



# *eccil* BUSINESS NEWS

The newsletter of European Chamber of Commerce and Industry in Lao PDR

## Investing in Lao PDR

- > Business Environment
- > Access to Finance

## Editorial of the president of ECCIL



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*George Bernard Shaw was saying that « The single biggest problem in communication is the illusion it has taken place ».*

*Even though we have a website and also cocktail events where you could get on the spot information we found out that ECCIL needed a “Newsletter” to inform its members on the latest news about the business and investment environment in Laos.*

*Along with the coming out of our Investment Guide for Lao PDR, ECCIL has decided to issue quarterly its newsletter with a first edition coming this month mostly based on investment.*

*A special thanks to all the contributors to this issue as you can imagine there is a lot of work behind the scene to make it happen and also to our sponsors who can find a new way to communicate to our business community.*

*We sincerely hope you will find interest in reading this newsletter and we await your feedback on your future expectations.*

*Guy Apovy*

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## Presentation of Laos for the Nordic Business Community in Bangkok



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ECCIL and FinPro organized a Breakfast Seminar on Business & Investment opportunities in Lao PDR on 16th October 2013 in Bangkok. During the event which was attended by about 45 people including H.E. Ms. Kirsti Westphalen, Finnish Ambassador to Thailand. Dr. Ramon Bruesseler, Executive Director of ECCIL, gave a presentation about the economic situation in Laos and the legal framework for doing business.

### Speakers and panel lists

Second row (from left to right): *Kai Tuorila*, Director of the Thai-Finnish Chamber of Commerce; *Christopher Bruton*, Director for Thailand and Indochina of Dataconsult; *Kirsti Westphalen*, Finnish Ambassador to Thailand; *Dr. Ramon Bruesseler*, Executive Director of ECCIL; *Gustaf Godenhielm*, Managing Director of Thai Biogas Energy. First row: *Christer Nyman*, Chief Technical advisor of EEP Mekong RCU; *Olivier de Peyrelongue*, Treasurer of ECCIL; *Gerard Malledant*, Project Director Essilor Lao

## Seminar on the ASEAN Economic Community

ECCIL organized a seminar on AEC in cooperation with the ANZBA and AMCHAM, on October 14, 2013. The event was supported by GIZ, and was attended by about 70 people.

*Guy Apovy*, president of ECCIL, opens the seminar



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## #Tweets from Members

### > **Beeline**

Beeline empowers your business with reliable voice & data solutions that help you achieve your goals in an increasingly mobile world.

### > **Phonesavanh Import Export**

The company, was founded in 1995 by Mr Vansom Vilivong, is the largest distributor of wines, wine accessories and spirit in Laos. Phonesavanh supplies

major hotels, restaurants and retailers in Laos and import from Europe (France, Spain, Italy...), Australia, North America, New Zealand and South America.

### > **Malongo**

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### > **Sayfon Logistics**

Sayfon Logistics is a Lao local company, specializing in international freight forwarding, transportation, removals, and customs clearance.

### > **Comin Asia**

Comin Asia designs, supplies, installs and maintains solutions in Energy & Electricity, HVAC, Water & Fluids, IT, Energy Management in all sectors.



## Two mega railway lines planned

The Lao government plans to build a massive 420 km high-speed railway from the Chinese border to Vientiane, and a 220 km high-speed railway linking Lao Bao on the Vietnamese border with Savannakhet on the Thai border.

Construction of the railway, which runs from Savannakhet City in the east to the border town of Lao Bao in the west with an onward link to Vietnam's Danang port city, is expected to take four years. It

will also offer access to Thailand's developed highway system and nearby airports. Before launching construction the Malaysian construction company Giant needs to carry out a project design study. New Zealand financial institution Rich Banco Berhad agreed in April to provide a U.S. \$5 billion loan to Giant to fund the construction.

Laos is currently negotiating to borrow U.S. \$7.2 billion from China's Export-Import Bank to fund a second planned rail line project linking the capital Vientiane to southwestern

China. The 420 km track would require burrowing 76 tunnels and construction of 152 bridges –representing two-thirds of the entire route– plus two extra crossings to traverse the Mekong River. The project amounts 86% of Laos' annual \$8.3 billion GDP, estimated annual interests are about \$3 billion (calculated by 2% per annum compounded over 30 years).

Laos' current rail system consists of a 3.5 km link over the Mekong River between Vientiane and Thailand's Nongkhai.

## Two new Mekong Bridges soon to be opened

A new 620m bridge over the Mekong is connecting Xayabouri and Luang Prabang Provinces. The construction works commenced in 2009, the project was made possible with loans from South Korea.

The fourth Lao Thai Friendship Bridge linking Bokeo with Chiang Rai and China (Yunnan) has been under construction since 2010. The US\$44.8 million-project is jointly funded by Laos and Thailand, with China laying the financial basement for Laos with US\$ 20 million in grant aid. The two-lane bridge is 680m long and is said to open soon. Three bridges, Vientiane/Nong

Khai, Savannakhet/Mukdahan and Thakhek/Nakhon Phanom, currently span the Mekong connecting Laos and Thailand.

