

## INFORMAL TRADE PRIVATE SECTOR WORKING GROUP

An informal Trade Private Sector Working Group e-meeting was organized last Wednesday 17<sup>th</sup> of June 2020, by the **European Union Delegation** and the **Australian Embassy**. The virtual meeting, chaired by Mr Bryan FORNARI, Head of Cooperation at the European Union Delegation, revolved around the **COVID-19 outbreak in Lao PDR**.

Speakers from the Development and Private sectors and from the Government shared their insights on the lessons learnt and the experience gained from the COVID-19 outbreak, discussing also proposals and work to be done in 2020 and beyond.

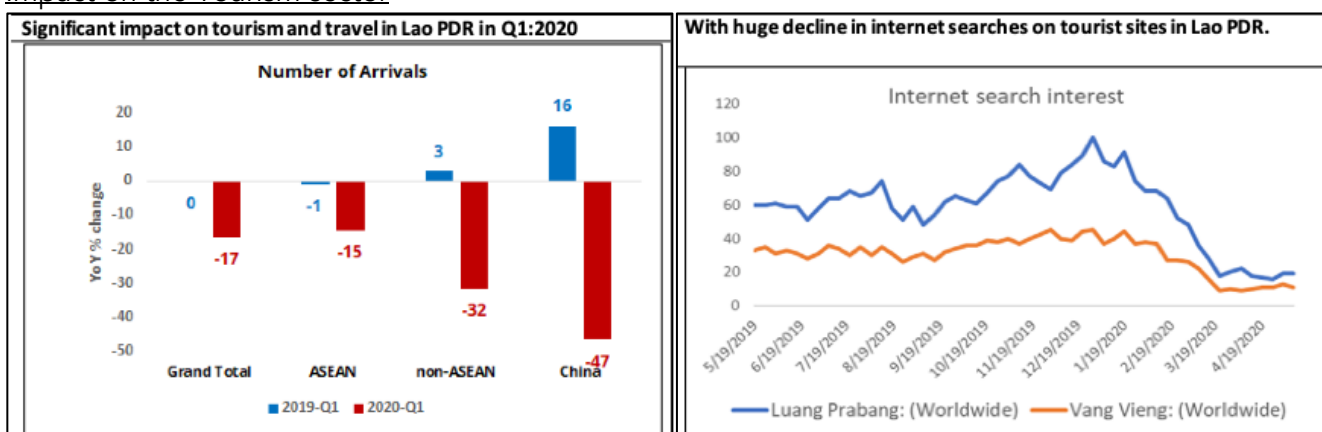
ECCIL EuroCham Laos is summarizing below the key points of the e-meeting for your information.

### MACRO-ECONOMIC IMPACT OF COVID-19 AND IMPACTS ON PRIVATE SECTOR By Mr Mombert HOPPE, World Bank

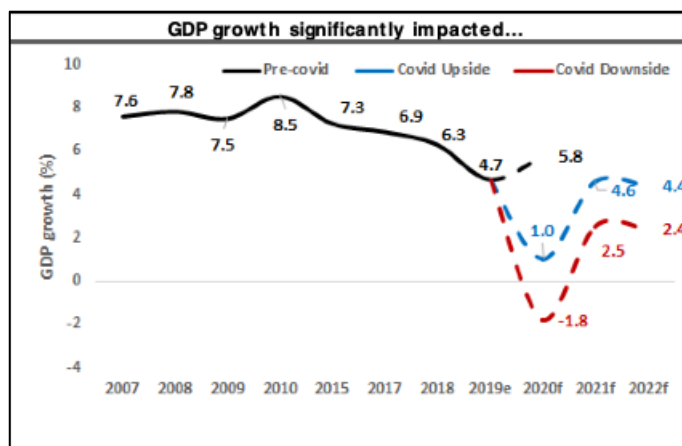
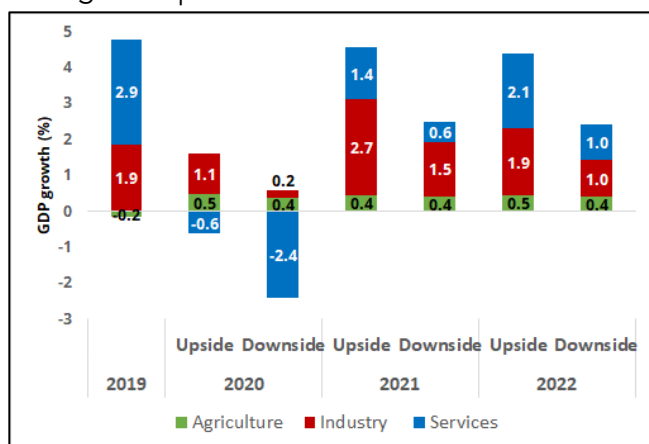
#### Channel of transmission

