year, they are exposed from year 2 onwards if the insurance is allowed to lapse. Third party liability is the biggest risk as the claims can be very large given the medical needs of the injured parties, and this can bankrupt the car lessor if they are not insured. It is also the most impactful on poverty as it can destroy the injured or killed person's ability to earn an income for their family.

In some countries, such as Australia, third party liability insurance is also mandatory, but compliance is assured by bundling the insurance together in the registration fee paid to the licensing authority. This also allows the Government to negotiate a price with general insurers which can cover all registrations. This is more cost-effective for consumers than if each individual negotiates terms directly with an insurer. As such, while it does increase the annual costs of registering vehicles for consumers, it is the most certain means of reducing illegally lapsed policies and protecting lessors' asset values and the community. In Australia, to help reduce upfront costs to consumers, these registration payments can be made monthly, quarterly or annually at the consumer's choice.

Proposed Recommendation:

Consider the use of compulsory third party insurance bundled with car registration fees in one of the following ways:

- Work with insurers to understand the different models used in other countries (i.e., compulsory, but consumers can choose providers, or compulsory, but Government negotiates with insurers).
- Consider the means through which the registration and insurance policy is recorded, for example the registration is linked to the vehicle and the insurance so databases would require update to accommodate the policy confirmation.

Relevant government agencies:

1. Department of Financial Institutions Management, BoL.
2. Department of State Enterprise Management, Investment and Insurance, MoF.
3. Ministry of Public Works and Transport.

2. Deposit insurance fees collected by the BoL are calculated on volumes that exceed the insurance amount

Currently, the conditions for deposit insurance fee stipulate that depositor will receive compensation of not more than LAK 50 million, which is the amount insured by the bank in case it has a problem. By right, the bank has to pay a deposit insurance fee at 0.1% of the total value of the deposit by the customer. However, this is more damaging for banks with a large commercial customer base than other banks with a large retail customer base. For example:

- Bank A has 100 clients, each with a bank balance of LAK 100 million. Bank A will pay [LAK 2.5 million] on deposit protection, but clients will only be insured for LAK 5 billion. Bank A has to pay an annual deposit insurance fee: LAK 10 million. Value of compensation from deposit insurance: LAK 5 billion.
- In comparison, bank B has 1,000 clients, each with a bank balance of LAK 5 million. Bank B will pay [LAK 1.25 million] on deposit protection, and clients will be insured for the full amount of LAK 5 billion. Thus, while the benefit to both banks is LAK 5 billion, Bank A pays [●]x more than Bank B for the same level of protection. Bank B has to pay an annual deposit insurance fee: LAK 5 million. Value of compensation from deposit insurance: LAK 5 billion.

In Lao PDR, the banks with larger deposit balances from large enterprises (i.e., those companies which have > LAK 50 million in deposit accounts) are the banks with higher market capitalization, stronger capital ratios and lower credit risk for the BoL. Therefore, the banks most impacted by inequitable fee charges are those that are less likely to ever rely on the BoL to protect depositors. Indeed, in times of heightened liquidity concerns, strong banks are typically flooded with liquidity and are therefore being unjustly apportioned most of the Lao deposit protection fee at the very time they least need it – particularly if calculated on the total volume of deposit liabilities rather than the insured portion only. Representatives noted that in some countries, deposit protection insurance was available to be “opted in” by the bank, or by the consumer. Likewise, in other countries, the fees payable for deposit protection insurance were scaled according to the bank’s own credit rating, such that higher rated banks paid lower deposit insurance protection fees, therein incentivizing more conservatism at a banking level to protect depositors. The BoL does not provide a committed liquidity facility to banks as a backstop, so representatives asked for more details on the deposit protection fees being invested to insure depositors.

Proposed recommendations:

1. Charge deposit protection premiums on the insured amount per customer only.

2. Consider an opt-out (or opt-in) arrangement for large bank depositors (i.e., wholesale company deposits).
3. Provide transparent reporting on how deposit protection fees are invested to insure depositors.