## Laos requires more skilled workers

The actual number of 20,000 workers from abroad has to be more than tripled to meet the business requirements for a skilled labor force. Labor Minister, Onechanh Thammavong stated, that the country requires at least 70,000 more foreign workers. To keep up with the future domestic labor force requests and to be at eye level with competitors, Lao workers need to gain more skills through education and training.

## 3G and Internet availability

According to a government report mentioned in the Vientiane Times, 3G mobile phone signal covers all the country's provinces, and 110 of the total 147 districts receive the signal. The proceeding 3G expansion results from competition among the telecommunications companies. At present, the four competitors Lao Telecom, Unitel, Enterprise of Lao Telecommunication and Beeline are operating.

Customers complain that the internet signal is still weak compared to 3G services in other countries. In 2012, 93,200 broadband internet subscribers were registered in Laos, having more than doubled the 2011 figures with 41,719 subscriptions.

## in Brief...

THE GOVERNMENT PLANS to amend the existing labour law. The current draft is significantly longer than the existing labour law. Controversial points are, among others, limits on the duration foreign employees are allowed to work in Laos, as well as severance payments to employees who give in notice.

IN AUGUST 2013 the Bank of Lao instructed the banks that the exchange of more than 20 million LAK into foreign currency is only allowed

under the conditions outlined in article 5 of the Guideline on the implementation of the Executive Decree on Management of Foreign Exchange and Precious Metal. The guideline dates from April 2010.

A NEW VAT LAW is in the making. It is not yet clear in how far the export of services will be subject to VAT.

THE MINISTER OF FINANCE stated during the annual government meeting with provincial governors end of

September that due to tax incentives, poor financial management and illicit practices the government misses out on 165 million USD in the fiscal year 2012/13. The reason might be a remarkable shortage of hard currency.

THE AVERAGE LAO RESIDENT consumes according to a study of WHO almost 7 liters of alcohol per year – allegedly a record among the ASEAN countries but a far cry from the Moldovans who down more than 18 liters.

# Together for a better Business Environment

Private and public sector stakeholders join together to overcome barriers for an enabling business environment in Luang Prabang and Champassak.

As Lao companies are expanding significantly and the country integrates further into the regional and the world economy the economic environment becomes more competitive. Lao PDR's economic context has undergone profound changes since 1986 with the beginning of the transition from a planned-economy to a market-based economy with gradual reforms. Therefore it is essential that experiences and barriers are discussed, analyzed and solutions are found.

## **Transparency and participation**

To enhance the domestic economy, dialogue takes an essential role for both public and private sector. In order to do so, the GIZ-HRDME (Human Resource Development for a Market Economy) program together with the Ministry of Planning and Investment (MPI), the Lao National Chamber of Commerce and Industry (LNCCI) and the Provincial Chambers support "Provincial Public Private Dialogue (PPPD)" in two strategic provinces (Champassak and Luang Prabang). PPPD is a platform that seeks to improve the provincial business and investment climate through a structured, transparent and highly participatory dialogue between representatives of the

private and the public sector. PPPD is used as an instrument to foster the private sector development in Lao PDR.

In the context of a successful PPPD, stakeholders from both sides, private and public jointly discuss solutions, to tackle pressing challenges for areas, where stakeholders from both –the public and the private side work together. Via interactive working groups the private sector stakeholders analyze, discuss, and identify common issues and joint milestones before bringing them to the attention of the public sector. The local ministry departments have established a steering structure and institutions for the conceptual development, planning, implementation and evaluation of PPPD.

## **Facilitation**

In both Luang Prabang and Champassak private sector stakeholders face similar issues concerning: tourism facilitation, taxes, trade (especially with foreign companies) and construction. Efforts are made by both sides and solutions can be found within the PPPD framework. One typical issue raised in the PPPD session regards the restructuring and facilitation of tourist sites in order to generate higher revenues. In this context

a single travel pass for all tourist sites in Luang Prabang has been suggested and studies analysed the potential.

## **Platforms**

The PPPD sessions form the foundation for mutual trust-building and have numerous benefits to improve communication between the public and the private sector. Not only is it a platform to raise issues and constraints to enhance the dialogue between both Public and Private Sector, but it is also a platform of exchange to improve business operations and regulations, in particular to prepare for the integration of Lao PDR into the ASEAN Economic Community (AEC) and World Trade Organisation (WTO).

The last PPPD sessions were held in October 2012 in Champassak Province and in January 2013 in Luang Prabang Province. Since then further discussions have led to the formation of new Committees so that the private sector can work more focused on the issues concerning the relevant sectors. The Committees and Working Groups are currently discussing more details and are preparing the next PPPD sessions in both provinces for November 2013.