Disruptions to activity in the real sector	Leading to broader economic & poverty impacts
<ul style="list-style-type: none"> <li>▪ Services sector               <ul style="list-style-type: none"> <li>- Tourism &amp; Hospitality sector</li> <li>- Retail and wholesale trade</li> </ul> </li> <li>▪ Industry sector               <ul style="list-style-type: none"> <li>- Construction sector</li> <li>- Mining &amp; hydropower sector</li> <li>- Manufacturing sector</li> </ul> </li> <li>▪ Agriculture sector</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decline in trade and FDI inflows</li> <li>▪ Lower commodity prices</li> <li>▪ Lower growth</li> <li>▪ Increasing fiscal pressures</li> <li>▪ Banking sector fragilities</li> <li>▪ Decline in employment</li> <li>▪ Remittance inflows disrupted</li> <li>▪ Rising poverty</li> </ul>

#### Impact on the Tourism sector



## GDP growth per sector



## Policy actions

### Relief

- Reprioritize spending towards well-targeted social assistance to affected households and businesses
- Target fiscal and financial relief measures to viable firms that are temporarily affected
- Bring debt service under control (G20 DSSI)

### Recovery

- Engage in restructuring of external debt
- Undertake a joint-donor support program and obtain concessional financing to increase fiscal space
  - ◊ Remove 'red tape' to ease of doing business (e.g. obtaining operating licenses)