Relevant government agency:

1. Deposit Protection Office, BoL.

3. Management of Banking Reserves held by the BoL and deployment in the event of a liquidity run

Based on legislation of BoL on Banking Reserve, BoL requires banks to invest a portion of their own funds with the BoL for the purpose of depositor protection, which can be access to support depositors in the event of the bank being distressed.

Given that the funds themselves are still owned by banks, but invested on their behalf by BoL, it would be helpful to understand how they are invested. Currently there is no interest paid to banks for interest earned on the reserves, and operators of commercial banks were unclear if interest earned by BoL on the reserve pool contributes towards a deposit insurance fund or is wholly separate. It was also unclear to commercial banks on the arms-length arrangements, governance procedures and earnings of the fund, as the exposure is noted for regulatory purposes as a placement with BoL (i.e., exposure to central bank counterparty risk, rather than a separate fund/or underlying investment exposure).

Proposed recommendation:

1. Provide transparent reporting on how reserves for deposits held with the BoL are invested and administered.

Relevant government agency:

1. Commercial Bank Supervision Department, BoL.

4. Limitations of laws and regulations in the Insurance Sectors:

Insurance sector representatives raised concerns that foreign insurers operating in Laos were increasingly unprofitable and it was fast becoming untenable. Some of the reasons are the currency impacts and justice system. In addition to those challenges, insurance sector also find that the reserve requirements of the BOL are substantially in excess of risk-based capital calculations, which is creating a large drag on profitability. Reserve requirements for claims incurred but not reported (**IBNR**) at 15%, drives profitability down, without cause, as retentions in Laos are regulated to be very low.

Insurance service providers confided that foreign investor operators are increasingly weighing up some hard decisions on continuing Laos operations in light of increasing convertibility risks for outbound payments amidst a requirement to hold onshore capital well in excess of what can be reasonably expected based on risks held. In addition to discouraging foreign investment, reduced profitability of the insurance sector has an immediate negative economic impact in Laos by reducing the Government's taxation revenue.

Regulatory standby letters of credit (**SBLCs**) were suggested as an example of how regulators had made it easier for insurers to be profitable and hold less onshore trapped cash in less populous locations, without compromising on risk protection or reducing in-country tax payable. These are used widely in Australia, New Zealand, Singapore and Hong Kong as well as other markets.

Proposed Recommendation:

1. The BOL and DSI should review and evaluate whether the minimum capital of Laos is suitable given the low levels of risk retained in country. The LIA can provide greater advice on why the risk-based outcomes are substantially lower.
2. The BOL and DSI should consider allowing a regulatory SBLCs in place of onshore asset requirements. This would reduce insurers' exposure to currency and convertibility risks and provide them with global options in which to invest their capital to earn hurdle returns.
3. IBNR requirements should be lowered to an acceptable level of ~3-5%.

Relevant government agency:

1. Commercial Bank Supervision Department, BoL.
2. Department of State Enterprise and Insurance Management, MoF.

5. Reconsider the license plate markers of cars under finance

The leasing sector viewed that access to finance in Lao PDR is not constrained by availability, but rather by financial literacy in-country. Representatives from the sector gave their own experience of Lao consumers being more status-oriented than financially literate. This orientation is driving poor financial choices because rather than go through a leasing company or registered auto financier and receiving a car with “White Plates”, they are choosing to go to unregulated grey market financiers at higher interest rates and under unscrupulous conditions for an unregistered loan which can fully pay car dealers such that they receive “Yellow Plates”. Representatives noted that the color of license plates is so obvious that it impinges on an individual’s sense of pride in the vehicle asset. There is a status associated with “Yellow Plates”, that drives poor decisions. Leasing sector representatives noted that in other countries, the financing arrangements for vehicles are recorded in less conspicuous ways, such as through a registration sticker on the vehicle, or in an owners’ book, which marks the vehicle as financed. When “status” is removed as a barrier to competition, leasing companies believe the business environment will be more competitive and consumers will be better protected.