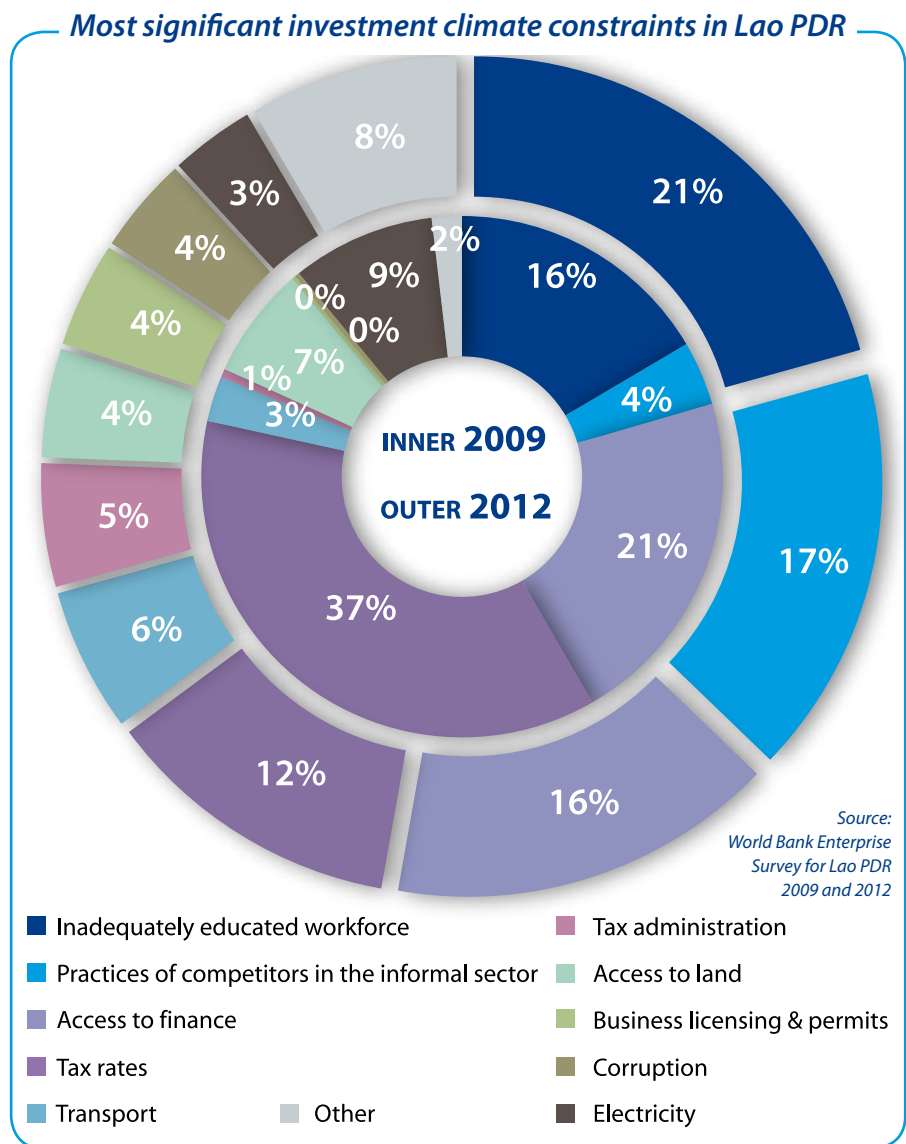
*KIRSTEN FOCKEN, Senior Advisor, GIZ*

# Business Environment in the Lao PDR

Some findings from the World Bank's new Investment Climate Assessment.

The World Bank undertakes periodic Investment Climate Assessments throughout developing countries as part of efforts to provide policymakers with a better understanding of how the private sector is performing in a particular country and where the principle constraints to increased private sector investment are to be found. These assessments are informed principally by enterprise surveys that follow a standardized approach and are conducted with the objective of providing detailed information on firm-level performance and constraints. So far, enterprise surveys have been conducted in more than 135 different countries and capturing data from over 130,000 individual businesses.

This article presents some highlights from the forthcoming new Investment Climate Assessment for Lao PDR, based on an enterprise survey undertaken across Lao PDR for the World Bank in late 2012. The survey covered nearly 400 formal private firms across six provinces, including small, medium-sized and large firms. Half of the businesses surveyed were in manufacturing and half in services and the sample included both domestic and foreign owned firms. The survey also includes businesses interviewed during the previous



survey in 2009, allowing for comparisons to be made over time.

An "inadequately educated workforce" was ranked as the top constraint by firms in Lao PDR. Some 21 percent of managers interviewed during the 2012 survey said that weak skills and poorly educated workers represented

the biggest constraint that they face (see graph). This is an increase from the last time the survey was conducted in 2009, when 16 percent of managers identified workforce education as the top constraint, and suggests that skills is increasingly a binding constraint to further economic development in Lao PDR.

Access to finance has been one of the top constraints to business expansion in Lao PDR for several years, but slightly fewer firms reported this as being the top constraint in the most recent survey compared to in previous years. In 2012, around 16 percent of managers indicated that access to finance was the most significant obstacle to business development, a reduction on the level recorded in 2009. This may well reflect the rapid growth in the Lao banking sector that has occurred over recent years with large increases in the volume of credit extended to the domestic private sector. Nevertheless, access to longer term finance, particularly for SMEs, remains a key concern. Firms also reported damaging competition from businesses in

the informal sector, suggesting frustration with competitor firms that are able to avoid tax or other costly regulatory requirements. Similarly, there was a large increase in 2012 in the share of firms reporting tax administration as being a major constraint compared to in the 2009 survey. In contrast, managers in 2012 were less likely to report tax rates as being a key constraint, in line with recent reductions in corporate income tax rates. Exporting firms, particularly manufacturers, appear to suffer from a high burden when dealing with the transactions costs of tax administration, licensing, customs and business regulations. This suggests that the challenge for the Lao authorities is to improve the efficiency and transparency of

tax administration and other regulatory requirements in order to reduce compliance costs for the private sector. Other key constraints identified by managers of businesses operating in Lao PDR included infrastructure related challenges (such as cost and reliability of transport and electricity), regulatory costs (such as business licensing and permits), access to land and corruption.