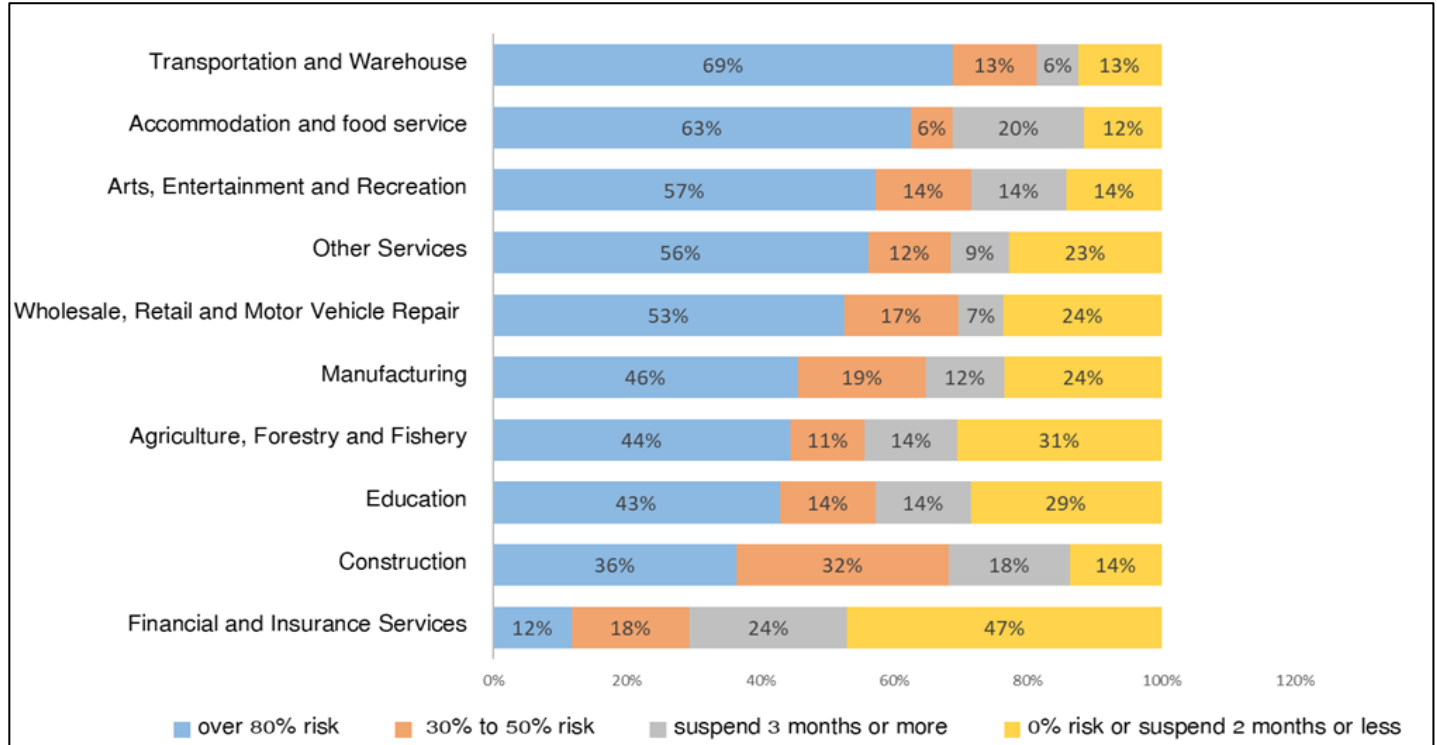
### Resilience

- Strengthen the fiscal and monetary policy framework
- Accelerate reforms in improving business environment
- More and better investment in human capital and social protection system