Proposed recommendation:

1. The Ministry of Public Works and Transport should discontinue issuing different colored plates. Instead, vehicles that are financed should be labelled in a less conspicuous manner, such as through registration stickers, or an owner’s book.

Relevant government agency:

1. Ministry of Public Works and Transport.

Issue Related to Tourism Industry

1. Government policy to support the development of nature-based tourism

Nature-based Tourism (NBT) has the potential for development in Lao PDR due to its geographical location and its many suitable natural tourist attractions. Not only does NBT help promote environment conservation and protection, but it also has the potential to generate foreign exchange revenue and is aligned with the Government Sustainable and Green Development 2030 agenda. By definition, NBT is a form of tourism that includes all kinds of nature-related tourism activities (including ecotourism) such as: trekking; kayaking; rock climbing; and natural sightseeing, including birdwatching and stargazing; as well as cultural heritage associated with nature and the human experience of the rural landscape. NBT is becoming increasingly popular around the world due to the lower cost of developing tourist attractions, and it can contribute to the sustainable economic development of a country. In particular, it can help poverty reduction in rural areas by generating income and creating employment for local people, especially women and young workers. NBT also helps connect tourists with local people and spreads an understanding of their responsibility to protect the environment, while making contributions to society.

Lao PDR has many beautiful natural landscapes suitable for the promotion and development of NBT. At present, 17% of the country area has been protected. The Government recently declared the country's first two national parks – Nakai Nam Theun and Nam Et-Phou Louey – the two largest protected areas in Indochina. According to the International Union for Conservation of Nature, Lao PDR is rich in biodiversity, with an estimated 10,000 species of flowering plants, 166 reported species of reptiles and amphibians, 700 to 800 species of birds, at least 90 species of bats, and more than 100 species of large mammals. Properly protecting and caring for these natural parks and biodiversity will result in popular natural tourist destinations that can attract high-value visitors and generate high revenue for the country. However, developing NBT in Lao PDR still faces several challenges because of the lack of concrete measures to protect the environment and supporting government policy, including:

- No policy measures or implementation framework to deal with environmental protection, air and water pollution, or pollution from slash and burn activities. A lack of a proper waste and water treatment system. Biodiversity is declining every year because of the lack of government measures to stop illegal hunting in protected areas, thus diminishing the value of NBT.
- Infrastructure improvement such as road maintenance and bridge access to natural attractions remains poor, causing NBT to be more costly and therefore unattractive for potential investors.

- No legislation to support the development of NBT in Lao PDR. For instance, there is no regulatory framework to support the development of protected areas for NBT. The concession fees for developing tourist attractions in protected areas are unclear and very high, as they are based on the fees charged for mining and hydropower exploration, making it impossible for small- and medium-sized business operators to acquire the concession rights to develop NBT.
- Limited participation of the private sector and local authorities in national strategic planning for tourism development – in particular, strategic planning for NBT development.

Proposed recommendations

1. Propose that the Ministry of Information, Culture and Tourism (MICT) coordinates with the relevant authorities to solve the following issues:
 1. The relevant government authority should improve or amend existing legislation to support the development of NBT and community-based tourism, focusing on the elimination of unnecessary steps in acquiring concession rights and reducing the fees for NBT development. The collection of fees should be transparent. Supporting legislation should focus on protection of the environment surrounding tourist attractions and the health of tourists (for hotels and restaurants). However, it is important to note that any new legislation should not create any barriers to the private sector.
 2. Include NBT development in the national agenda. Regularly monitor and evaluate such a plan.
 3. Establish concrete measures to deal with pollution and untreated waste.

Relevant government agencies

1. Ministry of Information, Culture and Tourism.
2. Ministry of Natural Resources and Environment.
3. MPI.
4. Ministry of Public Works and Transport.
5. Office of the Prime Minister.