*RICHARD RECORD  
Senior Economist  
in the World Bank office Vientiane*

*The new Investment Climate Assessment for Lao PDR will be available to the public by early 2014. Data from the World Bank's enterprise survey is already available online at [www.enterprisesurveys.org](http://www.enterprisesurveys.org) More information <http://www.worldbank.org/en/country/lao>*

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# Investment Environment in Laos

The Lao People's Democratic Republic used to be known as the Kingdom of a Million Elephants. However in recent times it would be truer to call it the Kingdom of a Million Opportunities...

With a youthful population (60% 25 years old or younger<sup>1</sup>), largely untouched natural resources and a country which is working to meet the United Nations' Millennium Development Goals, there is much to explore.

In the last few years, there has been considerable economic, social and international development. GDP growth in the last decade has averaged around 7%. In the last three years, the Lao PDR saw its first stock exchange start operations, was admitted to the World Trade Organization (WTO), and successfully hosted the Asia-Europe Meeting.

The four major sectors which have contributed to the growth of the economy are:

## **Hydropower**

Laos has benefited from its natural resources and the rapidly developing industrial economy of its neighbours: approximately 70% of its total hydropower is exported, mainly to Thailand<sup>2</sup>. In the last five years hydropower output has grown from 3.7 to 13.8 billion kilowatt-hours<sup>3</sup>.

## **Mining**

By the end of 2012 investment in the mining sector reached USD 271 million. The Asian Development Bank reported that output of copper, gold and silver increased by 8%, (149,500

tons), 61% (206,240 ounces) and 15% (616,680 ounces), respectively<sup>4</sup>. Other products mined include limestone, potash, tin and sapphires; there are also deposits of zinc, lead, iron and manganese that remain largely untapped.

## **Agriculture**

Agroforestry contributed more than 25% of the country's GDP in 2012 and is also the biggest employer, with more than half of the country's workforce<sup>5</sup>. Most agriculture is subsistence farming, but there are also a number of successful cash crops: cassava, coffee, silk, tobacco, eucalyptus, etc.

## **Tourism**

According to the Lao National Tourism Administration, the number of visitors has doubled since 2008, to 3.3 million in 2012. These visitors contributed USD 500 million to the economy.

## **Advantages of business in the Lao PDR**

Businesses in Laos have a number of inherent advantages in their favour:

## **Natural Resources**

The Lao PDR is rich in natural resources: forests, water and minerals. Despite the growth noted above, these resources still remain mostly untapped, giving businesses an opportunity to start fresh activities. However, in mid-2012, the Lao government issued a four-year moratorium for new mining projects, in order to consider and resolve environmental and social concerns regarding the use of agricultural land.

## **Central Location**

Laos has faced difficulties in the past as a landlocked country. However, with the growth of communications between its neighbours, especially Thailand, Vietnam and China, the Lao PDR is gradually changing into a land-linked country. Links between Thailand and Vietnam, via the East-West Corridor, and between Thailand and China are generating increased business activities; Savannakhet province is becoming a hub for trade and services in the Greater Mekong Sub-Region.

	2008	2009	2010	2011	2012
Number of tourist arrivals (Millions)	1.7	2.0	2.5	2.7	3.3
Revenue from tourism (USD million)	275.5	267.7	381.7	424.4	500



### **International Organisations**

The Lao PDR is a member of the ASEAN, which is scheduled to develop a single regional economic union, the ASEAN Economic Community (AEC), in a few years. In 2012, the Lao PDR also obtained membership of the WTO, which will enable the country to trade and transport goods across borders.

### **Challenges faced by business**

Whilst there are big opportunities, business also have to overcome some challenges. In the most recent Doing Business report by The World Bank and International Finance Corporation, the Lao PDR was ranked 163rd out of 185 countries<sup>6</sup>. Whilst this is a slight improvement on the previous year, when it was ranked 166th, it is the lowest ranking given in the East Asia and Pacific region apart from Timor Leste. So what are the main problems facing businesses?

### **Administration of laws**

Many of the laws in the Lao PDR follow international standards; however, there are a number of gaps, especially in the guidelines on their implementation. In

addition, Laos is decentralized, and provincial authorities often have autonomy in interpreting laws. As a result it is common to observe different applications of a law by different organizations.

### **Labour shortages**

Laos is thinly populated, with only 6.5 million people in a land area of 236,800 square kilometers<sup>7</sup>. Moreover, the country is facing difficulties in education at all levels: although 98% of children enroll in primary school, only 70% complete primary education. As a result there is an acute shortage of both skilled and unskilled labour in the country.

### **Infrastructure**

Most of the country is mountainous and lacks adequate infrastructure. There is no railway system in the country except for a short link connecting Vientiane and Thailand. The roads which connect the major cities have been improved in recent years, but connections to remote areas remain poor. Furthermore, the telecommunication system in the country operates on a limited scale and is still being developed.

