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**WHITE PAPER**  
**on**  
**REDUCING THE IMPACT OF THE COVID-19 PANDEMIC ON THE LAO HOSPITALITY SECTOR**

The hospitality sector employs tens of thousands of Lao citizens. It is considered one of the key drivers of the nation's development. However, in just a few short weeks the health and economic crisis caused by the COVID-19 pandemic has decimated the industry. Across the country, travel agencies and hotels have seen most of their bookings canceled, with most now operating at only a fraction of their capacity. Many employees in the sector have lost their jobs, or have been relegated to part-time employment status. Many operators have shut down their businesses for at least several months.

The European Chamber of Commerce and Industry of Laos ("ECCIL") has more than a dozen members in the hospitality sector, many located in Luang Prabang. Their experiences are shared by hospitality operators across the country.

The ECCIL welcomes the Lao Government's 13-point plan to address the impact of the COVID-19 pandemic on the country and looks forward to hearing more about it. Further, it welcomes the guidance from the Bank of Lao PDR (announced March 31) to commercial banks and financial institutions on mitigating the impact of COVID-19 on the business sector. In addition to these measures, the Lao Government may wish to consider several additional measures described below.

#### **MEASURES THAT WILL REDUCE THE IMPACT OF THE PANDEMIC**

Besieged at the forefront of the COVID-19 pandemic, the hospitality sector needs meaningful help right now. The ECCIL suggests that the Government of Laos:

**Offer Tax Deferrals to the Hospitality Industry:** Operators in the hospitality sector pay VAT, payroll tax, and profit tax. While profit taxes will likely be minimal this year, payroll, social security, and VAT accrue, regardless of profitability. Temporarily reducing these taxes will help the sector survive through this disaster.

**Channel a substantial portion of SME credits to hospitality operators:** The government recently pledged one billion KIP to a fund that will encourage banks to lend to SMEs at lower interest rates. Tourism is one of the four sectors that will be targeted. Given the pain the hospitality sector is suffering, these funds should be deployed as soon as possible with an emphasis on hospitality as the primary target sector.

**Closely cooperate with banks to ensure they show reasonable flexibility with existing loans to the hospitality operators:** Lao bank regulators are rightly concerned with the impact of the pandemic on the financial sector. Such concerns, however, can drive banks to move aggressively against debtors having trouble meeting loan repayments. While the integrity of the country's finance sector is crucial, this concern needs to be carefully balanced by policies that encourage banks to work with ailing customers to resolve problem loans rather than to foreclose on them. The recent guidance to banks and financial institutions from the Bank of Lao PDR is a good start. Banks should be monitored to ensure that they are indeed complying voluntarily with this guidance, balancing their financial needs with the health of the tourism sector and the well-being of the country.

**Reduce power and water bills by 50% for April-June and allow deferral of payments until the third quarter of the year.** Utilities represent a substantial portion of a hospitality operator's costs. Temporary cuts here, such as with taxes, can help operators survive.

**Allow temporary cuts in customs fee and import VAT on food, beverages and alcohol, and allow similar cuts in import fees for chemicals used for sanitization and sterilization.** The hospitality sector relies heavily on imported food, beverages and alcohol. A temporary cut in these import fees would provide an important cost savings. A reduction in import fees for cleaning chemicals would help hospitality operators ensure the health and safety of their guests/customers.

**Clarify that the Covid-19 pandemic qualifies as a *force majeure* event under Lao contract law.**

- The Law on Contracts and Torts allows parties to a contract to defer performance of obligations in the event of a “force majeure.” The law defines force majeure as an “unexpected and uncontrolled event . . . that renders the debtor not able to perform his/her obligations.” The definition offers several examples--flood, thunderstorm, and earthquake--that could qualify as a force majeure event.
- A clarification from the government that the Covid-19 pandemic is “an unexpected and uncontrolled event” under Lao contract law would likely help hospitality operators in their efforts to negotiate the consequences of delays in performance of their contractual obligations over the next few months.

#### **MEASURES THAT WILL HELP THE HOSPITALITY INDUSTRY RECOVER FROM THE PANDEMIC AFTER IT ABATES**

**Consider re-opening the country to arrivals from countries that succeed in containing the virus, so long as public health can be protected.** Although most of the current news is bad, several countries/economies in the region (South Korea, mainland China, and Hong Kong) are making progress in the fight against COVID-19. Immigration authorities should consider a cautious but nevertheless pro-active review of measures to gradually ease border restrictions on visitors from countries where COVID-19 cases have been substantially reduced. These should be coupled with measures to screen out infected individuals from these countries/economies.

**Encourage travelers to return to Laos by incorporating health and safety messages into future tourist promotion efforts.** The COVID-19 pandemic outstripped most people’s imaginations in terms of speed and impact. For the foreseeable future tourists will remain wary, factoring health and safety into their travel decisions. To counter this, the country should consider tourist promotional outreach sooner than later, emphasizing the response measures the government took, the (so far) relatively minor impact of the virus (as compared to other countries in the region), and the health and safety measures that will be put in place.

**Facilitate future tourist arrivals with easier immigration requirements.** Lao PDR allows visa-free access to visitors from ASEAN and a handful of other countries. Visitors from 29 countries must apply for a visa at an overseas embassy or consulate. Visitors from the remaining countries need to obtain a visa on arrival or an e-visa. The cost for these visas range from 30-40 USD. These requirements should be reviewed to expand the list of countries on the visa free access list, and move some countries from the overseas visa list to that for visa on arrival.

**Reduce tourist travel costs by encouraging more airlines to fly directly to Luang Prabang.** Currently only a few airlines fly directly to Luang Prabang. Requiring visitors to fly first to Vientiane or other cities adds substantial time and costs to trips to the nation’s cultural capital. The Ministry of Public Works and Transport

has led the way in building point-to-point connections to Luang Prabang, but more work needs to be done, for instance, to reconnect directly with Kuala Lumpur and to establish a direct link to Hong Kong.

**Upgrade the skills of workers in the hospitality industry during the slowdown.** Oftentimes working with bilateral and multilateral partners, the Lao government has substantially upgraded the skills of workers in, or entering, the hospitality sector. The downturn caused by the pandemic offers these workers more time for professional development. The government should expand its training programs and include stipends to keep these workers in them.

#### **THE IMPORTANCE OF INTERVENING DESPITE FISCAL CHALLENGES**

For the past several years, the Lao government has been adjusting its income and expenditures to achieve a budget path that is more sustainable in the long term. There is no doubt that the measures above represent a movement away from the goal of a more balanced fiscal budget. But as has been shown in the aftermath of the Global Financial Crisis, these stimulus efforts often pay for themselves. If done correctly, such a stimulus can generate economic growth, resulting in more taxes and fewer expenditures to help displaced workers. If done incorrectly or never attempted at all, the country likely faces economic stagnation and budget deficits for years to come.