Recent progress:

MICT, in collaboration with the LNCCI, held a consultation meeting to follow up on the issues raised by the business sector at the 12th Lao Business Forum with relevant sectors in July and August 2020, which can be summarized as follows:

- For the proposal to improve rents and land concessions in protected areas for tourism, the Ministry of Agriculture and Forestry is researching and adjusting the rents and

concessions as stated in Decree No. 02 / PPT dated 18 November 2009, which is expected to be completed by the end of 2020. There is a plan to classify state land concessions for tourism into eco-tourism and cultural tourism. In researching for a new concessions rate, comments from the business sector will be consulted (no completion date was specified). In addition, the Department of Protected Areas Management, in collaboration with the Tourism Business Operators, researched and revised Decree No. 134 No. 134 / MOH, to determine the detailed procedures for concession of protected areas for tourism. (Additional information will be requested from the Department of Protected Areas Management later).

- There has been no progress related to the proposal to improve the environmental fees specified in the Presidential Decree No. 002/ (former No. 003) on fees and service charges: The business sector proposes that the relevant departments separate the environmental fees – from tourism development projects based on nature conservation from the environmental fees of other types of projects such as electricity or mining projects. It also proposes reduced costs and facilitation of environmental inspection.
- Participants in the meeting agreed to set up a committee to study and solve the problem of air, water and litter pollution that has a negative impact on tourism.

2. Difficult procedure for approving tourism-related sport activities

Organizing enjoyable activities to attract tourists and promote tourism in Lao PDR is extremely difficult and time-consuming – especially, for example, organizing an international marathon and bicycle racing events that can help boost tourism revenue. At present, the approval procedure from the relevant government agency for organizing such events is unclear and takes a lot of time. For instance, when organizing a sports event to promote tourism, the organizers need to seek approval from both the Ministry of Education and Sports and the Office of the Prime Minister. As a result, such events hardly take place in Lao PDR, thus holding back tourism promotion.

Proposed recommendations:

1. MICT to be the focal point for coordination with other relevant sectors to consider solving these problems and to promote tourism in a practical way.
2. Department of Education and Sports to issue detailed instructions on organizing sports activities for tourism in particular, specify procedures, fees and charges, and the number of security guards (and associated costs) for sports activities of each size and category and to be organized uniformly throughout all provinces.

Relevant government agencies:

1. Department of Elite Sports, Ministry of Education and Sports.
2. Department of Sports for All, Ministry of Education and Sports.
3. Research Department, Office of the Prime Minister.

Recent progress:

MICT held a consultative meeting with relevant sectors in July and August 2020 to follow up on the issues raised by the business sector at the 12th Lao Business Forum. It can be summarized as follows: the Ministry of Education and Sports is revising its legislation and will specify the timeframe for approving the organization of sports activities for tourism more clearly (no expected completion period was specified).

- Responses from the Government representatives during the public-private consultative meeting held on 17 September 2019:
 - Department of Elite Sports, Ministry of Education and Sports: There are two types of sports events that need approval from both the Ministry and Prime Minister's Office – Sports for All (for general sport events), and Elite Sports (sports events that require specific rules to determine their outcome, technical knowledge, judges or referees based on international practices). Organizing elite sports events requires approval in two steps – first from the Ministry of Education

and Sports and then from the Prime Minister's Office. If the event only involves domestic athletes, only approval from the Ministry is needed. If it involves participants from other countries, approvals from both the Ministry and the Prime Minister's Office shall be required. This is to ensure that safety and order can be maintained by the government department concerned, including the Ministry of Foreign Affairs, to handle a large inflow of foreign athletes; and the Ministry of Public Security to provide security control during the event. For sports events taking place in the provinces, event organizers can coordinate directly with the provincial authority without involving central level. In future, it will be necessary to organize technical meetings with key government stakeholders, especially the Ministries of Education and Sport, Information, Culture and Tourism, Public Security, and Foreign Affairs to further discuss this issue in order to find concrete solution.