### **Conclusion**

The Lao government is aware of the problems and knows that it has to address its social and economic issues and to identify how best to make use of the country's natural resources. Some steps are being taken to clarify the legal framework but the pace remains slow. In short, the possibilities remain very attractive; but the difficulties in making full use of them remain challenging. Investors need to take a long term view and focus on those sectors where there are real opportunities.

*MARK JEROME*

*Partner KPMG Co. Ltd., Laos*

### **Disclaimer**

*The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.*

1. UNFPA Lao PDR, 2013  
2; 3; 4; 5. ADB, 2013

6. The World Bank and International Finance Corporation, 2013

7. Government of Lao PDR and UN, 2013

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## **INVESTMENT GUIDE FOR LAO PDR**



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# Access to Finance in Laos

For most businesses in Lao PDR, both large and small, the thought of financing a business with a Bank Loan can be overwhelming...

You have heard rumours about piles of paperwork. But it does not have to be a difficult process if you prepare yourself, things can go smoothly from the start. Particularly at BFL, our Relationship Managers are here to assist perspective borrowers. In this article, we take the opportunity to outline the key process and answer some of the most common questions our team have had dealing with both existing and perspective borrowers.

### Do you need a loan?

This may seem a simple question for those who are in need of fund to expand their business. Nonetheless, for many businesses who have fund their business through retained earnings/personal savings/equity obtaining the loan in small scale for instance is considered beneficial, mainly for leverage purpose. The need to build the credit history with Laos banks will also allow lenders (in general) to be able to objectively assess perspectives clients in a much

more effective way. Businesses need to build credit in order to prove its creditworthiness.

### Who can apply for a loan?

In Laos P.D.R, business that is formally registered in all sectors with the legitimate licensing will be eligible to apply for the loan.

Perspective customers that wish to apply for loan through BFL would require preparing the main documentations as per below:

- Business Plan
- Financial Statements
- Company Structures and Details (including history)
- Loan Request Proposal
- Collateral Proposal Details.

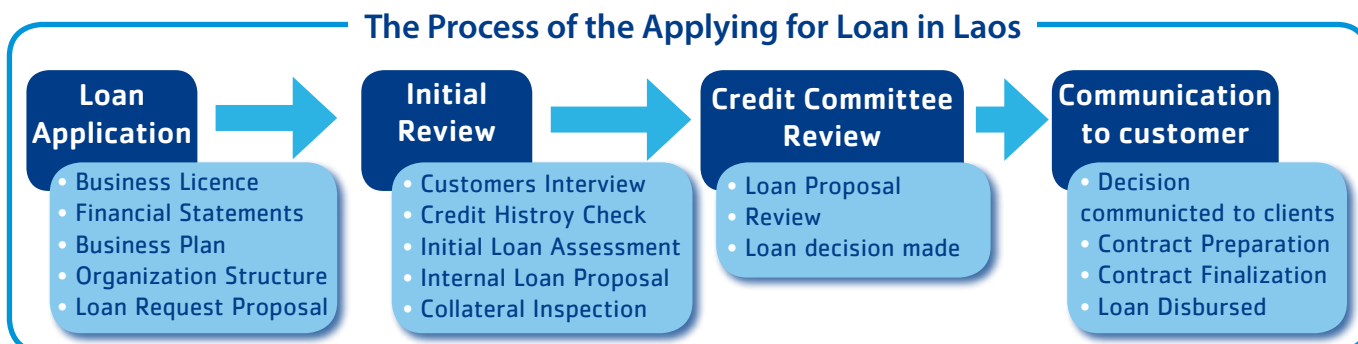
### Collateral Requirement

Collateral is considered one of the most factors in Laos P.D.R banking system. However, at BFL, collateral such as land and house is not considered the main requirement for the loan application. BFL approach to business financing in Laos is to mainly focus on the business

itself. The loan assessment process is mainly concentrate on detail review on the company past performance via the study of the company financial statements, business plan, the management. In any loan application process, our Relationship Manager will visit the customers' business on site, interviewing key senior management to gain the better insight of the company and the industry. Hence, collateral such as land and house which is the main common requirement for virtually all the banks in Lao P.D.R is considered less significant at BFL. At BFL, collateral can be expanded items such as inventor and machinery. Nonetheless, having good business in combination with strong quality collateral will result in better pricing for the loan application.

### Loan application timeframe

Averagely at BFL, our loan approval/disapproval decision is averaged at 2 weeks and in case of the loans being approved, the perspective clients would be



able to draw down the loan 2 to 3 weeks after the decision date (this is largely depending on the legal process).

It is important to note that at BFL, our Relationship Manager will be in contact with perspective clients on the regular basis to ensure that perspective clients' business are not being adversely impacted.

### Loan for brand new company

Generally, we are looking for company who has financial history of at least 3 years this include overseas company that has strong track record and expanding the business into Laos.

### Loan in LAK or foreign currency

This is largely depending on the clients' income – if it is in LAK it is highly advisable for loan to be in LAK.

Nonetheless, for those who earn income in foreign currencies such as USD or THB can have the option to also take out loan in corresponding currency.