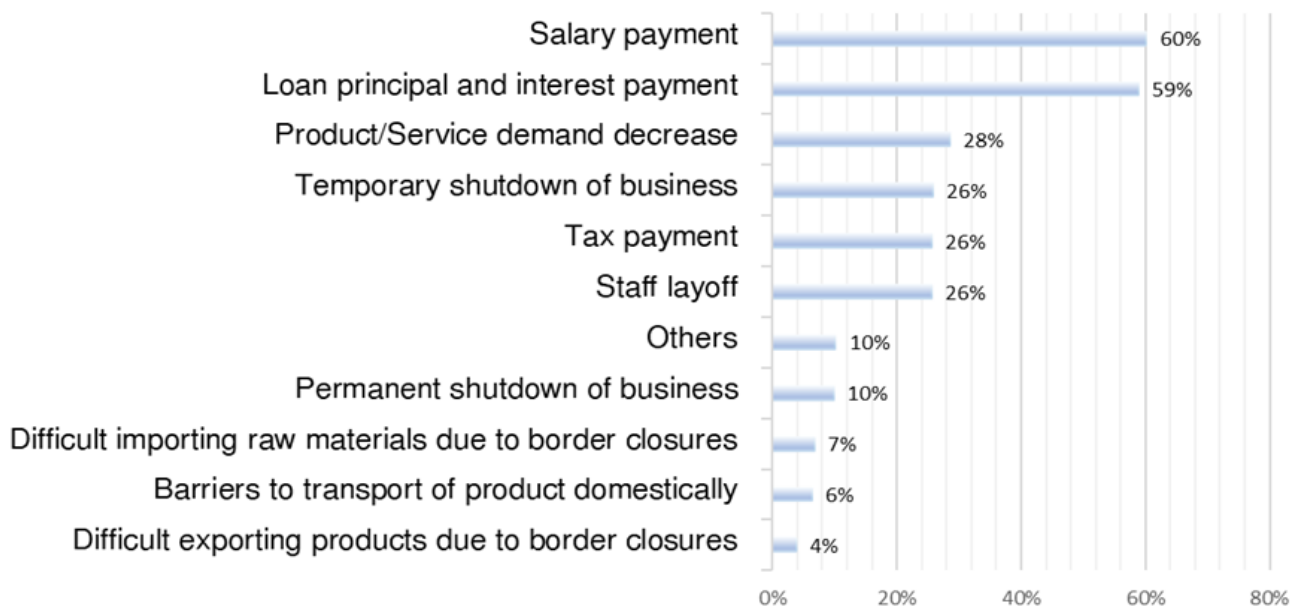
## IMPACT OF COVID-19 TO LAO BUSINESSES

By Mr Oudet SOUVANNAVONG, LNCCI

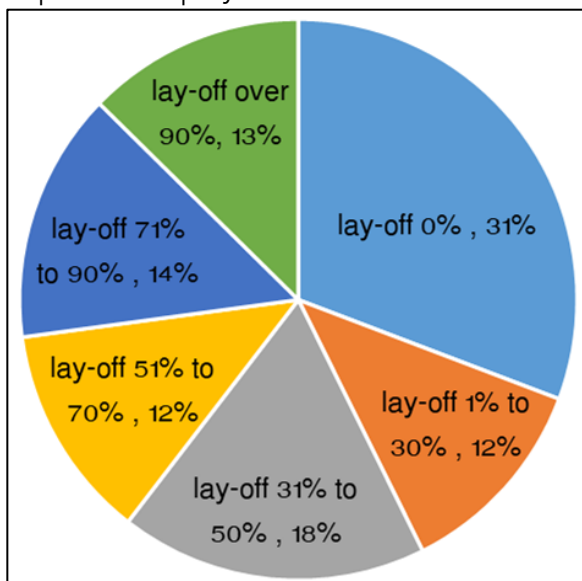
### Risk to cease activity



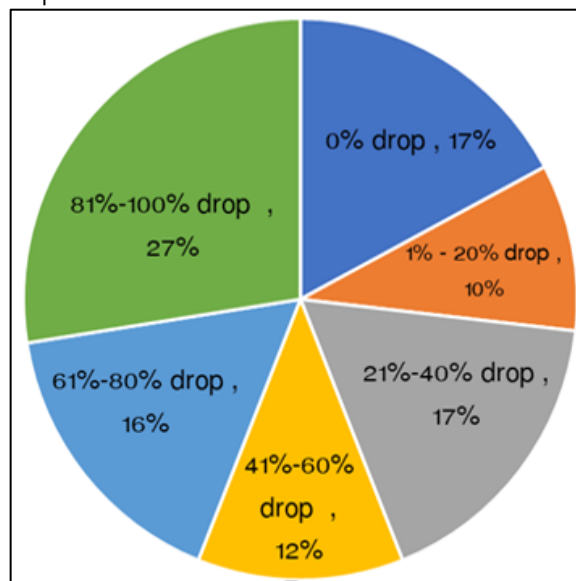
### Challenges in doing business



### Impact to employment



### Impact on the revenue



### Sectoral impacts

	Key numbers	Impacts
<b>Processing industry</b> - F&B - Garment - Construction material	28,169 factories 167,100 persons - 34,500 persons - 26,665 persons - 22,860 persons	<ul style="list-style-type: none"> <li>Supply chain disruptions (raw materials) caused difficulties to fulfill purchase contracts</li> <li>Factories closed following Order No.06/PM</li> <li>Garment sector: orders switched to neighboring countries</li> </ul>
<b>Agriculture</b>	35,600 enterprises registered 548,000 Billion LAK investment value	<ul style="list-style-type: none"> <li>Affected by the decreased demand for vegetables and meat from the Hospitality sector</li> <li>At early stage of Order No.06/PM               <ul style="list-style-type: none"> <li>Domestic: Transportation issues across provinces</li> <li>Export: Additional control measures leading to loss for perishable products</li> </ul> </li> <li>No revenue to finance production for the coming season</li> </ul>
<b>Tourism</b>	Enterprises registered: - 575 Tourism agencies - 637 Hotels 2,283 Guesthouses - 2,679 Restaurants - 36 Entertainment enterprises 554,765 Billion LAK investment value	<ul style="list-style-type: none"> <li>Impacts started in December 2019 with cancellations</li> <li>Hotels and Guesthouses temporary closed beginning 2020 and remain closed despite the authorisation to open during the lockdown</li> <li>Disruptions in tourism-related businesses such as agriculture, handicraft, F&amp;B and transport</li> </ul>