3. Procedure for approving a list of tourists entering Lao PDR (formerly known as Telex)

The Government issued Notification no 1997/PMO, dated 19 December 2016, on the Cancellation of Telex, in order to enable tour operators to bring tourist groups into the country more easily. The Telex process entailed collecting visitor details, including the places they would visit. These were obtained from tour operators before allowing tourist groups into the country, with some fees charged depending on the number of tourists. Tour operators also needed to declare what sites they would visit and which restaurants they would eat at, and these details were outlined in the Telex. One of the primary reasons for requiring Telex was to prevent blacklisted individuals from entering Lao PDR. This created difficulties for tour operators as it was not practical. For instance, sometimes visitors wanted to change where they would visit or eat, and the tour operators would be fined for violations. As a result, the Government saw this as a roadblock for tour operators and eventually decided to abolish Telex after a longstanding demand from tour operators that it was unreasonable, not supportive of tourism promotion, and made it difficult for them to bring tourist groups to Lao PDR. Soon afterwards, a new regulation emerged from the tourism police with a similar purpose, but which only requires the name of visitors to be declared. The tour operators would still need to prepare documents and physically submit them to the tourism police for each tour group. The tour operators view this new regulation as a replacement of Telex, meaning that the longstanding issue has not been solved. The tour operators would like the new regulation to be abolished based on the following reasons:

- Using the list of visitors for screening unwanted or blacklisted individuals to enter the country has no added value, and is pointless because all visitors coming to Lao PDR via tour operators must apply for a visa. More importantly, they would have to pass immigration checkpoints at borders, so it should be the responsibility of the immigration authority to deny entry of any blacklisted persons.
- The number of visitors coming to Lao PDR via tour agencies is only a small portion of total visitors to the country, and the registered tour operators must guarantee their safety and any damage caused by their clients; as a result, tourist groups are less likely to be blacklisted than those coming to Lao PDR individually.
- Visitors coming to Lao PDR via tour operators are typically high-income individuals and able to spend money more and stay longer; the Government should support tour operators in attracting these groups of tourists instead of creating barriers for them.
- Tourists entering Lao PDR by motorbike now have to apply through a tour company. This procedure is more complicated than those of neighboring countries, so this type of tourism is declining. Most of these types of tourists have high purchasing power, long

travel durations, can travel to many remote places, and more importantly they can help promote Lao tourist attractions in each area.

Proposed recommendations:

1. MICT should be the focal point to coordinate line ministries to support and promote tourism development in Lao PDR.
2. The relevant authority should urgently consider removing the tourist list document as a requirement for bringing tourist groups into Lao PDR, in order to facilitate their travel within the country with no restrictions, as long as the destinations are not prohibited by the Government, regardless of whether they are individuals, tourist groups, or caravans with cars or bikes. The relevant authority should allow tour operators to declare and pay duties on a monthly basis by bank transaction and send the details of the traveler lists by email or fax without having to visit the government office every time. This would reduce costs and help reduce the workload of both the authority and the tour operators and allow the authority to check and monitor the electronic records of the tour programs when required.

Relevant government agencies:

1. Tourism Management Department, MICT.
2. Tourism Police Department, Ministry of Public Security.

Recent progress:

- According to the notification of the Department of Tourism Police, Ministry of Public Security, No. 249 / TTT, dated 29 April 2020, on the use of electronic systems and modern equipment in the delivery of tourist notification documents and payment of service fees: the Department of Tourism Police is planning and researching the draft legislation to be approved for implementation (no completion date has been specified). At the same time, at the meeting on July 14, 2020, the business sector donated some IT equipment to the Department of Tourism Police to test the delivery of tourist notification documents for Vientiane Capital.
- The outcome of the consultative meeting between the relevant sectors of the government and the business sector (issues related to tourism) on 17 September 2019 and 23 October 2019:
 - Tourism police representative would bring the issues raised by the private sector for consideration, especially the document requirements for lists of tourists entering the country. It might be possible only to obtain approval in the case of

tourists travelling to dangerous areas, or when tourists holding a border pass wish to go outside a restricted area.

