

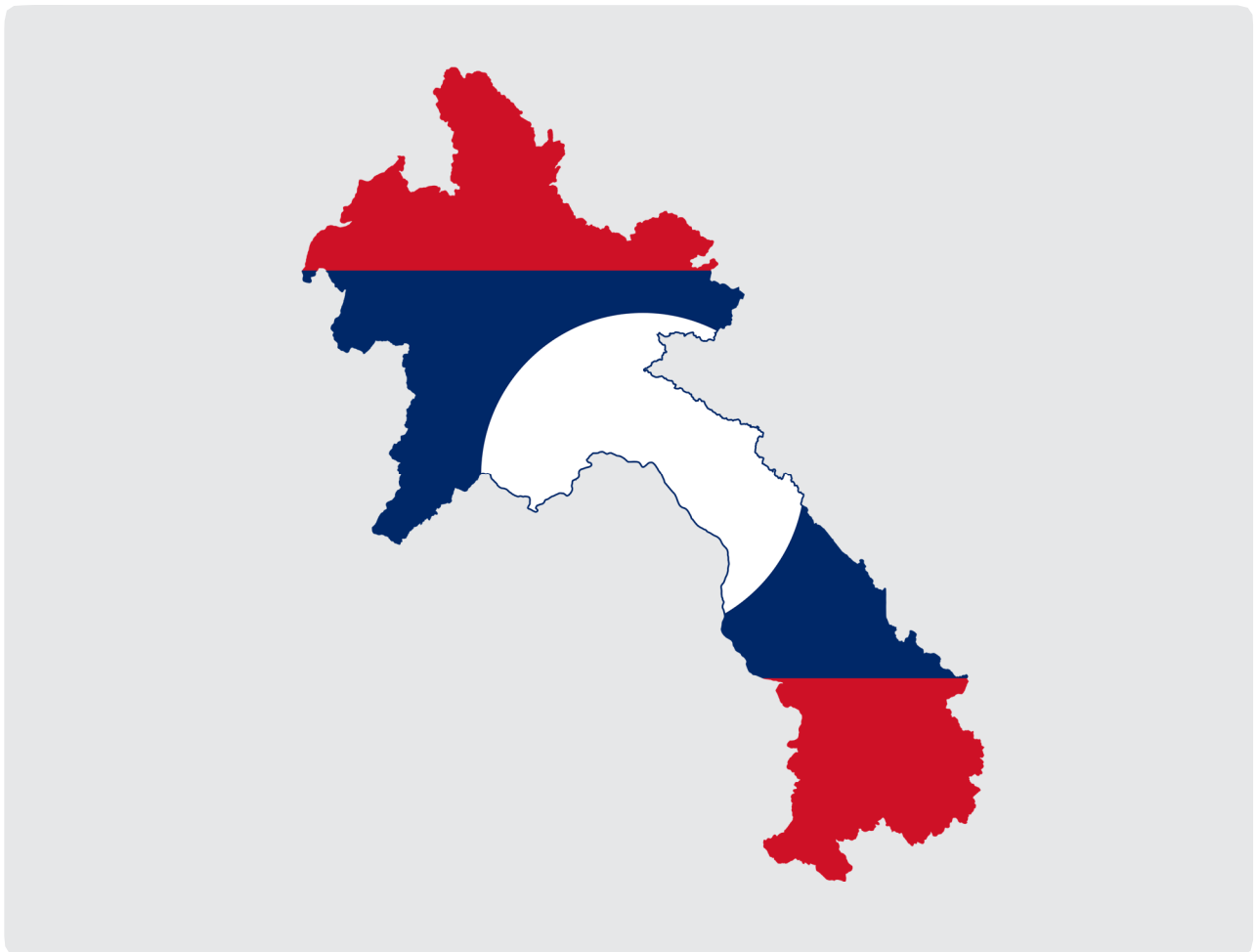


EASE business,
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Enabling Environment for Sustainable Enterprises



International
Labour
Organization



Enabling Environment for Sustainable Enterprises in Lao PDR

August 2015



International
Labour
Office
Geneva

2015

The enabling environment for sustainable enterprises in Lao PDR

Enterprises
Department

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Foreword

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. The conclusions of this discussion provided an important contribution agreed by the ILO's tripartite constituency of governments, employers' and workers' organizations on how to promote enterprise development in a manner that aligns enterprise growth with sustainable development objectives and the creation of productive employment and decent work. The conclusions called for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report analyses how the Lao People's Democratic Republic (Lao PDR) performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The report incorporates the results of a national opinion or perceptions survey conducted in the country focusing on 7 of the 17 pillars, including Trade and sustainable economic integration; Enabling legal and regulatory environment; Access to financial services; Entrepreneurial culture; Education, training and lifelong learning; Good governance; and Social dialogue.

The report is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Lao PDR. A complementary action plan based on the findings of this report will ensure the implementation of specific measures aimed to improve the enabling environment for sustainable enterprises in Lao PDR.

The Lao National Chamber of Commerce and Industry ought to be thanked for helping to facilitate the implementation of activities since their inception. The authors would like to express their gratitude to Claudio Cerabino and Marko Stermsek for their assistance in carrying out the secondary data research and conducting the literature review. Special credit goes to Claudio Cerabino for editing and formatting this report.

The views expressed in the report are the sole responsibility of the authors and do not represent those of the ILO or the social partners in Lao PDR. Similarly, any errors or omissions are the sole responsibility of the authors.

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Abbreviations and acronyms

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency For International Development
BDS	Business Development Services
CLMV	Cambodia, Lao PDR, Myanmar, and Vietnam
CRPD	Convention on the Rights of Persons with Disabilities
EESE	Enabling Environment for Sustainable Enterprises
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GMS	Greater Mekong Sub-region
ICT	Information and communication technologies
ILC	International Labour Conference
ILO	International Labour Organization
IMF	International Monetary Fund
IPR	Intellectual Property Right
Lao PDR	Lao People's Democratic Republic
LaoNCAW	Lao National Commission for the Advancement of Women
LDPA	Laos Disabled People's Association
LFTU	Lao Federation of Trade Unions
LNCCI	Lao National Chamber of Commerce and Industry
LPRP	Lao People's Revolutionary Party
MDGs	Millennium Development Goals
MOLSW	Ministry of Labour and Social Welfare Lao PDR
MPI	Ministry of Planning and Investment Lao PDR
NA	National Assembly
NEM	New Economic Mechanism
NSEDP	National Social and Economic Development Plan
NUoL	National University of Laos
OSH	Occupational Safety and Health
SBG	School Block Grant programme
SBM	School-Based Management
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TVET	Technical and Vocational Education and Training
UN	United Nations
UNDP	United Nations Development Programme
WHO	World Health Organization
WTO	World Trade Organization

Executive summary

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. This calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report is based on these conclusions. It analyses how Lao People's Democratic Republic (Lao PDR) performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The assessment described in this report is based on secondary data, a literature review, and results of a national perceptions survey of employers conducted in Lao PDR, which focused on 7 of the 17 pillars.

To further enhance the readability of the report, summaries have been included at the beginning of each chapter with a graphical representation of the most relevant indicators for the respective chapter, comparing Lao PDR to selected countries and summarizing the main chapter findings.

Economic elements

Lao PDR's economy is going through a structural shift from agriculture to natural-resource based industry, as natural resource-based sectors have been growing very rapidly during the past decade. However, along with the benefits, there are also significant risks associated with the country's natural wealth. In case of mismanagement, macroeconomic risks include a possible slowdown in industrialization as well as significant environmental and social risks. On the contrary, managing natural assets cautiously can boost a genuine development allowing the Government to invest more in human capital, infrastructure, and innovation. The share of non-tradables (services) to GDP has grown more moderately, driven by increases in tourism and trade in recent years as well as expansion in infrastructure construction. Fast economic growth is also putting the country under increasing macroeconomic strains that will need careful management. The Government seems to have adopted a policy which brought the fiscal deficit to widen markedly. In addition, the Government is struggling to collect revenues and to control unauthorized spending. The risk of an excessive credit boom has been envisioned by multilateral bodies such as the International Monetary Fund and the World Bank, which have suggested the Bank of Lao PDR to tighten the monetary policy.

Lao PDR is the only landlocked country in Southeast Asia. Its main exports are copper, electrical energy, wood and apparel. It mainly imports oil, machinery and equipment, and vehicles and its major trading partners are Thailand and China. The Lao value of trade has risen rapidly over the last decade with both imports and exports increasing by average annual rate of 24 per cent. However, increasing export concentration towards natural resources can restrict economic growth through the early onset of diminishing marginal returns to a more limited range of export products, and through increased risk of terms-of-trade shocks. In addition, export competitiveness in the non-natural resource sectors is decreasing. While tariffs have progressively fallen, non-tariff measures (many of which are implemented in a non-transparent way), are increasingly seen as binding constraints to both greater imports and exports. From 2000 on investment picked up, with China emerging over the past decade as a principal player, along with Vietnam and Thailand. China has also invested in infrastructure development to improve transport links between southern China, Lao PDR and northern Thailand.

Despite recent significant positive regulatory reforms that have made it easier for entrepreneurs to do business, Lao businesses are still hampered by restrictive and cumbersome regulations. Great discretion is given to officials of the regulatory bodies and to tax authorities. The whole body of laws is still slowly being developed and the judicial system is inefficient, with protections for property rights not enforced effectively. With the Lao IPR legal framework still in the early stages of development, also protection and enforcement of IPR is still relatively weak. However, the law offers a fairly efficient system for registration of most major IPRs. Although competition is officially recognized as a “major driving force for economic development” and some initial cornerstones of an evolving competition policy have been set, Lao PDR remains a centrally planned economy under many aspects. State intervention into various market functions is still rather strong, while the private sector is practically small in size, unorganized and in a disadvantageous competitive position due to low capital base, lack of technological and managerial skills.

ICT development in Lao PDR has considerably improved in recent years, although ICT usage rates remain notably low. Also, the Government is aware of the role of ICT in industrialization and modernization, as well as in improving the quality of Government service and administration. However, Lao PDR needs to expand the necessary national information infrastructure, increase investment in the ICT sector, and develop skilled human resources. Financial-sector reforms are on-going, but high credit costs and scarce access to financing severely impede private-sector development. As a consequence, much of the population remains outside of the formal banking sector. Excessive information asymmetries and serious difficulties in executing collateral further impede formal lending to SMEs. Firms in all manufacturing sectors are hampered by poor infrastructure. Moreover, quality of and access to infrastructure services are generally inadequate, imposing high fixed costs. Electricity is among the worst constraints to doing business. The Government, however, has introduced numerous regional and sub-regional infrastructure development projects.

Social elements

The SME sector dominates economic activity in Lao PDR and accounts for substantial employment. Women also are increasingly running their own businesses, although firms owned by women tend to be smaller and report greater difficulty in accessing financing and technical skills. Despite the various challenges that all types of firms face, many businesses are still quite positive about their future, with expectations to increase both their workforce and performance. However, such a high optimism together with a widespread low-competition culture may cause a long run hindrance to productivity. The Government has undertaken policies to improve the SME regulatory framework.

A shortage of skilled workers is the most hindering constraint for firms of all sizes. Moreover, it is estimated that 200,000 skilled workers will be required annually over the next five years to sustain growth. Lao PDR's education system, however, is not capable to provide all students with access to education and improving learning outcomes. Children in rural areas and villages as well as children from ethnic groups are generally disadvantaged. Lao higher education sector is expanding. Public and private institutions have been proliferating rapidly as the country education sector attempts to meet the increasing demand for skilled graduates. However, quality has become a major challenge and the courses offered are not necessarily aligned with labour market needs. Equipping Lao workers with work skills that are needed has been recognized by the Government as a priority and has been put at the very top of the national agenda.

Impressive poverty reduction has been achieved in Lao PDR over the past decade and promising progress is being made towards achieving the Millennium Development Goals. However, gaps remain. Opportunities for men and women predominantly from rural areas and often with poor education are limited. Gender inequality persists throughout many areas of Lao

society, despite the national commitments. Women lag behind in areas such as education and labour market participation. People with disability are often “invisible” within communities and many challenges facing disability-inclusive development exist, especially due to insufficient capacity and financial support. Although the principle of providing effective social security is well established in Lao PDR, the challenge is to develop a system that is compatible with the country’s ambitions to reach middle-income status based on a strong and competitive market economy. Health care costs and quality of service represent a significant and urgent challenge. Also the issue of ageing will emerge and associated social security safety nets will be required in the longer term.

Political elements

Lao PDR experiences overall political stability, owing to rapid economic growth, together with the maintenance of the country’s internal-security apparatus and the effective management of the most recent leadership transition within the ruling party. However, several factors generate tensions and could cause political instability in the next couple of years. With regard to good governance and accountability, this is quite a problematic issue in Lao PDR. Patron-client relationships are widespread in the Lao political system. As a result, the governance system as a whole is weak and allegations of corruption being very widespread, especially in the banking system as well as the debasement of the legal system through rulings decided by bribery. The Government has instituted a number of reforms designed to improve governance and transparency, though results are still scant.

Industrial relations in Lao PDR have not evolved apace with the emerging private sector and lag behind. The 2006 Lao Labour Law establishes basic national labour standards (such as minimum wages, restrictions on overtime, and entitlements such as maternity and sick leave) and incorporates elements of ILO core labour standards. In 2011, units within the Ministry of Labour and Social Welfare began drafting a second law, the Labour Protection Law, the revision of which was completed in 2013. However, these appear to be only weakly enforced. Workers do not benefit from free, collective bargaining and strikes are not legal. The human rights situation in Lao PDR has improved somewhat. Nevertheless, numerous issues, such as the discrimination against members of ethnic minority tribes (especially Hmong), the harassment of Christians, and the deportation of refugees, remain. The Government has made some improvements in combating women trafficking, though this remains a major issue.

Environmental elements

Lao PDR has a wealth of natural resources and is one of the most biodiversity-rich countries in the region. Overall, the country performs relatively well in the area of environmental stewardship in comparison with other East-Asian countries. The Government is also engaged in developing and implementing comprehensive legal frameworks and governance structures to support sustainable use of the nation’s natural resources. However – though natural resources have catalysed past economic growth – their unsustainable management is causing significant environmental damage, and have begun to reverse this favourable situation.

1. Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the four dimensions of sustainable development – political, economic, social, and environmental – as interdependent and mutually reinforcing pillars.

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an Enabling Environment for Sustainable Enterprises (ESEE) are met in different countries. This report describes the implementation of such an assessment in Lao PDR and is part of a series of country reports on the same topic. The report covers the political, economic, social, and environmental situation of the enabling business environment in Lao PDR. The political area comprises 4 of the 17 conditions, the economic includes 8, the social 4, and the environmental dimension consists of 1 condition.

The Enabling Environment for Sustainable Enterprises in Lao PDR was assessed through a careful review of secondary data, findings from a national perception survey of employers (including owners and senior managers of companies), and supplementary information from published materials. The perception survey was conducted in October 2014 by Emerging Markets Consulting (EMC) with the aim of identifying policy and advocacy strategies, and to inform the development of the ESEE report. The survey focused on 7 of the 17 conditions.¹

The sample used for the survey is broadly representative of the Lao private sector and comprises owners and senior managers of 404 businesses. These businesses are located in the four major provinces of Vientiane Capital, Luang Prabang, Savannakhet and Champasak. The breakdown of the sample, in terms of location, firm size and industry, broadly reflects the number and type of firms operating in these locations. Nearly half of the participating firms are located in Vientiane, with the remaining firms split fairly evenly between Savannakhet, Luang Prabang and Champasak. Regarding size, more than three quarters of the sample are small enterprises (1-19 employees), with most of the remaining enterprises being medium-sized (20-99 employees). Around 5 per cent of the sample is made up of large enterprises that employ 100 or more persons.²

In terms of sector distribution of the survey sample, around 40 per cent of the sample operates in “wholesale and retail trade”, which includes import/export trading firms, convenience stores, and retail shops selling a broad range of items such as clothing, electronics and household appliances. Other sample participants are grouped into three broad sector groupings:

¹ They are: Trade and sustainable economic integration; Enabling legal and regulatory environment; Access to financial services; Entrepreneurial culture; Education, training and lifelong learning; Good governance; and Social dialogue.

² An alternative (but less common) measure of firm size is annual sales, with small firms defined as having annual sales of up to US\$50,000, medium-sized firms up to US\$125,000 and large firms more than US\$125,000. Based on this alternative measure, of the 280 participants that provided sales figures, 73 per cent are small, 10 per cent are medium-sized and 16 per cent are large.

accommodation and food services; (hotels and restaurants), other services (accounting, law education, health, etc.); and mining, construction and manufacturing. Concerning ownership structure, 91 per cent of responding firms are fully Lao-owned businesses, with 4 per cent being foreign-owned, 3 per cent being Lao-foreign joint ventures and 2 per cent being joint ventures involving some government ownership. Of the 404 persons interviewed, 85 per cent were owners of the business while the other 15 per cent were senior managers. Around 43 per cent of participating firms indicated that they are members of Lao National Chamber of Commerce and Industry (LNCCI).³ In terms of the age of the businesses surveyed, around one third of businesses were relatively new (established since 2010).

The gender breakdown of the sample is evenly split between male owners (51 per cent) and female owners (49 per cent). There is a relationship between gender and firm size, with female owners accounting for 54 per cent of small firms, 34 per cent of medium-sized firms and 20 per cent of large firms. This is consistent with other surveys, where female ownership is concentrated in small firms.

In total, the 404 firms in the sample employ 12,794 workers, with females making up 35 per cent of the workforce. Female employment is higher in small firms (48 per cent) and medium-sized firms (45 per cent) than large firms (28 per cent). Around 44 per cent of the firms surveyed hire some non-permanent employees, totalling 5,050 people (representing 39 per cent of the total workforce). Young employees (aged 15 to 24 years) represent around one third of all workers, with females (43 per cent) making up a slightly higher percentage of young workers than they do of workers aged 25 and older. Around 30 per cent of all workers are tertiary educated. For the 106 firms that specified their employee turnover, the median annual turnover was 16 per cent.⁴

The EESE assessment described in the present report has certain shortcomings which should be kept in mind. Secondary data on Lao PDR is sometimes missing, is available for only one or few years, or is not up-to-date. Furthermore, it is sometimes difficult to identify appropriate indicators to measure specific EESE conditions, as in the case of “entrepreneurial culture” where only two indicators have been identified, and only one of which has data on Lao PDR. Primary data also presents some limitations. To overcome these and other limitations, the authors have used information from available national and international literature.

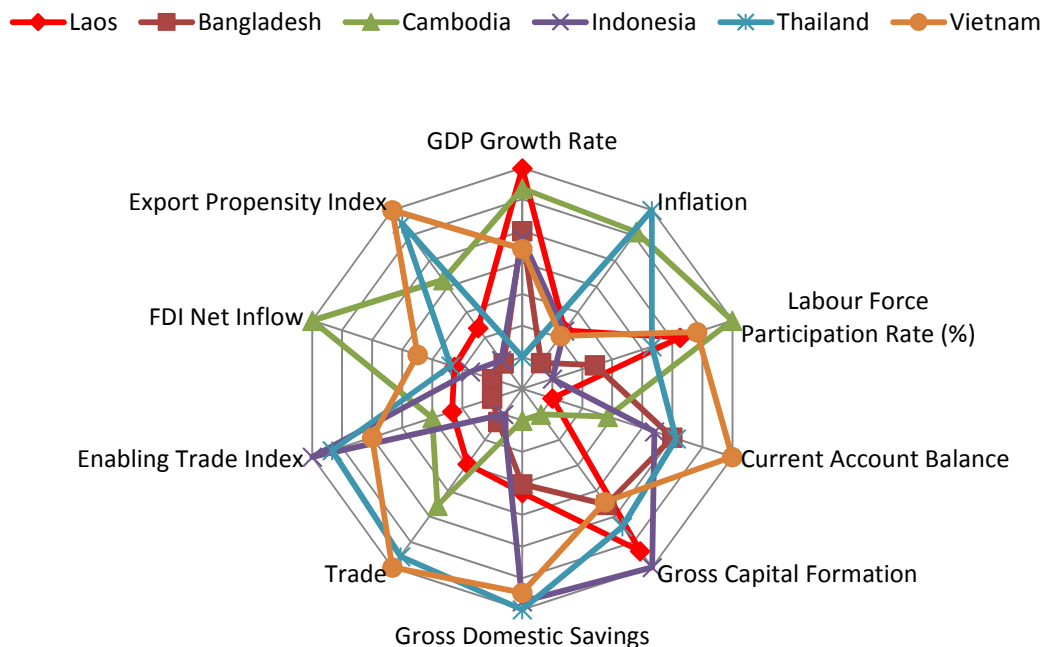
³ Not surprisingly, LNCCI membership is much higher among medium-sized firms (84%) and large firms (90%) than small firms (31%).

⁴ Here, staff turnover is measured as the number of staff who left during the previous 12 months as a percentage of total staff at the time of the survey.

2. Economic elements

Indicators assessing economic elements of an enabling environment for sustainable enterprises*

Macroeconomic Indicators



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- After the New Economic Mechanism (NEM) was initiated in 1986, privatization started on a large scale, and market participation by the private sector was allowed. Since then, the economy has maintained high growth that have averaged 8 per cent per year between 2005 and 2013, achieving a rate of 8.6 per cent in 2006.
- The Lao economy has grown at 8.15 per cent in 2013, being the resource sector (hydropower and mining), construction, food processing and services sectors the major contributors to this growth. This is aided in part by accommodative macroeconomic policies, which prioritizes growth over macroeconomic stability. In addition, the Government is struggling to collect revenues and to control unauthorized spending, with the result of a sharply widened fiscal deficit.
- The Lao central bank has focused monetary policy on exchange rates, rather than on credit growth. Multilateral bodies have warned that Lao banks are extending “dangerous” levels of credit, with excessive credit growth. Nevertheless, according to the recent Joint IMF-World Bank Debt Sustainability Analysis 2013, the risk of debt distress remains moderate. The Lao foreign exchange policy should probably give more consideration to reserve management and competitiveness.
- Lao PDR is endowed with natural resources that could make a major contribution to the country's long-term economic development. Managing these natural assets cautiously can boost a genuine development allowing the Government to invest more in human capital, infrastructure, new technologies and innovation. However, there are also significant risks associated with the country's natural wealth.
- The 7th National Social and Economic Development Plan (NSEDP) for 2011-2015 aims to achieve sustainable economic growth, reduce poverty (and inequality), and guide

the country graduating from its Least Developed Country status by 2020.

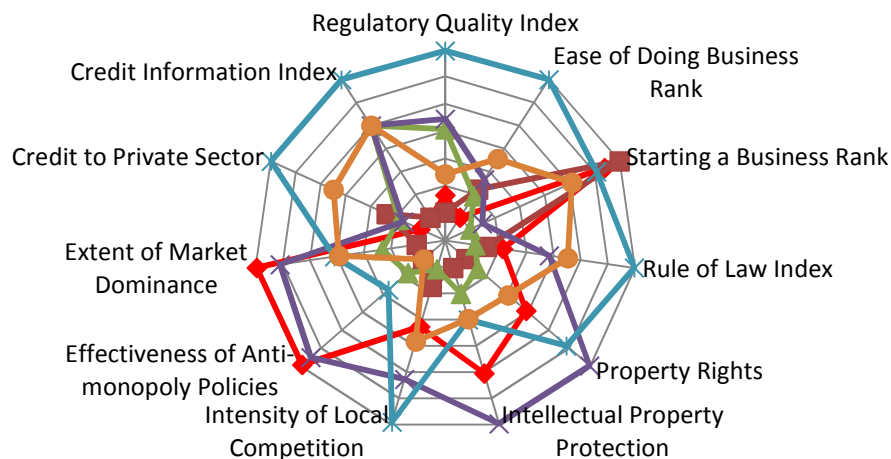
- Lao PDR is the only landlocked country in Southeast Asia. Its main exports are copper, electrical energy, wood and apparel. It mainly imports oil, machinery and equipment, and vehicles and its major trading partners are Thailand and China. Lao PDR has showed an active commitment to regional and international integration. The country is preparing for the regional grouping's planned establishment of a single market, the ASEAN Economic Community, while, since February 2013, is a member of the WTO.
- The value of trade has risen rapidly over the last decade with both imports and exports increasing by average annual rate of 24 per cent. This trade performance is likely to become increasingly skewed towards natural resource (hydropower and minerals) exports in the years ahead. Lack of diversification can restrict economic growth through the early onset of diminishing marginal returns to a more limited range of export products, and through increased risk of terms-of-trade shocks. Furthermore, export competitiveness in the non-natural resource sectors is being

eroded as the natural resources boom gets underway.

- Lao trade performance is significantly affected by high logistics and trade facilitation costs, due in part to a landlocked supply chain. Similarly, while tariffs have progressively fallen, non-tariff measures (many of which are implemented in a non-transparent way), are increasingly seen as binding constraints to both greater imports and exports. Also the political turmoil in Thailand rises the concerns of Lao exporters. Thailand, in fact, is not only a Lao PDR's major trading partner but also the transit road to export products to the international market.
- From 2000 on investment picked up, with China emerging over the past decade as a principal player, along with Vietnam and Thailand. In 2009, a prime ministerial decree established two special economic zones in the north of the country, to be developed by foreign companies. China has also invested in infrastructure development to improve transport links between southern China, Lao PDR and northern Thailand. Also Japanese investments are rising.

Access to credit, property rights and competition indicators

◆ Laos ■ Bangladesh ▲ Cambodia ✕ Indonesia ✱ Thailand ● Vietnam



- Since 2006, a total of ten positive regulatory reforms that have made it easier for entrepreneurs to do business in Lao PDR have been carried out. In particular, the regulations to start a business, pay taxes, and

trade across borders have been improved. Nevertheless, enterprises are still hampered by restrictive and cumbersome regulations. Great discretion is given to officials of the regulatory bodies, and especially tax

authorities, which adds to the unnecessary fixed costs of doing business and forces firms to stay informal.

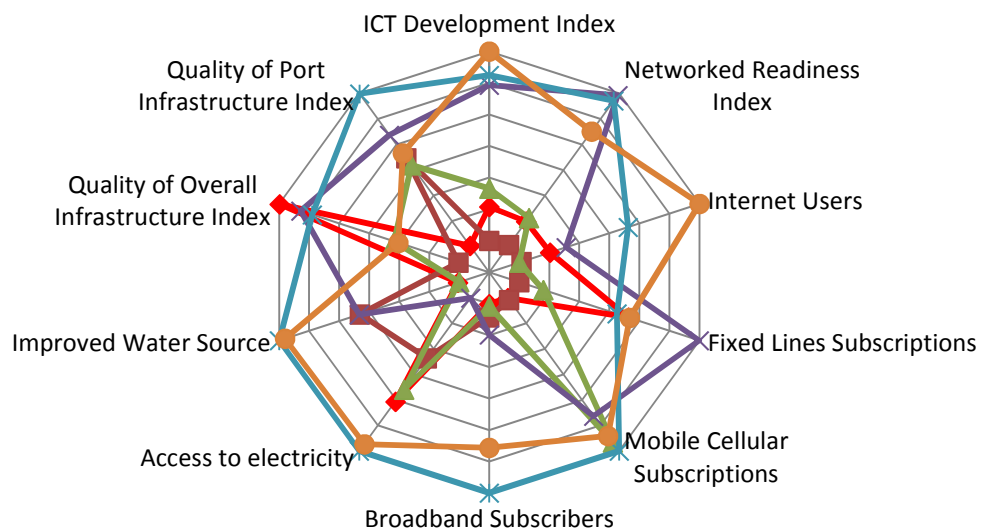
- The whole body of laws is still slowly being developed and applied in the courts. Although Lao citizens do enjoy the protection of law with respect to crimes against person and property, including their homes and personal possessions, the judicial system is inefficient, and protections for property rights are not enforced effectively.
- In the case of land rights, all land in Lao PDR belongs to the population as a whole and it is administrated by the state on the people's behalf. While recent land titling programs have formalized permanent land-use rights in urban and peri-urban areas, individual use rights in rural areas are short-term and insecure. Also, land concessions to foreign investors are controversial due to their social and environmental impacts.
- With the Lao IPR legal framework still in the early stages of development, with guiding decrees on the implementation and interpretation of the IP Law yet to be passed, protection and enforcement of IPR in Lao PDR is still relatively weak. However, the

law offers a fairly efficient system for registration of most major IPRs.