As the cost of funding in

USD/THB is lower than LAK, accordingly the pricing in USD/THB will be lower.

### Pricing

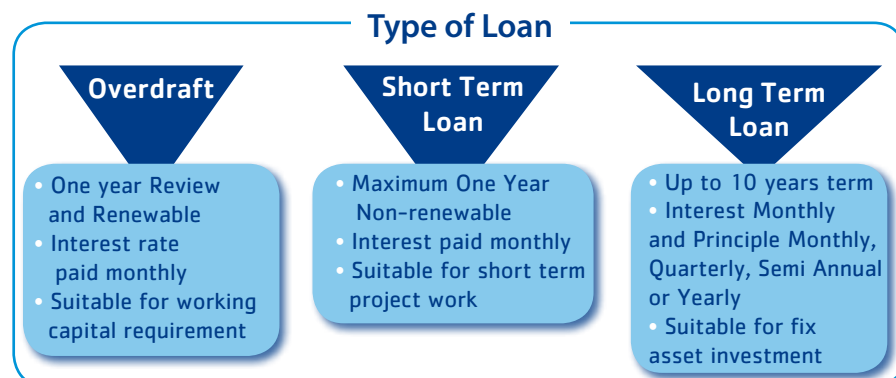
BFL policy in pricing is largely depending on the risk assessment process. Strong company financial performance in the growing industry combine with the quality collateral will generally result in the lowest interest and flexibility of the loan terms. Based on our loan portfolio the below is our average pricing in each of the currency loan.

### BFL Relationship Manager

The key approach to our business in Laos is our Relationship

Maximum Loan Approval Fee		
LAK	1.25%	10% to 15% Max. of 5 years
USD	1.25%	8% to 12% Max. of 10 years
THB	1.25%	8% to 12% Max. of 7 years

Manager that responsible for customer's services and interaction. Our corporate Relationship Manager is well trained and well equipped with industry knowledge. Our Relationship Manager is not only the main point of contact but also able to advise our perspective clients on loan structuring, legal related issues and more importantly be at every step with our customers to further build their business in Laos PDR.



## Up & Coming Events

- > **Nov. 7** **Investment Conference jointly organized by ECCIL and the European Chamber of Commerce in Cambodia** Phnom Penh, Cambodia
- > **Nov. 13 – 15** **EBO Worldwide Network Meeting** Yangon, Myanmar
- > **Nov. 21 – 22** **Reception of Vietnamese Business Delegation, jointly organized by ECCIL and Eurocham Vietnam** Vientiane, Lao PDR
- > **Nov. 25 – 30** **Les Rendez-vous de Vientiane** Vientiane, Lao PDR
- > **Dec. 13** **Launch of the ECCIL Investment Guide** Vientiane, Lao PDR
- > **December\*** **Launch of Salary Study** Vientiane, Lao PDR
- > **December\*** **"Design Thinking" - An Introductory Workshop** Vientiane, Lao PDR
- > **January 2014\*** **Seminar on Effective Communication & Presentation Skills** Vientiane, Lao PDR

\*Further information and updates on [www.eccil.org](http://www.eccil.org)



### **Tourism industry crosses borders with Visa plans**

Tourism is the second largest income earner after the mining industry in Laos according to a recent tourism statistics report.

Despite the global economic crisis of 2008, the number of tourist arrivals in Laos continued to rise. In 2010, tourist arrivals reached 2.5 million, before rising to 2.7 million in 2011 and to 3.3 million in 2012, generating about US\$514 million in the last year.

The government estimates that the number of tourist arrivals could reach 3.58 million in 2014, 3.74 million in 2015, and 4.5 million people in 2020.

To cope with the growing numbers of tourists and to deliver adequate service, Laos plans to finalize the upgrade of the national skills standards in the tourism industry, but it still has to develop training

courses for several sectors. About 85% of the foreign tourists in Laos originate from neighbouring countries, first of all from Thailand. Few of them are big spenders. This explains why the revenue per tourist is only 154 USD – a figure which is virtually the same as 10 years before and is significantly lower than in neighbouring countries.

Five ASEAN countries Laos, Cambodia, Myanmar, Vietnam and Thailand plan to jointly attract international tourists and target to count 50 million arrivals in 2015. One key aim to success is simplifying the entry procedures, allowing travelers to use a single visa.

### **New targets set for bilateral Cooperation with Thailand**

Laos and Thailand have set bilateral trade of US\$ 5.77 billion in 2015. To reach this target, the two countries will continue frequent delegations

exchange, product exhibitions and network meetings as well as further investigation in their infrastructure projects such as railway, bridges and roads. The trade value between Laos and Thailand was at US\$ 1.78 billion in 2007 and has reached US\$ 3.9 billion in 2011.

### **China-Lao relationship carries forward**

The trade volume between Laos and China has reached US\$ 1.728 billion in 2012 and is increasing on a year-on-year basis. During the last CAExpo in Nanning in September, China has agreed to allocate more than US\$ 49 million grant aid and also more than US\$ 32 million in non-interest loans to Laos in 2013. China is one of the largest foreign cross-industries investors in Laos.