- As for bringing their own vehicles to travel within the country, it is mandatory that there is a service center solely for its purpose.
- The business sector and relevant departments from the public sector have agreed to continue to file tourist lists during this period. However, the relevant authorities will have to take the initiative to streamline the process of approving tourist detail lists by using basic IT systems at first (email, fax) to receive and approve tourist lists, until it is possible to use a software system if there is a sufficient budget, and they may consider eliminating this step in the future.

4. Improving the tourism promotion strategy

Although the number of tourist arrivals and tourism revenue significantly increased in the past year, Lao PDR still lacks the leadership to develop the tourism sector so that it can achieve its goal, and tourism promotion activities are not sufficiently organized. Infrastructure improvement and tourism site maintenance always face budget shortages due to the collection of funds not being properly implemented; therefore, the tourism fund is inadequate to develop and promote tourism.

Subsequently, the Tourism Working Group believes that allowing the private sector to take part in the decision-making process on strategic planning to develop, support, and promote tourism objectively, would be extremely important the development of Lao tourism, attracting more tourists and using the tourism fund more fruitfully. The private sector also believes that it is essential to establish a Tourism Promotion Board (the Board) to allow the public and private sectors to work together more effectively. Based on lessons learned by other countries, the Board should be an independent entity, with full authority to lead and manage tourism promotion activities according to its own agenda. The Board should consist of a team of full-time professionals that can implement the tourism work plan at full capacity. The Board would act as a key entity to identify new ideas and strategies to develop and promote tourism and allocate the fund to support all tourism-related activities in Lao PDR and overseas. Most importantly, the Board must be a transparent organization that can be audited by an external auditor with respect to its revenue and expenditure. Several countries in the ASEAN region have independent tourism promotion boards with specific mandates to plan and promote tourism development.

Currently, the collection of \$1 per person from tourists is not uniformly implemented (for example, according to business owners, collection of the fees varies: Bokeo province collects it at checkpoints, Vientiane Capital collects it at tour companies, Champassak collects it at checkpoints and tour companies). Furthermore, there are no clear guidelines for collecting tourism funds and using them. The collection of tourism promotion funds from tour companies is seen as repetitive, for example, a tourist who buys a package tour from several companies has to pay \$1 each time, which is not appropriate. Relevant sectors have not yet assessed or disclosed information to the stakeholders on fund collection or budget allocation. Business owners should be involved in deciding or recommending the use of tourism promotion funds to maximize tourism benefits.

Proposed recommendations:

1. Review the effectiveness of the current tourism promotion plan and revise it based on periodic evaluations. The development of tourism promotion plans should be based on the lessons of countries that have been successful in tourism development and

- implemented in accordance with the plan. The business sector should be involved in developing such a plan.
2. Conduct a feasibility study to set up an independent tourism promotion board in Lao PDR to lead in marketing and promoting Lao tourism, allowing tourism-related businesses and multiple government stakeholders to become board members to discuss, establish, and monitor and evaluate planned activities to support and promote tourism at central and provincial level. The Board must consist of a team of professionals to manage and implement all functions of the organization.
 3. Propose a re-evaluation of the effectiveness of the implementation of legislation related to the collection of the Tourism Promotion Fund (Decree No. 119 / MOF dated 10 April 2017).
 4. If the existing legislation is found to be ineffective, a new regulation shall be issued on the collection of money for the tourism promotion fund and the clear purpose of its use. The implementation of the collection method should be uniform throughout the country and have a convenient payment channel to ensure that the revenue is in line with the target and matches the number of tourists.
 5. The outcome of the collection of the tourism promotion fund and its use should be reported periodically to the stakeholders.