- Lao PDR officially recognizes competition as a “major driving force for economic development” and some initial cornerstones of an evolving competition policy have been set – such as the Prime Minister’s Decree on Trade Competition adopted in 2004. However, the country remains a centrally planned economy under many aspects. State intervention into various market functions is still rather strong, while the private sector is practically small in size, unorganized and in a disadvantageous competitive position due to low capital base, lack of technological and managerial skills.
- Numerous barriers to competition exist. Many of them arise from the nature of public sector policies and how they are implemented. Others are rooted in private anti-competitive practices. Generally, the historical and cultural context of the country plays a key role in the persistence of anti-competitive practices. Hence, building a strong competition culture is of primary importance.

ICT and infrastructure indicators

◆ Laos ■ Bangladesh ▲ Cambodia ✕ Indonesia ✕ Thailand ● Vietnam



- ICT development in Lao PDR has considerably improved in recent years. Although ICT usage rates remain notably low, improvements are clear. What is yet lacking in order to unlock the latent capacity of the Lao relatively rich infrastructure is

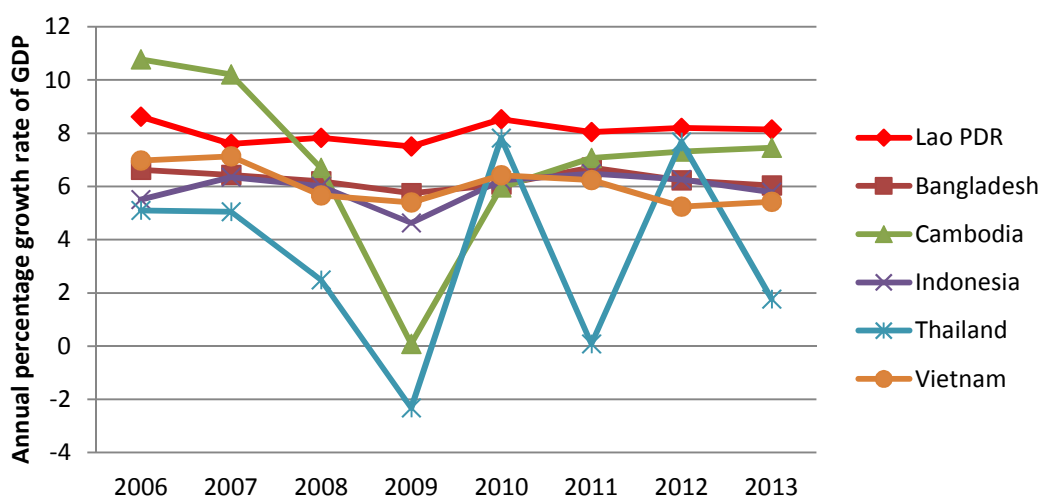
appropriate software and content designed so that it fits into local contexts. There is also a need to develop the public's awareness and understanding of the role of ICT in development.

- The Government of Lao PDR is aware of the role of ICT in industrialization and modernization, as well as in improving the quality of Government service and administration. However, Lao PDR needs to expand the necessary national information infrastructure, increase investment in the ICT sector, develop skilled human resources, and engage in more ICT R&D.
- Major investments in the ICT sector are constrained by: i) lack of incentives for local ICT companies, ii) unstable electric power supply, iii) lack of skilled labour, iv) low purchasing power of the local population compared to the cost of computers. Nevertheless, inexpensive computing devices and solar technology are increasingly being imported from China and Thailand.
- Financial-sector reforms are on-going and the Government has showed interest in supporting a better access to financial services. Owing to partial liberalization of the financial sector and the demand for finance, the trend towards access to finance has already showed an increase. However, much of the population remains outside of the formal banking sector.
- Despite the fact that the banking business has been opened to competition, State-Owned Commercial Banks still dominate the banking business, making it difficult for SMEs to gain access to finance from Lao banks. In addition, the penetration of formal-bank branch networks is amongst the lowest in the world. Excessive information asymmetries and serious difficulties in executing collateral further impede formal lending to SMEs. As a result, access to finance is one of the most important issues for SMEs.
- Firms in all manufacturing sectors are hampered by poor infrastructure. Quality of and access to infrastructure services are generally inadequate, imposing high fixed costs, which are especially harmful to small and informal firms. Beside transport infrastructure and services, electricity is among the worst constraints to doing business.
- The Government has introduced regional and sub-regional infrastructure development projects. Roads and railways are being built to strengthen connectivity along the three trading corridors of the Greater Mekong Sub-region and facilitate the through transport of goods and services. However, more investments are needed.

2.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. During the first decade and a half of communist rule (between 1975 and the mid-1980s) Lao PDR made little progress vis-à-vis turnaround, reflecting poor economic management on the part of the political leadership.⁵ In 1986, however, the Government initiated a comprehensive economic reform, commonly known as the New Economic Mechanism (NEM). Under the NEM, privatization started on a large scale, and market participation by the private sector was allowed (although the State has retained its control over the large state-owned enterprises or sectors deemed “strategic”, including fuel, electricity, water, telecommunications, timber, mineral resources, food, medicine, chemistry, alcohol, and tobacco).⁶ Since then, the economy has maintained high growth that have averaged 7 per cent per year between 1992 and 1997. The growth rate slowed to 4.5 per cent only between 1996/97 and 1997/98 because of the financial crisis in Thailand, and then recovered to just under the 7 per cent rate.⁷ In more recent years, Lao PDR registered an average annual GDP growth rate of nearly 8 per cent between 2005 and 2013, achieving a rate of 8.6 per cent in 2006.

GDP Growth Rate



Source: World Bank, World Development Indicators.

Lao PDR’s economy is going through a structural shift from agriculture to natural-resource based industry. Natural resource-based sectors have been growing very rapidly during the past decade, at an annual average of 20.7 per cent in 2003-2010 (supported by mining and hydropower mega projects). As a result, the share of the sectors to GDP almost tripled between 1998 and 2010, increasing to about 16.1 per cent by 2010 from 5.9 per cent in 1998.⁸ In 2014, the resource sector is expected to provide a smaller direct contribution to growth, as new commercial operations of major power projects are not expected and the halt in Sepone’s gold production is likely to offset some

⁵ Rosser, A., 2006.

⁶ CUTS International, 2006.

⁷ Mehta, 2006.

⁸ World Bank, 2012b.

gains in expected higher copper production.⁹ The development of several power projects, including the US\$3.5 billion Xayaburi dam, will however help keep economic growth healthy in the next years. High international prices for minerals have created strong foreign interest in Lao extractives sector, and mining investment are expanding. The construction of the Lao PDR-China railway should also boost investment.¹⁰ The share of non-tradables (services) to GDP grew more moderately, driven by increases in tourism and trade in recent years as well as expansion in infrastructure construction.¹¹ The positive impact of the global recovery and robust economic growth on the part of the country's main trading partners in the region, most notably China, is supporting strong real GDP expansion in Lao PDR.¹² Manufacturing (garments, wood and wood products, construction materials, light manufacturing, handicrafts, and, increasingly, food, beverages, and related processing) as a share of GDP has expanded, but at relatively slower rates.¹³ Agricultural productivity should also continue to improve (weather permitting), owing to foreign investment in large areas of farmland.

Lao PDR is endowed with natural resources that could make a major contribution to the country's long-term economic development. The most important of these resources are forests, agricultural land, hydroelectric potential, and minerals, which comprise more than half of Lao PDR's total wealth. From 2005 to 2010, the hydropower and mining sectors combined generated about one third of the country's economic growth. This has translated into significant increases in revenue, some infrastructure improvement, and poverty reduction benefits and has also spurred some progressive changes in environmental legislation. Therefore, managing these natural assets cautiously can boost a genuine development allowing the Government to invest more in human capital, infrastructure, new technologies and innovation. However, along with the benefits, there are also significant risks associated with the country's natural wealth. In case of mismanagement, macroeconomic risks include a possible slowdown in industrialization. There are also significant environmental and social risks and the danger that some investments might not represent the best possible use of the natural resources given the socioeconomic goals of the country. Finally, there is a risk that the gap between demand for national resources and the capacity of the Government to manage their sustainable use will only widen as more projects come on stream. One of the government's key priorities should be to strengthen institutions in the relevant sectors and the public financial systems – at both national and local levels – to improve capacity to manage revenues and allocated them in ways to reduce poverty and promote growth. Special attention should be given also to mitigating any negative social effects of large scale natural resource development.¹⁴

The total population of Lao PDR, 5.6 million in 2005 (latest census data), is projected to reach 6.9 million in 2015¹⁵, with some 67,000 workers entering the labour force annually and a projected labour force of some 4 million by 2020¹⁶. Given the youthful population age structure (50 per cent of the population is younger than 20), the country is benefiting from a declining dependency ratio. The proportion of the working-age population is expected to rise from 57 per cent in 2005 to some 62 per cent by 2020.¹⁷ In 2012, Lao PDR had a labour force participation rate of 80.5 per cent, lower only of Cambodia and Vietnam, out the countries used for comparison in this report. The ILO projects that Lao PDR will have the highest labour force participation rate within the Association of Southeast Asian Nations (ASEAN) by 2020. This demographic dividend

⁹ Verghis et al., 2014.

¹⁰ Economist Intelligence Unit, 2014c.

¹¹ World Bank, 2012b.

¹² Economist Intelligence Unit, 2014c.

¹³ World Bank, 2012b.

¹⁴ World Bank, 2010.

¹⁵ Ministry of Planning and Investment Lao PDR (MPI) data.

¹⁶ ILO, Regional Office for Asia and the Pacific, 2008.

¹⁷ Ministry of Labour and Social Welfare Lao PDR (MOLSW) data.

is expected to last about 30 years. The dividend, however, presents a challenge to the Decent Work Agenda in ensuring the availability of decent work employment opportunities for men and women predominantly from rural areas and often with limited education. Regarding labour migration, there are an estimate of 200,000-plus Lao migrant workers in Thailand, predominantly within low-skilled occupations and generating remittances valued at a minimum of US\$100 million per annum. Such migration helps Lao PDR meet the employment needs of its population as it provides significant inward investment through remittances. Within Lao PDR, there are also an estimated 100,000 migrants from neighbouring countries, many of them having come informally. Many of the foreign migrants are active in the informal and Small and Medium Enterprise (SME) sectors but also provide skilled labour requirements and thus are likely to be contributing importantly to the country's economic and employment growth.¹⁸

Fast economic growth is however putting the country under increasing macroeconomic strains that will need careful management. Although, in 2011, Lao PDR moved up from its previous "lower income status" to become classified as a "lower-middle income economy" and, in 2013, reached a GNI per capita of \$1,460,¹⁹ the Government seems to have adopted a policy which prioritizes growth over macroeconomic stability.²⁰ In the 2012/13 financial year, the fiscal deficit widened markedly due to a combination of a large increase in public sector wages and benefits, and a decline in grants and mining revenues. The wage bill largely increased due to three main factors: i) a 40 per cent increase in the base wage; ii) a large 760,000 kip monthly allowance to all public employees; iii) and about 10 per cent increase in new public recruitments. This total wage and benefits increase was equivalent to almost 5 per cent of GDP compared to the 2011/12 financial year, which was the major contributor to a higher fiscal deficit.²¹ In addition, the Government is struggling to collect revenues and to control unauthorized spending. In October-December 2013, less than 12.3 per cent of the government's planned annual revenue collection was collected, while the State Audit Organization revealed that over K4.2trn (US\$525 million) was spent by state organizations without central-government permission in 2011/12 fiscal year.²² As a result, the fiscal deficit is estimated to have widened sharply to 5.8 per cent of GDP from 1.3 per cent in the previous year, straining the cash position of the government in recent months.²³

The Bank of Lao PDR (the central bank) has so far resisted calls from the International Monetary Fund (IMF) and the World Bank to tighten monetary policy in order to contain an ongoing credit boom. The multilateral bodies have warned that Lao banks are extending "dangerous" levels of credit, with excessive credit growth constituting "an early warning of possible distress". However, the central bank has focused monetary policy on exchange rates, rather than on credit growth. In recent years, a steady strengthening of the kip against the US dollar has helped to rein in imported inflation, but the local currency began to depreciate again in June 2013. Consumer price inflation accelerated in 2013, to an annual average of 6.4%, and rapid credit growth has raised concerns about a rise in loan defaults.²⁴ Nevertheless, according to the recent Joint IMF-World Bank Debt Sustainability Analysis 2013, the risk of debt distress remains moderate. The Lao foreign exchange policy should probably give more consideration to reserve management and competitiveness. The continued real appreciation of the exchange rate implies a deterioration of competitiveness for Lao PDR's tradables exports, which exacerbates the pressure on the external balance. Moreover, in 2013 foreign exchange reserves continued to fall to their lowest level in a decade, covering only 1.3 months of goods and services imports. This trend was fuelled by the widening current account deficit, driven by resource sector investment as well as

¹⁸ ILO, Regional Office for Asia and the Pacific, 2011.

¹⁹ World Bank, 2014.

²⁰ Kyophilavong, 2009.

²¹ Verghis et al., 2014.