**Impacts for all sectors: Difficulties to pay land rental, salaries, wages, loan instalments, taxes...**

## LNCCI observations and recommendations

- GDP expected to be reduced from 5% in 2019 to nearly 1% to 2% in 2020. 28 months would be necessary to recover, depending on the pandemic situation in the World.
  - Specific policy and measures to be established for an economic rehabilitation to create economic mechanisms for more effective reproduction in all economic sectors.
1. Specific policy and regulations required for the finance sector by strengthening the capacity and the facilitation of lending services to businesses of commercial banks and financial institutions. One important issue is to get the Bank of the Lao PDR's Order No. 238/BOL implemented unanimously by all financial institutions.
  2. Emergency financial measures proposed are the ease of lending in foreign currency, the establishment of a currency swap mechanism, the establishment of a credit guarantee scheme for SMEs, the provision of a special emergency lending scheme to MFIs, and the implementation of an efficient lending scheme for the SME funds.
  3. IMF relief program LNCCI to join to support macro-economic issues and the recovery of the economy.
  4. Development of private equity funds, venture capital and other private funding platforms to be promoted, which could provide private funds for rehabilitating the economy.
  5. Privatization of GoL's fixed assets to potential investors to generate cash. Shares in SOEs sold to quality investors will bring benefit and generate viable revenue to the Government.
  6. A minimum budget allocation of 380 million US dollars (or about 2% of the 2019's GDP) for the recovery of the national economy, to be divided between:
    - Public expenditures, economic rehabilitation, and social welfare expenses.
    - Business sector: about 152 million US dollars or 40% of the budget
 By the re-allocation of existing budget expenditures and from international relief programs and loans.
  7. Reduction of taxes, customs and levies for the priority industries that have been affected for 28 months from July 2020 onwards:
    - Reduction of Value Added Tax (VAT) to 5% (reduction by 50%);
    - Reduction of profit tax to 0%;
    - Lifting of the import tax for factory equipment, machinery and accessories that are needed for improving the production system to new norms and market requirements.
  8. To continue reforming policies and regulations for the improvement of the business environment and to reduce the "Doing Business Ranking".  
To enhance the role of Lao Business Forum (LBF) as the main public and private platform.  
One priority is implementation of Decree No. 02 /PM and the establishment of the public and private task forces to monitor each Doing Business Indicators.
  9. To implement the rehabilitation program effectively and to strengthen public and private partnership in planning, implementation, monitoring and evaluation of the Government rehabilitation projects and programs. Public and private partnership will need to be improved particularly:
    - In promotion of commodity production and consumption of local products (in agriculture) to reduce importation of household consumables (according to Decree No. 51/PM);
    - In the promotion of technical and vocational training (TVET);
    - In tourism development and marketing.

**GOVERNMENT’S RESPONSE TO COVID-19**

By Dr Sitthiroth RASPHONE, CDR MPI

Decision No.31/PM

Emphasis on short-term measures to mitigate impact of COVID-19 during the outbreak of COVID-19 and implementing lock-down measures

- Delaying the dateline for Tax payment
- Encouraging commercial banks to delay payment of loan and interest rate and restructuring loan/debt for customers
- Approving SME loans for agriculture production
- Managing and inspecting operation of factories and mega-projects.
- Ensuring adequate supply of necessary consuming goods in domestic market and control market price
- Facilitating transportation of goods especially agriculture products for export through border gate
- Social and employment insurance
- Subsidizing some cost of internet, water supply and electricity bill for households

More actions to be done

- Undertaking assessment impact of COVID on poverty
- Supporting informal sector (Job loss for informal labor and their welfare)
- Urgent social insurance support for both insured and uninsured labors, returned home labors or most vulnerable people who are affected by COVID-19
- Reconsidering subsidized policy on electricity bill for households
- Providing supporting package for recovery of tourism industry and promoting agriculture production and other domestic production

Medium- and Long-term recovery policies

<p><b>Good macroeconomic management and stability</b></p> <ul style="list-style-type: none"> <li>▪ Improving revenue collection and efficiency of public spending, aiming to reduce budget deficit</li> <li>▪ Managing and address public debts and state-owned enterprise reform</li> <li>▪ Improving current account balance</li> </ul>	<p><b>Support structural economic transformation</b></p> <ul style="list-style-type: none"> <li>▪ Improving productivity of agriculture production</li> <li>▪ Reform in tourism sector</li> <li>▪ SME reform linking potential of regional production network and SEZ</li> <li>▪ Land-locked to land-linked strategy (logistics services)</li> </ul>
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Improving business environment and regulation



Orders No. 2 and No. 3 on improving business environment and one door policy  
Establishment of 10 working groups



Establishing provincial investment board



Strengthening trade facilitation  
E-government



Closed & regulation public-private consultation via the Lao Business Forum (LBF)

Private sector development