Relevant government agency:

1. MICT.

Recent progress:

MICT, in collaboration with the LNCCI, held a consultative meeting to follow up on the issues raised by the business sector at the 12th Lao Business Forum with relevant sectors in July and August 2020, which can be summarized as follows:

- On improvement of tourism promotion strategy: it was agreed in principle to establish a tourism promotion council with the participation of multilateral and business sectors and with an experienced team of executives.
- Initially, the Department of Tourism Management was assigned to research and draft legislation for the establishment of the tourism promotion council, and then submit to the Prime Minister's Office.
- MICT has issued a decision on the appointment of the committee responsible for researching and drafting legislation on the draft Decree on the Council for the Promotion of Tourism No. 530 / DOT, dated 2 September 2020 to research and formulate legislation on the draft decree on the Tourism Promotion Board Council.

Responses from the Government during the public-private consultative meeting held on 17 September 2019:

- MICT has created several Strategic Plans at national, regional, and provincial levels (for instance: The Tourism Strategy Plan of Lao PDR endorsed by the Prime Minister; the Regional Tourism Development Plan, endorsed by the Minister of Information, Culture and Tourism; and the Tourism Marketing Strategy Plan). Promotion and Management of the Tourism Destination Plan is being drafted. The drafting process for these plans includes inputs from several key government stakeholders. The creation of a provincial tourism strategy plan faces a budget shortage; therefore, only the private sector at local level has participated in the consultative process. The number of tourist arrivals in the first 6 months of 2019 reached 2.2 million (a 5% increase compared to the same period in 2018), using the World Tourism Organization counting method. As for the promotion of nature-based tourism, currently, there is no monitoring and evaluation of the Strategic Plan, especially in the funding into the tourism development. The Department of Tourism Development is working on Green Tourism Development 2030. The Department is also working with the Ministry of Natural Resources and Environment to determine indicators for the use of materials that are harmful to the environment, thus affecting the tourism service sector. In the future, a standard ranking for tourist attractions will be created in cooperation with the Ministry of Science and Technology. The service standards of hotels and the restaurant sector will also be ranked in the future.
- Tourism Management Department: the collection of the tourism promotion fund is clearly specified in the Decree on Tourism Fund no 119/Gov. If any legislation still needs amendment, proposals can be submitted to the Minister of Information, Culture and Tourism.
- Planning and Finance Department: the implementation of tourism fund collection is not consistent. Regarding the use of the fund, 60% is allocated to local authorities and 40% is given to central government. The fund is mostly used for promotion, human resource development, and facilitation.

5. Supporting policies for the tourism industry during the epidemic and recovery after COVID-19

The outbreak of the Covid-19 virus (from March 2020 onwards), especially in the countries neighboring Lao PDR, has had a direct impact on its tourism business. The cancellation of international flights coming into Lao PDR and the restriction of tourists from Thailand have significantly affected business relevant to the Lao PDR tourism industry, including hotels, restaurants, and private and public transport companies. More importantly, these businesses have a direct impact on the country's economy and employment rate. Therefore, the tourism sector is urgently in need of policies to help it survive the pandemic. According to statistics gathered from last year:

- Some 4.58 million foreign tourists visited Lao PDR in 2019 (of which 1.02 million were from China).
- In 2018, there were 670 hotels, 2,432 guest houses and resorts, and 2,609 restaurants and entertainment outlets in Lao PDR. There are some 385,000 workers in the tourism-related sector (estimated in 2015, and about 130,000 in work directly related to the tourism sector).
- Revenue from the tourism industry alone exceeded US \$811 million in 2018.
- The share of GDP from tourism is about US \$2 billion, which is equivalent to 13.7% of total GDP (2017).