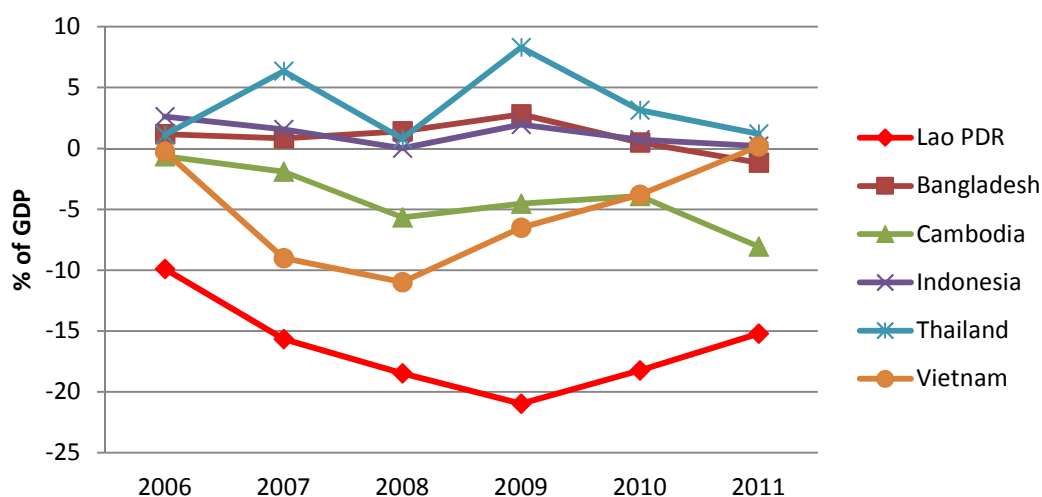
²² Economist Intelligence Unit, 2014a.

²³ Verghis et al., 2014.

²⁴ Economist Intelligence Unit, 2014c.

strong domestic demand and accommodative fiscal and monetary policy. Efforts to rebuild reserves are required, so that the country is better able to absorb any adverse shocks in the future.²⁵

Current Account Balance



Source: International Monetary Fund, World Economic Outlook Database, April 2014.

The 7th National Social and Economic Development Plan (NSED) for 2011-2015 aims to achieve sustainable economic growth, reduce poverty (and inequality), and guide the country graduating from its Least Developed Country status by 2020. It is based on the Socio-Economic Development Strategy until 2020 document and the achievements of the 6th NSED (2006-2010). For achieving its goals, the 7th NSED targets an annual economic growth of at least 8 per cent and proposes broad-basing the growth process: diversify and deepen economic activities; significantly scale-up human capital; improve labour productivity; and promote inclusion of especially women, ethnic groups and more remote areas. The agriculture and forestry sector in particular, is expected to play a key role in helping achieve targets in food security, employment and poverty reduction and create surplus for export. The NSED targets creating a detailed land management plan and issuing one million land titles in a systemic and regulated manner.²⁶

Key Indicators		2008	2009	2010	2011	2012	2013
GDP Growth Rate (%)							
Annual percentage growth rate of Gross Domestic Product (GDP) at market prices based on constant local currency. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	Lao PDR	7.8	7.5	8.5	8.0	8.2	8.1
	Bangladesh	6.2	5.7	6.1	6.7	6.2	6.0
	Cambodia	6.7	0.1	6.0	7.1	7.3	7.5
	Indonesia	6.0	4.6	6.2	6.5	6.3	5.8
	Thailand	2.5	-2.3	7.8	0.1	7.7	1.8
	Vietnam	5.7	5.4	6.4	6.2	5.2	5.4
	Annual percentage growth rate of GDP.						

²⁵ Verghis et al., 2014.

²⁶ REDD desk, 2010.

Labour Force Participation Rate	2007	2008	2009	2010	2011	2012
Lao PDR	81.1	80.8	80.6	80.4	80.4	80.5
Bangladesh	73.2	73.2	73.3	73.4	73.4	73.5
Cambodia	84.1	84.5	84.6	84.7	84.8	84.8
Indonesia	69.9	69.8	70.0	69.9	70.0	70.0
Thailand	78.5	78.7	78.1	77.9	78.1	78.2
Vietnam	81.5	81.4	81.3	81.3	81.6	81.9

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.

Source: ILO, Summary of the [Key Indicators of the Labour Market \(8th edition\)](#).

Other Useful Indicators

Current Account Balance (% of GDP)	2007	2008	2009	2010	2011
Lao PDR	-15.7	-18.5	-21.0	-18.2	-15.2
Bangladesh	0.8	1.4	2.8	0.5	-1.2
Cambodia	-1.9	-5.7	-4.5	-3.9	-8.1
Indonesia	1.6	0.0	2.0	0.7	0.2
Thailand	6.3	0.8	8.3	3.1	1.2
Vietnam	-9.0	-11.0	-6.5	-3.8	0.2

% of GDP.

Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice – once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.

Source: International Monetary Fund, [World Economic Outlook Database, April 2014](#).

Inflation (Average Consumer Price, change in per cent)	2008	2009	2010	2011	2012	2013
Lao PDR	7.6	0.0	6.0	7.6	4.3	6.4
Bangladesh	8.9	5.4	8.1	10.7	6.2	7.5
Cambodia	25.0	-0.7	4.0	5.5	2.9	3.0
Indonesia	9.8	5.0	5.1	5.3	4.0	6.4
Thailand	5.5	-0.9	3.3	3.8	3.0	2.2
Vietnam	23.1	6.7	9.2	18.7	9.1	6.6

Average Consumer Price, change in per cent.

The rate of inflation measures the annual percent change in average consumer prices. It can be understood as the annual rate of depreciation (or appreciation in the case of negative inflation) in the value of money in a given country. A high level of inflation affects not only consumer prices but the value of individuals' savings.

Source: International Monetary Fund, [World Economic Outlook Database, April 2014](#).

Government Finance (% of GDP)	2007	2008	2009	2010	2011	2012
Lao PDR	-2.7	-2.2	-1.7	-0.8	-0.9	-0.8
Bangladesh	-1.3	-1.0	-1.7	-0.9	-0.9	-
Cambodia	-0.8	-0.3	-4.5	-3.5	-4.6	-4.4
Indonesia	-1.0	-0.3	-1.7	-	-	-

Government finance (or cash surplus/ deficit) is government revenue (including grants) minus expense, minus net acquisition of nonfinancial assets. When the expenditures of a government are greater than its tax revenues, it creates a deficit in the government budget. This therefore causes the government to borrow capital

<p>from the 'world market', increasing further debt. The opposite of a budget deficit is a budget surplus; in this case, tax revenues exceed government purchases and transfer payments. Whether government deficits are good or bad cannot be decided without examining the specifics.</p> <p><u>Source:</u> International Monetary Fund, Government Finance Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).</p>	<table border="1"> <tr> <td>Thailand</td> <td>0.1</td> <td>0.5</td> <td>-3.0</td> <td>-0.6</td> <td>-1.1</td> <td>-2.2</td> </tr> <tr> <td>Vietnam</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td colspan="7">% of GDP.</td> </tr> </table>	Thailand	0.1	0.5	-3.0	-0.6	-1.1	-2.2	Vietnam	-	-	-	-	-	-	% of GDP.																																									
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<p>Gross Capital Formation (% of GDP)</p> <p>Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress". Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.</p> <p><u>Source:</u> World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>34.1</td> <td>32.1</td> <td>30.3</td> <td>24.3</td> <td>26.5</td> <td>31.9</td> </tr> <tr> <td>Bangladesh</td> <td>24.5</td> <td>24.2</td> <td>24.4</td> <td>24.4</td> <td>25.2</td> <td>26.5</td> </tr> <tr> <td>Cambodia</td> <td>21.2</td> <td>18.6</td> <td>21.4</td> <td>17.4</td> <td>17.1</td> <td>-</td> </tr> <tr> <td>Indonesia</td> <td>24.9</td> <td>27.8</td> <td>31.0</td> <td>32.3</td> <td>32.9</td> <td>34.7</td> </tr> <tr> <td>Thailand</td> <td>26.4</td> <td>29.1</td> <td>21.2</td> <td>25.9</td> <td>26.6</td> <td>29.7</td> </tr> <tr> <td>Vietnam</td> <td>39.6</td> <td>36.5</td> <td>37.2</td> <td>35.7</td> <td>29.8</td> <td>27.2</td> </tr> <tr> <td colspan="7">% of GDP.</td> </tr> </tbody> </table>		2007	2008	2009	2010	2011	2012	Lao PDR	34.1	32.1	30.3	24.3	26.5	31.9	Bangladesh	24.5	24.2	24.4	24.4	25.2	26.5	Cambodia	21.2	18.6	21.4	17.4	17.1	-	Indonesia	24.9	27.8	31.0	32.3	32.9	34.7	Thailand	26.4	29.1	21.2	25.9	26.6	29.7	Vietnam	39.6	36.5	37.2	35.7	29.8	27.2	% of GDP.						
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<p>Gross Domestic Savings (% of GDP)</p> <p>Gross domestic savings are calculated by deducting total final consumption expenditure from GDP at current prices. A high gross domestic savings rate usually indicates a country's high potential to invest. Savings can therefore be vital to the amount of fixed capital available, which in turn can contribute to economic growth. However, increased savings do not always correspond to increased investment. If savings are not deposited into a financial intermediary like a bank, there is no chance for those savings to be recycled as investment by businesses. This means that savings may increase without increasing investment, possibly causing a short-fall of demand rather than economic growth. In the short term, if savings fall below investment, it can lead to growth of aggregate demand and economic boom. In the long term, it eventually reduces investment and detracts from future growth.</p> <p><u>Source:</u> World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>20.6</td> <td>19.9</td> <td>21.1</td> <td>22.0</td> <td>20.5</td> <td>19.7</td> </tr> <tr> <td>Bangladesh</td> <td>17.5</td> <td>15.8</td> <td>17.2</td> <td>17.8</td> <td>16.4</td> <td>17.6</td> </tr> <tr> <td>Cambodia</td> <td>13.6</td> <td>16.4</td> <td>14.7</td> <td>11.9</td> <td>11.7</td> <td>-</td> </tr> <tr> <td>Indonesia</td> <td>29.0</td> <td>28.9</td> <td>33.8</td> <td>34.0</td> <td>34.3</td> <td>33.2</td> </tr> <tr> <td>Thailand</td> <td>34.8</td> <td>31.7</td> <td>31.8</td> <td>33.4</td> <td>31.2</td> <td>30.9</td> </tr> <tr> <td>Vietnam</td> <td>26.0</td> <td>22.8</td> <td>26.8</td> <td>27.5</td> <td>25.6</td> <td>30.7</td> </tr> <tr> <td colspan="7">% of GDP.</td> </tr> </tbody> </table>		2007	2008	2009	2010	2011	2012	Lao PDR	20.6	19.9	21.1	22.0	20.5	19.7	Bangladesh	17.5	15.8	17.2	17.8	16.4	17.6	Cambodia	13.6	16.4	14.7	11.9	11.7	-	Indonesia	29.0	28.9	33.8	34.0	34.3	33.2	Thailand	34.8	31.7	31.8	33.4	31.2	30.9	Vietnam	26.0	22.8	26.8	27.5	25.6	30.7	% of GDP.						
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2.2. Trade and sustainable economic integration

Lao PDR is the only landlocked country in Southeast Asia, bordered by Myanmar and China to the northwest, Vietnam to the east, Cambodia to the south, and Thailand to the west. Its

main exports are copper, electrical energy, wood and apparel. It mainly imports oil, machinery and equipment, and vehicles and its major trading partners are Thailand and China.²⁷ Lao PDR has showed an active commitment to regional and international integration, which will likely continue in the next years. Several transport-infrastructure projects that will improve links with neighbouring countries are planned or are under way. These include a north-south railway connecting the Lao capital, Vientiane, with China's Yunnan province; an east-west railway that would connect Thailand and Vietnam across southern Lao PDR; and new bridges to Myanmar and Thailand. Along with the other members of the Association of Southeast Asian Nations (ASEAN), Lao PDR is preparing for the regional grouping's planned establishment of a single market, the ASEAN Economic Community (AEC) (although the full ASEAN integration is unlikely to happen as planned in 2015, given the difficulties in implementing the measures to institute and harmonize the so-called "nontariff barriers"²⁸). In addition, Lao leaders continue to support ASEAN's collective effort to improve trade arrangements with China and other countries.²⁹ Since February 2013, Lao PDR is also a member of the World Trade Organization (WTO).

Findings from the EESE survey show that, while all large firms and 94 per cent of medium-sized firms are aware of the AEC, only 55 per cent of small firms are aware of this important development. Of those firms who *are* aware of the AEC, they tend to be more optimistic than pessimistic about its likely impact on their business, with firms in the accommodation and food sector being the most optimistic. In terms of the likely benefits of AEC, small firms are most excited about the prospect of buying cheaper or better imported goods, medium-sized firms are looking forward to improved export opportunities and being able to hire skilled workers from other ASEAN countries, while large firms are most enthusiastic about improved export and import opportunities. On the other hand, firms are worried about the extra competition from ASEAN imports and ASEAN investors. However, most firms are taking action to prepare for the competitive threats posed by AEC, mainly by improving the quality of services and products they offer, and by providing training to their employees.³⁰ When asked what kind of training or information on AEC they would be interested in, firms indicated strongest interest in information regarding laws and regulations (40 per cent) and hiring foreign workers (25 per cent). This implies that business associations such as LNCCI should focus their information dissemination on the policy and regulatory aspects of AEC, rather than commercial opportunities – as the firms themselves are in the best position to assess opportunities for exports and investment.

Lao PDR is also one of the CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) countries. This is a subgroup within the ASEAN, originally formed in 1967, and which did not join ASEAN until the 1990s. More than a decade later, many political and economic differences between the CLMV countries and the rest of ASEAN remain clearly identifiable. The CLMV countries' geographical contiguity and their economic and political commonalities mean that they share some challenges and policy goals, among which boosting transport, trade and tourism links within mainland Southeast Asia. Against this background, the countries are carrying out some initiatives including expedited customs and immigration procedures (already implemented at one border crossing between Lao PDR and Vietnam, and to be extended to more international checkpoints), the implementation of a single-visa policy by the CLMV countries and Thailand, and the development of so-called economic corridors that would allow goods and passengers to travel overland from Myanmar, via Lao PDR, to Vietnam. However, despite their similarities, the CLMV

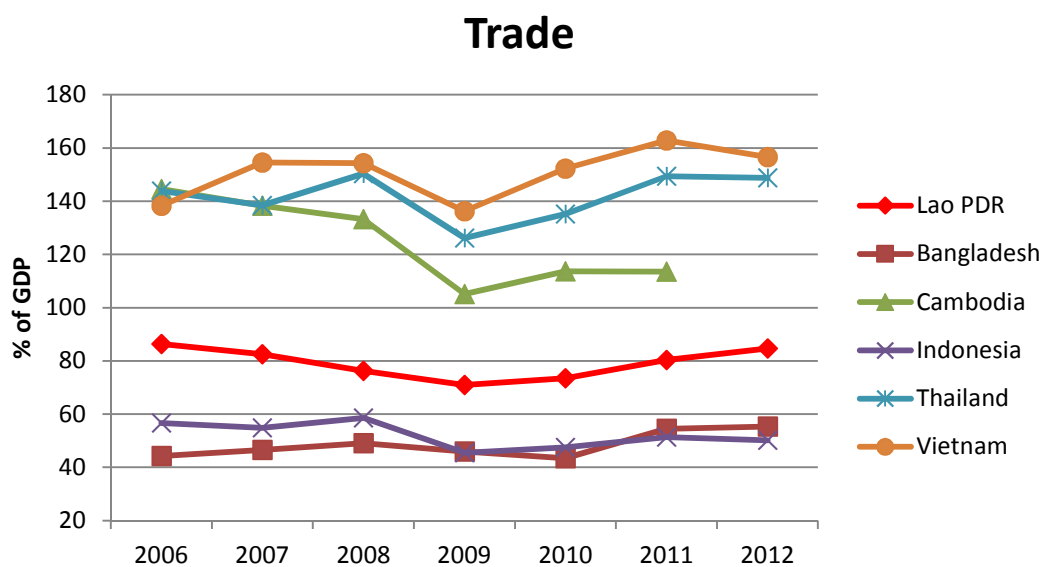
²⁷ International Trade Centre, 2014.