## Legal affairs

### **Labor Law enhancement ongoing**

Experts from Federation of Trade Union, Lao Chamber of Commerce and Industry and the International Labour Organisation (ILO) revise the labour law in cooperation with Lao line ministries to comply with international standards. Until now, amendments made in 2011 by the Ministry of Labour and Social Welfare were not implemented due to concerns from the ILO, employers and workers. The last labour law was put into practice in 2006, consisting of 77 articles. The new labour law is supposed to have extended 134 articles. Employers still worry that the planned amendments will have a negative impact on their competitiveness and do not completely respond to the labour situation in Laos – a

significant number of vacancies but not enough workers and in particular not enough well trained workers to fill them. Among others it is planned to limit the maximum stay of foreign workers – which might deter FDI – and foresees that an employee who gives in notice has to be compensated by the employer – which will put an unnecessary burden on the companies and deter them from training their staff since trained personnel might be more likely to swap jobs.

### **Laos considers requirements to adopt timber trade regulations**

Laos is examining the conditions necessary to enforce international rules on the timber trade and the sourcing of wood products,

which will ensure effective and sustainable forest management. The Lao Ministry of Planning and Investment and the German Ministry of Economic Cooperation and Development signed an agreement which sees 5.8 million euro (US\$7.47 million) given to Laos for the support and development of law enforcement programmes. For acceptance into the Action Plan Forest Law Enforcement, Governance and Trade (FLEGT), the European Union supports Laos in consolidating governance of forest management.

## Limited change of currencies

The Bank of Lao has instructed the banks operating in Laos to limit the sales of foreign currencies unless they meet the criteria laid out in article 5 of the Decree on the Management of Foreign Exchange and Precious Metals. Some banks may exchange different (lower) amounts. The Lao government wants to promote and stabilise the national currency, goes the official record. There are chances that the country is a bit short of foreign exchange which might be a short term issue rather than a structural problem. The Lao Central Bank has eagle-eyed the movement of exchange rates in the past. Depreciation of the kip especially in relation to the Thai Baht could negatively affect prices for consumer goods in Laos as they are predominantly imported from Thailand. Currency depreciation could stimulate traders putting up

prices of all imports. Reversely, the new regulation requires people to time-consuming bank visits and accurate budgeting.

## Further financial support from World Bank and ADB

Lao receives another US\$6.5 million grants from the World Bank to Further Support Customs and Trade Facilitation. The grant agreement builds on the achievements of the original International Development Association grant of US\$6 million, which was approved in 2008, designed to ensure full and effective implementation of the new Customs Law.

Also the ADB is planning to provide a US\$60 million low-interest loan to Laos at the end of the year to help reduce rural poverty and improve food security. The loan will be used to build roads in rural areas which will connect to the main transport routes. The last project with US\$10

million for irrigation system ran well and targeted provinces could reduce poverty.

## Lao Stockmarket in movement

The Lao stock has currently two listed stocks in the market: BCEL and EDL-Generation. Lao Airlines and two security companies Lao-China Securities Co Ltd. And Lanexang Securities, a partnership between Sacombank Securities and the Lao Development Bank are said to follow soon.

According to data from the Lao Stock Exchange, one of the smallest stock exchanges in the world, the current playground is dominated by foreign investors, who accounted for 58.46 per cent of the market last year.

# Economy

## Economic growth on track

According to the NERI (National Economic Research Institute), economic growth rates in Laos should reach 8.3% in 2013 and continue growing with 8.2% in 2014/ 2015. The capital Vientiane expects 12.6% growth for this fiscal year, to continue development and expansion, more government and foreign investment projects have to be implemented.

Laos plans to attract more private investments and revise relevant laws. In the new five-year plan set by the Government for 2016-2020, an economic growth rate from 8.5-9% and a *per capita* income from US\$ 3200 are targeted. The highest GDP *per capita* could reach US\$ 3300 in the capital Vientiane this fiscal year, whereas the overall GDP *per capita* reaches about US\$ 1.349.

The NERI report estimates world economic growth increasing from 3.28% in 2012 to 3.62% in 2013 and European economic growth from -0.21% in 2012 to 0.49% in 2013.

## High inflation rate

The Vientiane Times reports that the Inflation rate reached 6.87% in September, up from 6.83% in August 2013, down from alarming July figure 7.4%. The average inflation rate over the first six months of this fiscal year was at 4.85%.

## 5% investment growth in Laos

According to a report from the Ministry of Planning and Investment, the value of investment projects during the first 11 months of the fiscal year was 5.1% higher than in the previous fiscal year. Investment of more than LAK

23.77 trillion (US\$ 3.04 billion) were mostly flowing into the Lao energy sector (LAK 12.2 trillion), followed by mining (LAK 8.57 trillion) and hotels and restaurants (LAK 858 billion). 52 projects from local and foreign investors with funds from 12 countries were accepted. China invests the largest amount with more than LAK 10.42 trillion.

## EU further Supports Development in Laos

The European Union plans to further intensify cooperation in many sectors, also taking account of global climate change, judicial and human rights matters. The main sectors for support are agriculture and forestry, advancement in trade and business, as well as improvement in health care and education.

# Lao PDR: Please Don't Rush

Growth in Laos has been consistently high for the last few years – generating more and more interest from international brands.