Proposed recommendations:

Specific assistance measures for the business sector during the COVID-19 pandemic crisis for Government consideration are:

1. MoF to reduce the tax obligations of the business sector, especially those related to the tourism industry, by deferring the tax payment period of 2019 to the next two payment period after calculation of 2019 tax has been made (solved).
2. Financial departments should consider measures to reduce the collection of VAT for airfare and tourism products during the pandemic.
3. Request BoL to cooperate with commercial banks to consider identifying measures to assist bank customers during the pandemic, such as postponing or reducing bank interest payments.
4. During this pandemic, businesses may need to lay off some staff to keep afloat. Pursuant to the Policy on the Law on Social Security (Revised), No. 54 / NA, dated 27 June 2018, article 9 stipulates that the insured shall receive a subsidy from the National Social Security Fund in case of unemployment.

- The Social Security Administration should disseminate the unemployment benefit policy to business owners and workers in depth.
 - Consider application for unemployment benefits within 30 days as specified in Article 95 of the Social Security Law to help the unemployed during the pandemic crisis (partially solved).
5. Pursuant to Article 71 of the Labor Law (Revised), No. 43 / NA, dated 24 December 2013, which stipulates that all labor units and workers must be insured and pay into the National Social Security Fund in order to receive social security benefits – the Social Security Administration should consider postponing the payment of contributions to the compulsory social security fund for 2020 in order to reduce the burden of business owners during the pandemic (solved).
 6. The Government should consider setting up a special fund to mitigate the effects of the pandemic or use existing funds such as the Small and Medium Enterprise Promotion Fund to help entrepreneurs pay bank interest during this period. By way of categorizing the priority businesses that have the greatest impact on the economy and employment, (i.e., hotel business, and factories) and then and provide such subsidy to them
 7. Relevant government departments should consider reducing the electricity tariffs for businesses in the tourism-related service sector as well as businesses in the industrial sector.
 8. The Government should announce the public holidays of 2020 in advance to encourage more Lao tourists to plan domestic tourism.
 9. Support the “Lao Tour Laos” project started by tour operators.
 10. Propose that BoL consider increasing liquidity in the banking system so that the business sector can access to more loans. For instance, explore the possibility of reducing the deposit guarantee reserve requirement rate of commercial banks set by BoL, in order to increase cashflow in the system (solved).

Issues related to Agricultural Sector

1. Clean agriculture certification procedure

As consumers pay more attention to food safety, there is a growing market demand for chemical-free agricultural products and the use of more substandard food chemicals. At the same time, many agribusinesses are interested in transforming chemical-intensive farming methods into ecological-based agriculture. This is to make agricultural land biologically sustainable, to create a safe working environment for farmers' health and to produce agricultural products that respond to market demand trends. However, business owners who want to produce organic or clean agricultural products find that the procedures of applying for organic certification and good agriculture certification are complicated and costly. This is one reason for the high cost of clean agricultural production in Lao PDR, affecting the competitiveness of local enterprises against foreign clean agricultural products, and affecting the consumers in terms of prices. In addition, classification of clean agriculture types is still unclear to producers.

Proposed recommendations:

1. The relevant authorities should provide business owners with easily accessible sources of information on the classification of various types of agriculture and the process of certification of clean agriculture.
2. The relevant authorities should consider streamlining certain processes and reduce fees that are related to applying for clean agriculture certificates.
3. Consider identifying the main selling location for organic farming.
4. Establish a unit that can certify the standards for raw materials used in clean agricultural production, such as water standards.

Relevant government agencies:

1. Department of Agriculture, Ministry of Agriculture and Forestry.
2. Department of Standards and Metrology, Ministry of Science and Technology.
3. Department of Food and Drug, Ministry of Health.

Recent progress:

The outcome of the public-private consultative meeting on issues relating to the agricultural sector, dated 1 December 2020, can be summarized as follows: the Department of Agriculture publishes and explains the procedures and conditions for accessing information on various types of agriculture and procedures for certification of clean agriculture to businesses in the agricultural sector. The private sector can access this information through the LNNCI website (<https://lncci.la/lbf/lbf-13th-2020/>). The conditions for applying for a Clean Agriculture Certificate cannot be reduced because they are the same as those of international standards.