²⁸ Remo, 2014.

²⁹ Economist Intelligence Unit, 2014d.

³⁰ This holds for firms of all sizes but particularly large firms.

countries have many differences, hence the distinct character of the sub-regional grouping should not be overemphasized.³¹



Source: World Bank, World Development Indicators.

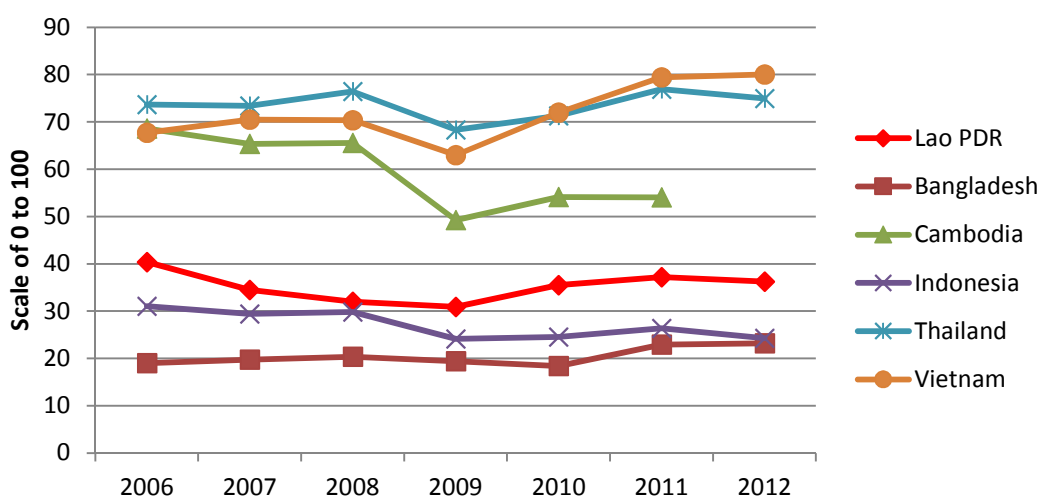
In Lao PDR, the value of trade has risen rapidly over the last decade with both imports and exports increasing by average annual rate of 24 per cent. The value of merchandise trade accounts for is about 60 per cent of GDP, having increased from 10 per cent two decades ago.³² “Trade” as an indicator measures the sum of exports and imports of goods and services as a share of GDP. Between 2003 and 2012 the average value for Lao PDR has been 78 per cent, hitting a low 71 per cent in 2009 and then reaching almost 85 per cent in 2012. Relative to the other countries used for comparison, Lao PDR performs consistently better than Bangladesh and Taiwan, but registers percentages which are below the rates for Vietnam, Thailand and Cambodia. In 2013 lower international commodity prices (notably for copper) and lacklustre global demand weighed on Lao export growth, although sales of electricity to Thailand boosted overall receipts. In 2014-15 it is expected that exports will continue to grow as more electricity-generating plants begin produced. Prospects for development of the garment-export sector are also reasonably good, although volumes will remain small compared with most of Lao PDR’s neighbours and lack of skills is likely to hamper growth. According to the Association of Lao Garment Industry, in the years 2005 to 2010 production grew at an average of 10% a year, in 2010 and 2011 it stagnated, and declined in 2012. Employers explain this decline by the lack of availability of workforce and their inadequate skills, resulting in the sector operating at levels below full capital utilization. Firms, in response are willing to invest in improving labour productivity, but are afraid of losing their return on investment due to high staff turnover. Some firms acknowledge to be losing up to 6 to 8 per cent of the workers every month. Goods imports are supported by lower tariff barriers, in line with the commitments as a member of the WTO, and also by the poor competitiveness of local products.³³

³¹ Economist Intelligence Unit, 2013c.

³² Record et al., 2014.

³³ Economist Intelligence Unit, 2014c.

Export Propensity Index



Source: World Bank, World Development Indicators.

Other secondary data reflects a picture similar to the one above described. The “Export Propensity Index” measures the export of goods and services as a percentage of GDP. Between 2005 and 2011 Lao PDR performs well in this area relative to both the East Asia and Pacific mean and the world mean. Relative to the countries compared, Lao PDR consistently outperformed Bangladesh and Indonesia, reaching 36 per cent in 2012 against the respective 23 and 24 per cent. Thailand and Vietnam recorded higher index scores at 75 and 80 per cent respectively in that year, while the most recent entry for Cambodia was in 2011 at 54 per cent. However, as political turmoil in Thailand continues, Lao exporters are becoming increasingly concerned about the future of exports to the country. The country, in fact, is not only a Lao PDR’s major trading partner but also the transit road to export products to the international market. Thailand and Lao PDR have agreed to double their bilateral trade to US\$8 billion by 2015, up from a figure of US\$4 billion in 2011. In 2012 trade between the two countries was worth US\$4.82 billion, up 23.82 percent from the previous year.³⁴

Lao exports in 2012 were composed at 37 per cent by mineral products, 23 per cent by metals, 11 per cent by wood, 10 per cent by textiles, 7 per cent by vegetable products and 12 per cent by other goods and services.³⁵ Even under fairly modest projections, this trade performance is likely to become increasingly skewed towards natural resource (hydropower and minerals) exports in the years ahead. While this brings about tremendous opportunities, it also presents real risks to the economy in terms of lack of export diversification. Lack of diversification can restrict economic growth through the early onset of diminishing marginal returns to a more limited range of export products, and through increased risk of terms-of-trade shocks. Furthermore, there is growing evidence that export competitiveness in the non-natural resource sectors is being eroded as the natural resources boom gets underway. Lao export flows in non-natural resource based sectors, in fact, tend to be short-lived and rarely in sub-sectors offering scope for significant value addition. Similarly, exporting firms demonstrate substantially lower productivity compared to firms serving the domestic market. Small and medium-sized enterprises struggle to access finance and develop the skills necessary to become larger and more efficient.³⁶

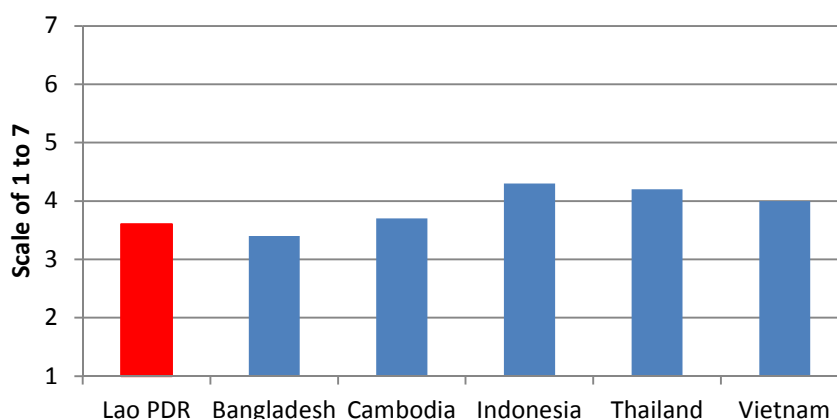
³⁴ Eastday, 2014.

³⁵ Organisation for Economic Co-operation and Development, 2013.

³⁶ World Bank, 2012b.

Lao trade performance is significantly affected by high logistics and trade facilitation costs, due in part to a landlocked supply chain. While gains have been made in the efficiency of operations along Lao PDR’s key trade corridors, costs remain stubbornly high with imbalanced trade and a very high frequency of movement of empty containers.³⁷ Similarly, while tariffs have progressively fallen, non-tariff measures (many of which are implemented in a non-transparent way), are increasingly seen as binding constraints to both greater imports and exports. Key services support sectors remain underdeveloped with weak regulatory frameworks, constraining both services trade and the underlying competitiveness of goods trade that relies on the availability of cost efficient backbone services.³⁸ Nevertheless, the combination of improvements in transport, border clearance procedures and supply chain management have reduced the delivery times to and from the gateway ports to acceptable levels, given the distances involved.³⁹ The “Enabling Trade Index” measures the factors, policies and services facilitating the free flow of goods over borders and to final destination. On a scale from 1 to 7 where the highest value indicates that a country is successful at enabling the free flow of trade, Lao PDR scores 3.5 in 2014, which, relative to the countries compared, is only better than the 3.4 registered by Bangladesh. Unfortunately, data on this indicator are available only for 2014 for Lao PDR, hence an analysis of the trend is not possible.

Enabling Trade Index



Source: World Economic Forum, Global Enabling Trade Report 2014.

Like other countries in the region, Lao PDR was affected by the Asian economic crisis of 1997–98. From 2000 on investment picked up, with China emerging over the past decade as a principal player, along with Vietnam and Thailand. In 2009, a prime ministerial decree established two special economic zones (SEZs) in the north of the country, to be developed by foreign companies.⁴⁰ In 2013, China has become the largest foreign investor in Lao PDR, having 745 projects with a total investment of US\$5 billion, mostly in hydropower, mining and agriculture.⁴¹ China has, however, also invested in infrastructure development to improve transport links between southern China, Lao PDR and northern Thailand.⁴² Bilateral trade between the two countries is also continuing to increase, rising from US\$1 billion in 2010 to over US\$1.7 billion in 2012.⁴³ As Lao

³⁷ Record et al., 2014.

³⁸ World Bank, 2012b.

³⁹ Record et al., 2014.

⁴⁰ Dizard et al., 2012.

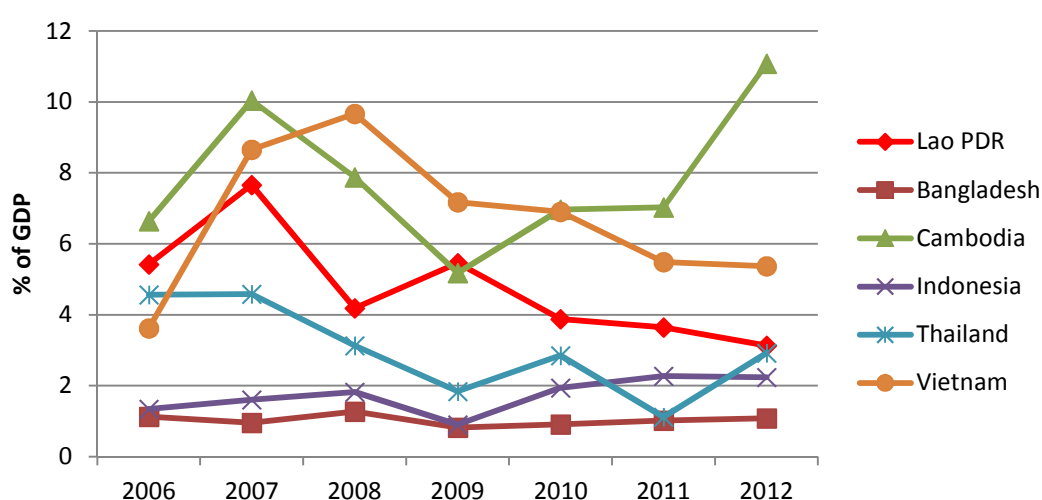
⁴¹ Economist Intelligence Unit, 2013a.

⁴² Dizard et al., 2012.

⁴³ Economist Intelligence Unit, 2013a.

PDR continues to push for the development of tax-free investment zones, Chinese-funded SEZs are expanding in the country. However, some of these zones have provoked local opposition and have attracted allegations of corruption.⁴⁴ Also Japanese investments are rising. They topped US\$400 million in 2013, representing an increase of around 15 per cent on the amount in 2012. Japanese firms are attracted by tax incentives at the SEZs as well as Lao PDR's lower wage costs compared with China and Thailand.⁴⁵ “Foreign direct investment” measures the net inflows of investment to acquire lasting management of an enterprise operating in a country different from that of the investor, as a percentage of GDP. Considering that Lao PDR registered FDI net inflow at 0.96 per cent of GDP in 2003, it showed an overall increase since then, which peaked in 2007 at 7.66 per cent. Its rate was negatively affected by the global economic crisis in 2008-09, reaching 3.14 per cent in 2012. Although Cambodia and Vietnam perform generally better over the period 2006-12, Lao PDR registers consistently higher rates than Thailand, Indonesia and Bangladesh over the same period.

Foreign Direct Investment net inflow



Source: World Bank, World Development Indicators.

Key Indicators		2007	2008	2009	2010	2011	2012
Trade (% of GDP)							
Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and +∞.							
Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%.							
Source: World Bank national accounts data (World Development Indicators Online).							
Lao PDR		82	76	71	73	80	85
Bangladesh		46	49	46	43	55	55
Cambodia		138	133	105	114	114	-
Indonesia		55	59	46	47	51	50
Thailand		138	150	126	135	149	149
Vietnam		155	154	136	152	163	157
Trade share (%) in GDP.							

⁴⁴ Economist Intelligence Unit, 2013b.

⁴⁵ Economist Intelligence Unit, 2014b.