Indochina Research spoke to consumers in Vientiane Capital to find out how that growth is impacting on them and the least we can say is that confidence is at a high with over 90% of people surveyed confident their financial situation is on the up-and-up.

Overall, consumers in Vientiane feel the benefits of economic growth are filtering down –giving them higher levels of spending power. 38% of the adults we spoke to have a household income of over \$450 per month. 82% claimed they were better off financially that a year ago, and 92% believed that their financial situation would improve in the next 12 months.

The majority feel that the economy in Laos is in a good or excellent place (83%) – with 95% thinking the overall wealth of the country would improve even more in the next 2 years.

Laurent Notin, MD of Indochina Research said *“consumer confidence is key to the growth of any market –without this confidence, consumers will not buy products. This data shows that Laos consumers are willing to spend and brands should take this opportunity to grow their market shares.”*

The increase in spending power has manifested in several ways –two most noticeable are the ownership of cars and mobile phones. In our survey, 34% of adults personally owned their own car. This was even higher amongst 35 years at 44%. A further 19% claimed they intended to buy a car in the next 6 months.

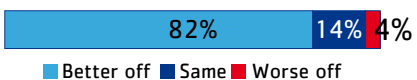
Ownership of mobile phones has reached saturation point in Vientiane, with 96% of adults owning a mobile phone. Despite this, 15% still intend to buy a new model in the next 6 months, suggesting consumers

### What do you think about foreign businesses and brands coming to your country?

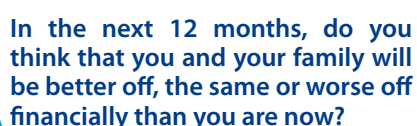


want better technology as their disposable income grows. *“Cars and phones have fast become a status product in Laos – it means a lot to be seen with the latest model phone or a premium car”* commented Laurent. *“This will follow through to other categories as a wider range of products and services become available here.”* .../...

Would you say that you (and your family living with you) are better off, the same or worse off financially than you were a year ago?



In the next 12 months, do you think that you and your family will be better off, the same or worse off financially than you are now?



Ownership and purchasing	Personally own now	Intend to buy in next 6 months
House	67%	11%
Car	34%	19%
Computer	41%	8%
Washing machine	46%	13%
TV	86%	3%
Mobile phone	96%	15%
Personal Holiday abroad	NA	8%



## Lao PDR: Please...

And consumers do want more –foreign investment in Laos is exciting them. Over 90% agree they are looking forward to new products and services being offered as the economy grows, and a similar proportion think this means an increase in availability of good quality products. They also see the benefit of foreign investment – of more jobs (92%) and an even stronger economy (95%).

Know your market –Laos is a blossoming economy – with high levels of interest and demand for what the rest of the world has to offer. As the economy grows so will the consumer spending power.

*INDOCHINA RESEARCH TEAM, ET AL.*

### **Research Design**

*Random HH F2F interviews of 200 respondents in Vientiane equally split between gender. Fieldwork was conducted in September 2013.*

## The Rendez-vous de Vientiane

The last week of November will see a major Lao-French event, the “Rendez-vous de Vientiane”. This first French-Lao week will combine economic, scientific, cultural and sport events. It is organized by a committee under the presidency of Mr. Alain Daout. Please, read below excerpts of his introduction to the event:

*« Laos is at the crossroads of one of the fastest growing areas of the world and a gateway to the most dynamic part of the subcontinent, the great Mekong’s region.*

*In order to raise the awareness of the strong Franco-Laotian relations as well as the interest for French economic and political actors to be more present in the “Land of a Million Elephants”, I took the initiative with his excellency Yves Carmona, Ambassador of France in Laos, and the French business community supported by the European Chamber of Commerce and Industry, to organize the first «Rendez-vous de Vientiane» from November 25th to November 30th.*

*Strongly rooted in a bilateral relationship, our work is supported by the Government and the City of Vientiane.*

*The list of companies or institutions which join us or will take part in the event, in one way or another, is growing every day: CGPME; CNCCEF; the Francophone Business Forum; French and European Chambers of Commerce of Vietnam, Singapore, and Thailand; the Lao National Chamber of Commerce and Industry; the City of Paris...*

*Companies belonging to our economic heritage: EDF, Bred Banque Populaire, Essilor, Alstom, EADS, Safran, Systra, SDV, Yves Rocher and President will join to show up the interest of this unique event and many others less famous but proudly representing the French Savoir-Faire of initiative. Moreover, some territorial collectivities are also involved like Region-Alpes, Cannes...»*

*Further information is available under: [www.semainedelafrance.org](http://www.semainedelafrance.org)*

## Thanks to the Contributors



> The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is active in the field of rural development and sustainable economic development. As a federally owned enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.



> The World Bank is one of the world’s largest sources of development assistance. Our mission is to fight poverty with passion and professionalism for lasting results.



> KPMG is one of the largest professional services firms in the Lao PDR, providing Audit, Tax, and Advisory services since 1997 with a balanced mix of international and local clients. (Please visit us at: [www.facebook.com/KPMGinLao](http://www.facebook.com/KPMGinLao)).



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> Indochina Research Ltd is a market and social research company with 20 years experience of providing innovative research solutions to multi-national companies and donor organizations in the dynamic and evolving markets of Indochina.

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