<p>Enabling Trade Index (ETI)</p> <p>The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment.</p> <p>Source: World Economic Forum.</p>	<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2012</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>3.6</td> </tr> <tr> <td>Bangladesh</td> <td>3.0</td> <td>3.2</td> <td>3.4</td> <td>3.5</td> <td>3.4</td> </tr> <tr> <td>Cambodia</td> <td>3.0</td> <td>3.5</td> <td>3.6</td> <td>3.5</td> <td>3.7</td> </tr> <tr> <td>Indonesia</td> <td>4.3</td> <td>3.8</td> <td>4.0</td> <td>4.2</td> <td>4.3</td> </tr> <tr> <td>Thailand</td> <td>4.2</td> <td>4.2</td> <td>4.1</td> <td>4.2</td> <td>4.2</td> </tr> <tr> <td>Vietnam</td> <td>3.4</td> <td>3.5</td> <td>4.0</td> <td>4.0</td> <td>4.0</td> </tr> </tbody> </table> <p>On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade.</p>		2008	2009	2010	2012	2014	Lao PDR	-	-	-	-	3.6	Bangladesh	3.0	3.2	3.4	3.5	3.4	Cambodia	3.0	3.5	3.6	3.5	3.7	Indonesia	4.3	3.8	4.0	4.2	4.3	Thailand	4.2	4.2	4.1	4.2	4.2	Vietnam	3.4	3.5	4.0	4.0	4.0							
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<p>FDI Net Inflow (% of GDP)</p> <p>Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.</p> <p>Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases & World Development Indicators Online.</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>7.7</td> <td>4.2</td> <td>5.5</td> <td>3.9</td> <td>3.6</td> <td>3.1</td> </tr> <tr> <td>Bangladesh</td> <td>1.0</td> <td>1.3</td> <td>0.8</td> <td>0.9</td> <td>1.0</td> <td>1.1</td> </tr> <tr> <td>Cambodia</td> <td>10.0</td> <td>7.9</td> <td>5.2</td> <td>7.0</td> <td>7.0</td> <td>11.1</td> </tr> <tr> <td>Indonesia</td> <td>1.6</td> <td>1.8</td> <td>0.9</td> <td>1.9</td> <td>2.3</td> <td>2.2</td> </tr> <tr> <td>Thailand</td> <td>4.6</td> <td>3.1</td> <td>1.8</td> <td>2.9</td> <td>1.1</td> <td>2.9</td> </tr> <tr> <td>Vietnam</td> <td>8.7</td> <td>9.7</td> <td>7.2</td> <td>6.9</td> <td>5.5</td> <td>5.4</td> </tr> </tbody> </table> <p>FDI net inflow (in current US\$ as % of GDP).</p>		2007	2008	2009	2010	2011	2012	Lao PDR	7.7	4.2	5.5	3.9	3.6	3.1	Bangladesh	1.0	1.3	0.8	0.9	1.0	1.1	Cambodia	10.0	7.9	5.2	7.0	7.0	11.1	Indonesia	1.6	1.8	0.9	1.9	2.3	2.2	Thailand	4.6	3.1	1.8	2.9	1.1	2.9	Vietnam	8.7	9.7	7.2	6.9	5.5	5.4
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<p>Export Propensity Index = Exports of goods and services (% of GDP)</p> <p>Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.</p> <p>Source: World Bank national accounts data and OECD national accounts data files (World Development Indicators Online).</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>34</td> <td>32</td> <td>31</td> <td>36</td> <td>37</td> <td>36</td> </tr> <tr> <td>Bangladesh</td> <td>20</td> <td>20</td> <td>19</td> <td>18</td> <td>23</td> <td>23</td> </tr> <tr> <td>Cambodia</td> <td>65</td> <td>66</td> <td>49</td> <td>54</td> <td>54</td> <td>-</td> </tr> <tr> <td>Indonesia</td> <td>29</td> <td>30</td> <td>24</td> <td>25</td> <td>26</td> <td>24</td> </tr> <tr> <td>Thailand</td> <td>73</td> <td>76</td> <td>68</td> <td>71</td> <td>77</td> <td>75</td> </tr> <tr> <td>Vietnam</td> <td>71</td> <td>70</td> <td>63</td> <td>72</td> <td>79</td> <td>80</td> </tr> </tbody> </table> <p>It ranges from 0 (with no exports) to 100 (with all domestic production exported).</p>		2007	2008	2009	2010	2011	2012	Lao PDR	34	32	31	36	37	36	Bangladesh	20	20	19	18	23	23	Cambodia	65	66	49	54	54	-	Indonesia	29	30	24	25	26	24	Thailand	73	76	68	71	77	75	Vietnam	71	70	63	72	79	80
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2.3. Enabling legal and regulatory environment

Well designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. The Government has recognized the role played by the private sector as engine of growth. Therefore, new laws, regulations and programmes have been introduced to support the private sector development after the New Economic Mechanism (NEM) was adopted in 1986. In 1994, the Government introduced the Business Law, which allowed enterprises to operate freely. In 2006, the Business Law was

replaced with the Enterprises Law in order to reduce administrative costs and barriers. In July 2009 the National Assembly passed a new investment law in order to correct previously emerged weaknesses. This law strengthened government control over SME promotion.⁴⁶

Since 2006, a total of ten positive regulatory reforms that have made it easier for entrepreneurs to do business in Lao PDR have been carried out. The Government has in particular improved the regulations to start a business, pay taxes, and trade across borders. Starting a business has been made easier by allowing entrepreneurs to apply for tax registration at the time of incorporation. Paying taxes has been made less costly for companies by reducing the corporate income tax rate. The time to export and import goods has been reduced by implementing the ASYCUDA electronic data interchange system at the Thanaleng–Friendship Bridge border crossing. Owing to these reforms Lao PDR, alongside Mongolia, was the economy with the most reforms in East Asia and the Pacific in 2012.⁴⁷

Nevertheless, the Lao entrepreneurial framework still lacks transparency and efficiency. Starting a business takes over three months, and completing licensing requirements takes more than 100 days. Bankruptcy procedures are inefficient. The rigid labour market has resulted in a large amount of informal economic activity.⁴⁸ Enterprises are hampered by restrictive and cumbersome regulations. Especially the provisions in new labour law on termination of employment and severance pay were the most critical for Lao PDR employers. Severance pay provisions are the highest in Lao PDR when compared with other ASEAN countries as can be seen below. Great discretion is given to officials of the regulatory bodies, and especially tax authorities, which adds to the unnecessary fixed costs of doing business and forces firms to stay informal. These resources are not collected by the Government but wasted. Garment industry firms and exporters in general report the highest burden of regulations. Exporters spend much more time than non-exporters dealing with regulatory procedures. SMEs are disproportionately burdened by the prevalent tax rates and their discretionary application compared to larger firms. Overall, firms face strong regulatory uncertainty – i.e., inconsistent interpretations of laws and regulations.⁴⁹



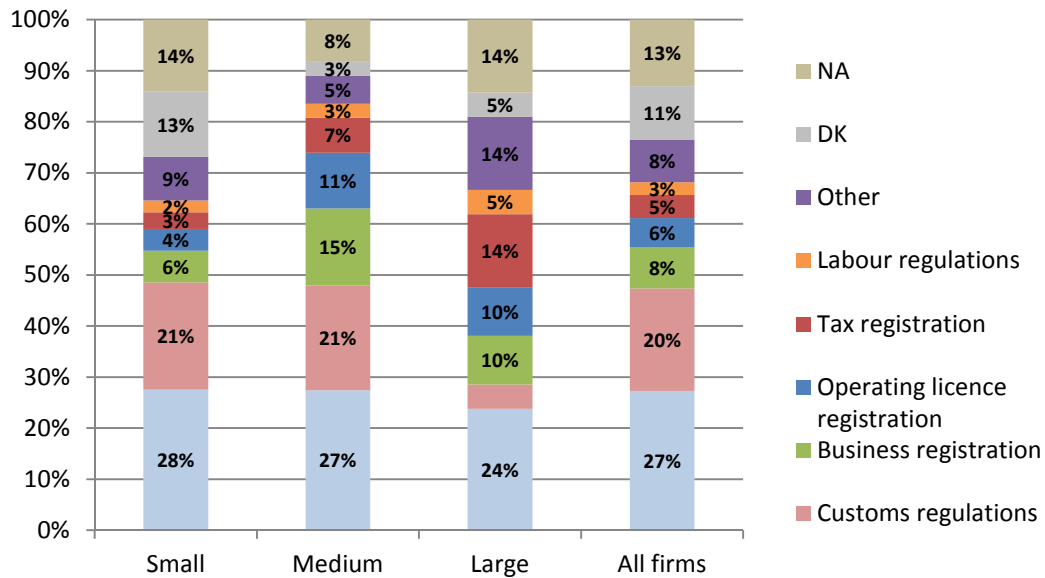
⁴⁶ Kyophilavong, 2011; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2012.

⁴⁷ World Bank, 2012c.

⁴⁸ Miller et al., 2013.

⁴⁹ World Bank and Asian Development Bank, 2007; Record and Nghardsaysone, 2010.

Main area of regulation to be improved



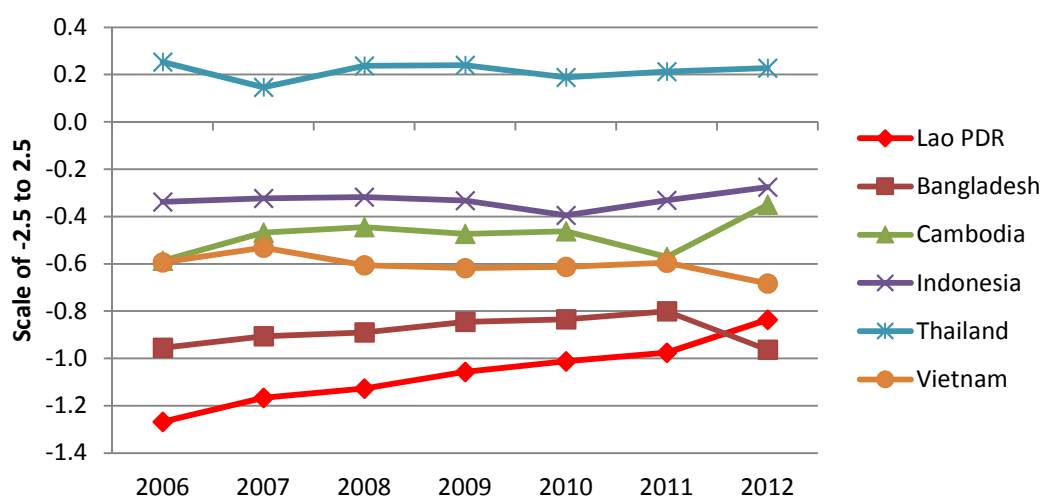
Source: Lao PDR EESE Survey.

According to findings of the EESE survey, firms of all sizes believe that tax administration (27 per cent) is the area in most need of improvement or simplification. Customs regulations (20 per cent) and business registration (8 per cent) are other areas in need of reform. Very few participants highlighted labour regulations (3 per cent) as the main area in need of reform. When asked which aspect of the law labour is the biggest challenge to their firm, two thirds of firms responded by saying they have no challenges with the labour law. Of the 134 respondents who specified a challenge, the most common ones were provisions related to minimum wages (32 per cent), working hours (19 per cent) and recruitment/hiring (13 per cent). Very few firms nominated provisions related to leave (holidays), pensions, collective bargaining, terminations or anti-discrimination. Interestingly, especially medium-sized firms (33 per cent) affirmed to have employed an external adviser or middle-man to help them comply with government regulations. It is worth noting also that the overwhelming majority of businesses in the sample indicated that they operate as formal enterprises, with 94-96 per cent of businesses having a business registration certificate, a tax registration certificate and an operating license from the relevant ministry.

Some of the laws, regulations and administrative procedures by themselves also constitute barriers to competition. Under the NEM, privatization started on a large scale, and market participation by the private sector was allowed. However, the State retains its control over the large State-Owned Enterprises (SOEs) or sectors deemed 'strategic', continuing to influence market prices. Sectorial economic regulation continues to be the responsibility of several line ministries. The Department of Electricity under the Ministry of Industry and Handicrafts handles electric power development and regulation of the sector. The telecommunication sector is regulated by the Ministry of Communication, Transport, Post, and Construction. Banking is the only sector where some sort of a regulator exists – the Bank of Lao, though the Ministry of Finance continues to exercise a significant power over this sector.⁵⁰

⁵⁰ CUTS International, 2006.

Regulatory Quality Index



Source: World Bank, Governance Matters database.

Secondary data somewhat confirms the poor performance of Lao PDR in this area. The “Regulatory Quality Index” measures the ability of a government to provide sound policies and regulations for the promotion of the private sector. Relative to the other countries used for comparison, Lao PDR registers the poorest performance, except for Bangladesh in 2012, over the period 2005-2012. Lao PDR, however, shows continuous improvements over the same period. The “Ease of Doing Business Index” ranks economies from 1 to 185, where a high ranking reflects a regulatory environment that is conducive for business operations. This index includes averages for 10 different topics. Lao PDR has improved its environment for doing business in this regard, moving up the rank from 163 in 2012 to 159 in 2013. The country, however, registers the lowest rank of the group compared. The “Starting a Business Index” records the officially required procedures to start and operate an enterprise and ranks economies out of 185 countries. Lao PDR performs fairly well in this area, ranking at 85 out of 185 in 2013 after having fallen from 82 in 2012. In 2013, only Bangladesh registers a better rank at 74.

Key Indicators							
Regulatory Quality Index The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Source: World Bank, Governance Matters database .		2007	2008	2009	2010	2011	2012
	Lao PDR	-1.2	-1.1	-1.1	-1.0	-1.0	-0.8
	Bangladesh	-0.9	-0.9	-0.8	-0.8	-0.8	-1.0
	Cambodia	-0.5	-0.4	-0.5	-0.5	-0.6	-0.3
	Indonesia	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3
	Thailand	0.1	0.2	0.2	0.2	0.2	0.2
	Vietnam	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						
Ease of Doing Business Rank Ease of Doing Business Index ranks economies from 1 to 185, with first place being the best. A high ranking		2012				2013	
	Lao PDR	163				159	
	Bangladesh	132				130	

<p>means that the regulatory environment is conducive to business operation. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.</p> <p>Source: World Bank, Doing Business Project.</p>	Cambodia	135	137
	Indonesia	116	120
	Thailand	18	18
	Vietnam	98	99
	The index ranks economies from 1 to 185, with first place being the best.		
Other Useful Indicators			
<p>Starting a Business Rank</p> <p>Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.</p> <p>Source: World Bank, Doing Business Project.</p>		2012	2013
	Lao PDR	82	85
	Bangladesh	83	74
	Cambodia	181	184
	Indonesia	171	175
	Thailand	86	91
	Vietnam	107	109
	The index ranks economies from 1 to 185, with first place being the best.		

2.4. Rule of law and secure property rights

A formal and effective legal system, which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. Upon coming to power in 1975, the Lao People's Revolutionary Party (LPRP) replaced all the laws of the former Royal Lao regime. The transition period was quite long, considering that only in August 1991 the Constitution was finally enacted and the Lao legal system was provided with a proper constitutional underpinning. Consequently, the whole body of laws is still now slowly being developed as well as applied in the courts.⁵¹

Although Lao citizens do enjoy the protection of law with respect to crimes against person and property, including their homes and personal possessions, the judicial system is inefficient, and protections for property rights are not enforced effectively.⁵² Judges may have limited legal training and experience, although over recent years several foreign-assisted programmes have helped improve their command of the law and legal procedures. In addition, although the interpretation of many laws requires testing, in Lao PDR there is no constitutional court in which to do this. Judgments can be also influenced by the payment of bribes, conformity with party policy, and extra-legal pressure in the form of intervention by politically powerful friends or relatives. This can be the most efficacious means of winning a legal case. Moreover, inadequate channels exist for making new laws known to the people, and especially the rural population – as mostly illiterate – tends not to refer to the law at all in order to defend itself. For those arrested, there is no presumption of innocence. The police and security forces are not held accountable for any abuse of power they commit. Finally, the Public Prosecutor's Office, supposed to monitor implementation

⁵¹ Dizard et al., 2012.

⁵² Miller et al., 2013.

of all laws, lacks the capacity to do this and, in fact, no government department or instrumentality has been charged with any breach of law.⁵³

The Constitution guarantees state protection to all forms of domestic and foreign investments in the country, and guarantees to individuals and organizations the rights to property (right to possess, right to use, right to transfer and right to inherit).⁵⁴ However, land rights are regulated differently. According to the 2003 Land Law, all land is ultimately owned by the national community, and the state administers it granting land-use rights to individuals and organizations. Although 77% of Lao population works in the agricultural sector, mostly on family farms, and relies on subsistence agriculture for its food and livelihood, recent land titling programmes have formalized permanent land-use rights (which can be bought and sold, mortgaged or bequeathed) only in urban and peri-urban areas, while in rural areas the state has distributed short-term land-use certificates (which can be bequeathed and inherited but cannot be sold, leased or used as collateral) that do not ensure a secure land tenure to farmers. However, in rural areas alternative forms of tenure, which are not recognized by the state, are widespread. Communal tenure, under which local communities control common property, is prevalent. Rural families may also hold informal rights to agricultural land allocated by traditional authorities under informal or customary rules.⁵⁵

Land concessions to foreign investors are controversial in Lao PDR due to their social and environmental impacts. Private investment (both foreign and domestic) in agriculture as well as industry has increased in recent years due to the liberalization of Lao PDR's economy, and the Government has approved large land concessions to private investors. When investors' promises of improved infrastructure and employment that are often part of proposed compensation packages have not materialized, land investments have harmed local populations by depriving them of access to land without their receiving anticipated benefits.⁵⁶ A recent significant story comes from the north of the country. There, a Chinese company began the construction of a casino-driven special economic zone (SEZ) in the early 2000s, and started the procedures to build an airport as part of it at the end of 2013. However, the expansion of the SEZ would have implied the vacation of land that has been used for the cultivation of paddy for generations. Dozens of rice farmers considered the compensation offered by the Chinese company extremely low and, in a rare act of resistance, defied armed police orders to vacate the land. As a result, authorities have accepted to negotiate with the farmers over the compensation.⁵⁷

Protection and enforcement of intellectual property rights (IPRs) in Lao PDR is still relatively weak. However, significant improvements have been carried out in recent years. IPRs in Lao PDR are governed by the Law on Intellectual Property of December 2011 (IP Law), approved in preparation to the accession to the WTO. As the guiding decrees on the implementation and interpretation of the IP Law have not yet passed, the legal framework results to be still in the early stages of development. Nevertheless, the law offers a fairly efficient system for registration of most major IPRs. Lao PDR has also signed the major IPR treaties, such as the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, and the Convention Establishing WIPO⁵⁸ and is preparing to access the Madrid Protocol System by 2015⁵⁹.

⁵³ Dizard et al., 2012.

⁵⁴ Dahanayake, 2005.

⁵⁵ USAID, 2013.

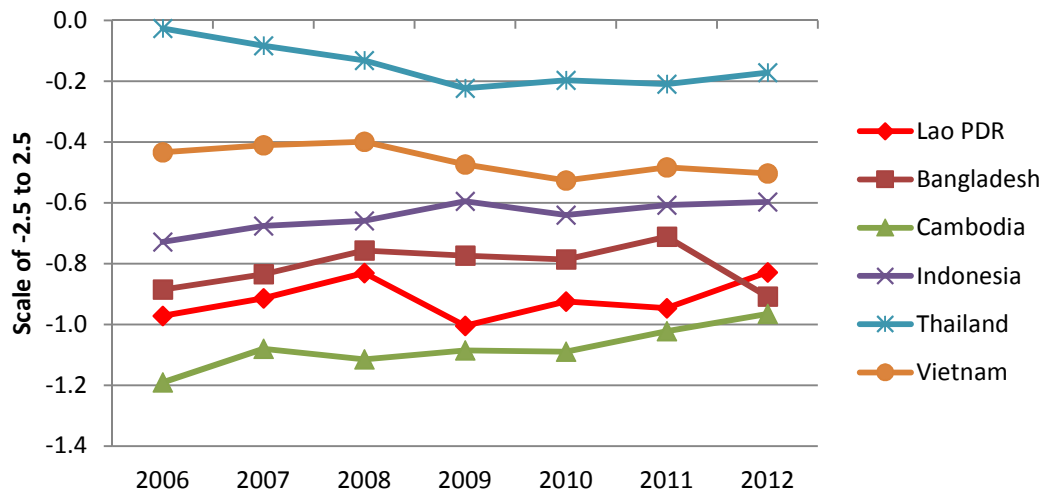
⁵⁶ Ibid.

⁵⁷ Parameswaran, 2014.

⁵⁸ European Commission - ASEAN IPR SME Helpdesk, 2013.

⁵⁹ Syackhaphom and Wee, 2013.

Rule of Law Index



Source: World Bank, Governance Matters database.

Secondary data reflects a picture that is similar to the one described above. The “Rule of Law Index” measures the extent to which agents have confidence in and abide by the rules of society. This includes the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. In this area, Lao PDR performs fairly poor. Its performance is consistently better only than Cambodia, and in 2012 it outperforms also Bangladesh, scoring at -0.8. When it comes to assessing whether property rights are well defined and protected by law, Lao PDR has slightly worsened its position between 2013 and 2014 from 3.9 to 3.8, on a scale from 1 to 7 where a higher value indicates better performance. However, in this area its performance is worse only than Indonesia and Thailand. When assessing whether intellectual property protection is strong and enforced or not, Lao PDR’s performance is similar to the one in the area of property rights protection, with the only difference that in 2013 and 2014 its scores are respectively 3.8 and 3.6.

Key Indicator						
Rule of Law Index The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. Source: World Bank, Governance Matters database .		2008	2009	2010	2011	2012
	Lao PDR	-0.8	-1.0	-0.9	-0.9	-0.8
	Bangladesh	-0.8	-0.8	-0.8	-0.7	-0.9
	Cambodia	-1.1	-1.1	-1.1	-1.0	-1.0
	Indonesia	-0.7	-0.6	-0.6	-0.6	-0.6
	Thailand	-0.1	-0.2	-0.2	-0.2	-0.2
	Vietnam	-0.4	-0.5	-0.5	-0.5	-0.5
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					
Other Useful Indicators						
Property Rights		2010	2011	2012	2013	2014

<p>The World Economic Forum Survey asked the business leaders to provide their expert opinions on the following: “Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law”.</p> <p><u>Source:</u> World Economic Forum, The Global Competitiveness Report.</p> <p><u>Note:</u> Data on Lao PDR is available only from 2013.</p>	<p>Lao PDR</p>	-	-	-	3.9	3.8	
	<p>Bangladesh</p>	3.4	3.7	3.6	3.4	3.3	
<p>Intellectual Property Protection</p> <p>The World Economic Forum Survey asked the business leaders to provide their expert opinions on the following: “Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced”.</p> <p><u>Source:</u> World Economic Forum, The Global Competitiveness Report.</p> <p><u>Note:</u> Data on Lao PDR is available only from 2013.</p>	<p>Cambodia</p>	3.5	3.8	3.8	3.6	3.3	
	<p>Indonesia</p>	4.0	4.0	4.1	4.1	4.3	
	<p>Thailand</p>	3.9	3.6	3.7	4.1	4.1	
	<p>Vietnam</p>	4.1	3.7	3.5	3.5	3.6	
	1=poorly defined and not protected by law, 7=clearly defined and well protected by law.						
			2010	2011	2012	2013	2014
	<p>Lao PDR</p>	-	-	-	3.8	3.6	
<p>Bangladesh</p>	2.6	2.4	2.4	2.6	2.5		
<p>Cambodia</p>	2.8	3.1	3.3	3.2	2.8		
<p>Indonesia</p>	3.8	3.6	3.7	3.9	4.1		
<p>Thailand</p>	3.1	3.1	3.1	3.1	3.1		
<p>Vietnam</p>	2.7	2.5	2.6	2.9	3.1		
1=weak and not enforced, 7=strong and enforced.							

2.5. Fair competition

Fair competition in the marketplace is likely to produce a range of efficiencies in the provision of goods and services, lower costs, reduced price distortions and wider consumer choice. Though Lao PDR officially recognizes competition as a “major driving force for economic development”, its approach in this direction appears quite cautious. Under many aspects, Lao PDR remains a centrally planned economy. State intervention into various market functions, in fact, is still rather strong as compared to other economies in the region.⁶⁰ Furthermore, the private sector, except for foreign-invested enterprises, is practically small in size, unorganized and in a disadvantageous competitive position due to low capital base, lack of technological and managerial skills.⁶¹ About 98 per cent of private sector firms – which dominate the manufacturing sector – have less than 10 employees.⁶² Nonetheless, some initial cornerstones of an evolving competition policy have been set. The most recent landmark is the Prime Minister’s Decree on Trade Competition adopted in 2004, whose ultimate objective is to prevent monopolization.⁶³

Most of the barriers to competition exist due to the nature of public sector policies and how they are implemented. Some domestic laws and regulations pose barriers to entry – as in the case of several manufacturing as well as service and utility sectors that display high market concentration and receive State protection in various forms. Certain laws or administrative decisions also grant exclusive rights to SOEs to provide services to the public. At the same time, the absence of an enforceable competition legislation makes private anti-competitive practices difficult to be dealt with. For example, State assets have been sold or leased out on private negotiation basis instead of competitive bidding, often resulting in a transformation of public monopolies into private

⁶⁰ Mehta, 2006.

⁶¹ CUTS International, 2006.

⁶² Dahanayake, 2005.

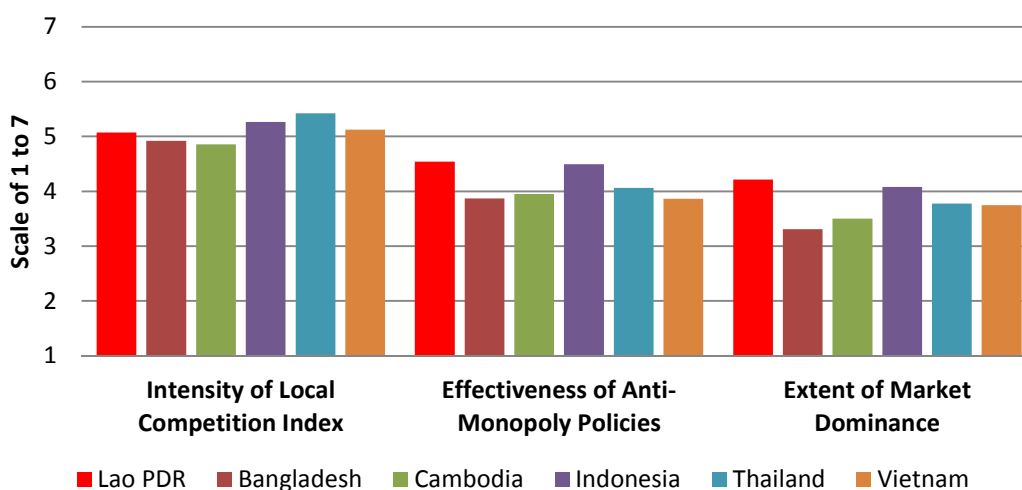
⁶³ Mehta, 2006.

monopolies. In fact, very few public enterprises have shown any significant enhancement of their competitiveness after privatization.⁶⁴

Other barriers to competition that also play a significant role in Lao PDR are those related to private anti-competitive practices. It was reported that some business or professional associations, which were established with the objective of protecting their professional interests, showed a tendency to cartel behaviour. Another issue is bid-rigging. In many privatization cases some members of a group would submit token bids – called “complementary bids” – that are not competitive in order to enable a specific member of the group to win the bid. Then, the one that receives the contract compensates the others. In Lao small and fragmented domestic market, where market structure in most industries is usually monopolistic, monopsonistic or oligopolistic, the abuse of dominance also creates concerns. Firms have in fact a strong temptation to abuse their market power and engage in predatory behaviour.⁶⁵ Also foreign firms operating in the country put in place anti-competitive practices, which are mainly related to the concessions received under either foreign investor agreements or join-venture agreements that discriminate against domestic firms.⁶⁶

In general, despite a recent recognition of competition as a major driving force for development, the various historical, cultural and socio-economic conditions of the country contribute to the persistence of anti-competitive practices. The old mind-set of a centrally planned economic mechanism, for example, tends to make people think that price-fixing, market-sharing or output restriction, are common and legitimate conducts. This means that building a strong competition culture is the first step in ensuring that competition starts to play a more important role.⁶⁷ More training is hence required as well as good regulations and strong institutions need to be developed by the State. Consumer protection is also a connected issue that requires greater attention, as no specific law, regulation, or institution to it related exist. The low level of awareness leads to a low level of complaints or cases of consumer abuses being reported.⁶⁸

Fair Competition Indexes (2014)



Source: World Economic Forum, The Global Competitiveness Report 2014.

⁶⁴ CUTS International, 2006.

⁶⁵ Ibid.

⁶⁶ Dahanayake, 2005.

⁶⁷ CUTS International, 2006.

⁶⁸ Mehta, 2006.

Reflective of the level of market competition in the country, “New Business Density” indicates the number of newly registered, limited liability companies per 1,000 working aged people (15 to 64 years old) in a given year. In this area, Lao PDR recorded a positive trend between 2008 and 2011, rising from a rate of 0.02 to one of 0.10. Relative to the countries compared, Lao PDR consistently underperforms Indonesia and Thailand while registers the same rate as Bangladesh in 2011 (data for Cambodia are available only until 2009). According to the indicators derived from the “Global Competitiveness Report”, Lao PDR performs somewhat better than the countries used for comparison. The “Intensity of Local Competition Index” measures the level of competition in local markets from 1 to 7, 1 being limited and 7 being intense in most industries. In this regard, Lao PDR registers a score of 5.1 in 2014, which is lower only than those registered by Indonesia and Thailand. On a scale from 1 to 7 with higher values corresponding to better performance, the “Effectiveness of Anti-Monopoly Policy Index” reflects the level of efficiency of anti-monopoly policy in promoting competition, while the “Extent of Market Dominance Index” indicates whether corporate activity is dominated by only a few business groups or spread among many firms. With regard to these two areas, Lao PDR outperforms the countries compared, recording scores of 4.5 and 4.2 respectively in 2014.

Key Indicator						
New Business Density The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year. Source: World Bank's Entrepreneurship Survey (World Development Indicators Online). Note: Data for Vietnam is not available.		2008	2009	2010	2011	2012
	Lao PDR	0.02	0.08	0.07	0.10	-
	Bangladesh	0.05	0.07	0.09	0.10	0.09
	Cambodia	0.30	0.22	-	-	-
	Indonesia	0.24	0.18	0.24	0.27	0.29
	Thailand	0.60	0.59	0.67	0.71	0.86
	The number of newly registered limited liability companies per 1,000 working-age people.					
Other Useful Indicators						
Intensity of Local Competition Index Intensity of local competition index is based on survey data drawn from the following question: “Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)”. Source: World Economic Forum, The Global Competitiveness Report . Note: Data on Lao PDR is available only from 2013.		2010	2011	2012	2013	2014
	Lao PDR	-	-	-	5.2	5.1
	Bangladesh	4.7	4.5	4.7	4.9	4.9
	Cambodia	4.3	4.6	4.8	4.9	4.9
	Indonesia	5.1	4.6	4.4	5.0	5.3
	Thailand	5.3	5.1	5.0	5.3	5.4
	Vietnam	4.8	5.0	5.1	5.2	5.1
1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.						
Effectiveness of Anti-monopoly Policies Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)". Source: World Economic Forum, The Global Competitiveness Report . Note: Data on Lao PDR is available only from 2013.		2010	2011	2012	2013	2014
	Lao PDR	-	-	-	4.6	4.5
	Bangladesh	3.6	3.5	3.5	3.8	3.9
	Cambodia	3.9	4.0	4.3	4.3	4.0
	Indonesia	4.6	4.3	4.5	4.5	4.5
	Thailand	4.2	3.9	3.9	4.1	4.1
	Vietnam	4.2	3.8	3.9	4.0	3.9

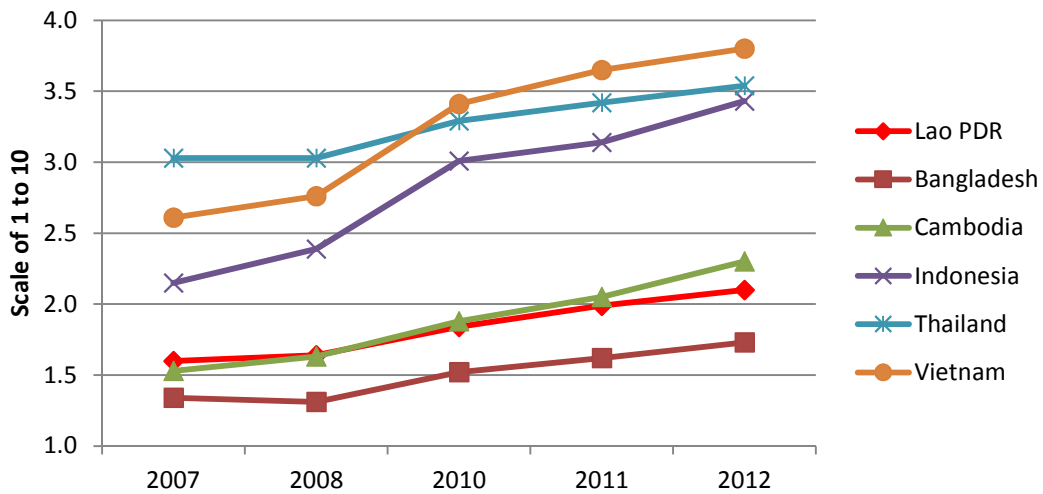
		1=lax and not effective at promoting competition, 7=effective and promotes competition.				
Extent of Market Dominance		2010	2011	2012	2013	2014
<p>Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".</p> <p><u>Source:</u> World Economic Forum, The Global Competitiveness Report.</p> <p><u>Note:</u> Data on Lao PDR is available only from 2013.</p>	Lao PDR	-	-	-	4.4	4.2
	Bangladesh	3.1	3.3	3.2	3.3	3.3
	Cambodia	3.5	3.8	4.0	3.8	3.5
	Indonesia	4.2	3.9	3.9	4.0	4.1
	Thailand	3.7	3.5	3.6	3.7	3.8
	Vietnam	4.0	3.7	3.7	3.8	3.7
	1=dominated by a few business groups, 7=spread among many firms.					

2.6. Information and communication technologies

The information and communication technologies (ICT) sector offers great potential for stimulating economic growth. The progress that Lao PDR has made in developing its telecommunication infrastructure is evidenced chiefly in the 3.6 million connections made. Land lines account for 149,300, mobile phones 3.39 million and wireless landlines 50,000. Telecommunication capacity has also been expanded in rural areas in furtherance of the aim of 80 per cent coverage. An extra 13,200 kilometres of optical fibre lines have been laid, spanning 90 per cent of all provinces and 80 per cent of all districts. Furthermore, a new base transceiver station for mobile phone communication has led to the installation of 2,000 receiver stations.⁶⁹ The "ICT Development Index", which compares ICT developments in 154 countries combining several indicators, confirms that the country has improved in recent years. On a scale from 1 to 10 with higher values indicating better performance, Lao PDR moved from 1.6 in 2007 to 2.1 in 2012. Though the country outperforms Bangladesh in the latter year, Vietnam, Thailand, Indonesia and Cambodia record higher scores at respectively 3.8, 3.5, 3.4 and 2.3, reflecting the need for greater development in Lao PDR's ICT sector.

⁶⁹ Organisation for Economic Co-operation and Development, 2013.

ICT Development Index



Source: International Telecommunication Union, Measuring the Information Society Report.

In 2006 the first Economic Census was conducted by the Department of Statistics of the Ministry of Planning and Investment with the support of the Swedish International Development Cooperation Agency. Out of the 126,913 surveyed economic units, it emerged that only 3 per cent (3,910 enterprises) use computers, showing that the use of information technologies in Lao private sector is still very limited. The level of computer utilization also varies among different business sectors, with science and technology companies, education companies, electronic and electric companies, finance and accounting companies, construction companies, and service companies utilizing computers more than others. Agricultural companies use computers the least. Moreover, the Census found out that only 0.9 per cent of companies has Internet access, while only 0.3 per cent has a website.⁷⁰ The tourism sector seems the most active provider of online services, such as online booking and ordering services.⁷¹ Nevertheless, owing to the importation of inexpensive computing devices and solar technology from China and Thailand as well as the provision of a viable ICT infrastructure in rural areas, including 3G Internet connectivity, ICT development in Lao PDR has considerably improved in recent years.⁷² Such improvement is reflected by secondary data. The “Network Readiness Index” measures the extent to which a country leverages ICT for enhanced competitiveness. On a scale from 1 to 7 with higher values corresponding to better performance, Lao PDR scores 3.3 in 2013-14. Relative to the countries used for comparison, Lao PDR performs better only than Bangladesh, while also in the case of this indicator underperforms Cambodia, Indonesia, Thailand and Vietnam.

Firms engaged in ICT-related businesses in 2006 represented only the 0.7 per cent (872 entities) of all enterprises throughout the economy. However, the number of ICT-related businesses increased four-fold from 103 in 2000 to 513 companies in 2005. In 2006, 196 new companies were registered and more ICT businesses are being set up. Most of these businesses are small, with an investment of less than US\$ 10,000 in the case of computer retail and repair shops. Only 74 companies (8.4 per cent) have an investment of more than US\$ 100,000. The biggest investors are the telecom operators, with an investment of more than US\$ five million each.⁷³ Several constraints however prevent further big investments in this sector. They include: i) incentives for local ICT

⁷⁰ Steering Committee on Economic Census, 2006.

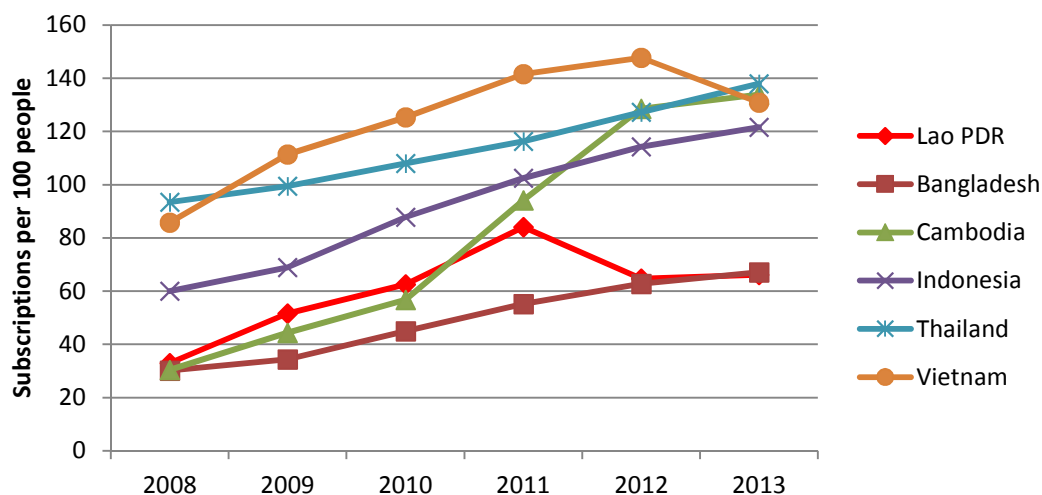
⁷¹ Phissamay, 2009.

⁷² Haddawy, 2011.

⁷³ Steering Committee on Economic Census, 2006.

companies are lacking (e.g. the government considers computers to be the same as television equipment, sometimes taxed up to 60 per cent), ii) the electric current fluctuates, causing damage to electronic equipment, iii) there is lack of skilled labour, iv) the purchasing power of the local population is low, given the cost of computers (the average income is US\$ 780 per year, while a computer costs between US\$ 500-2,000).⁷⁴

Mobile-Cellular Subscriptions

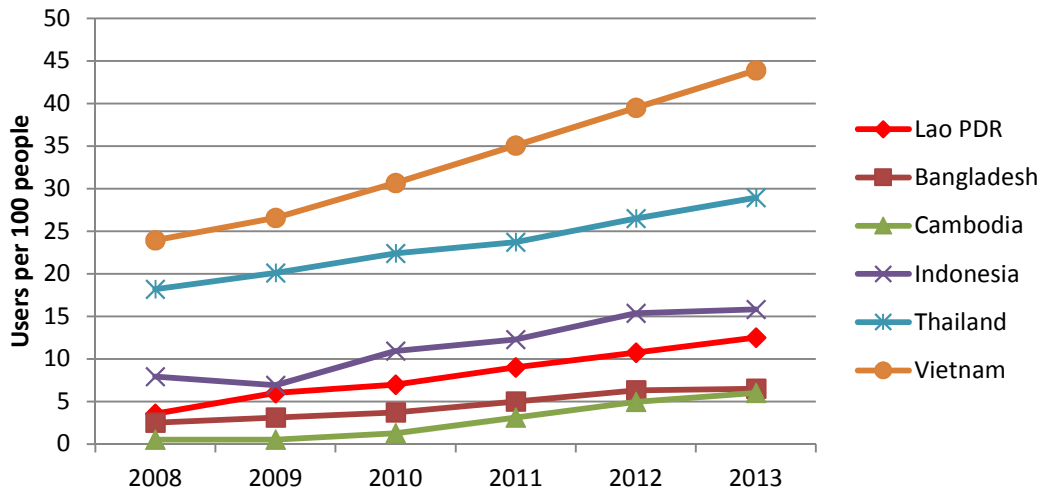


Source: International Telecommunication Union.

Concerning ICT usage in Lao PDR, rates remain notably low, but improvements are clear. The number of “Mobile-Cellular Subscriptions” per 100 people has risen quickly from a rate of 17.1 in 2006 to 84.1 in 2011. In 2012 and 2013, however, the rate has decreased to about 65 per cent. In the latter year, Lao PDR recorded the lowest rate at 66.2, close to the 67.1 per cent registered by Bangladesh, while Indonesia, Vietnam, Cambodia and Thailand significantly outperformed the other two countries registering respectively 121.5, 130.9, 133.9 and 138. When it comes to “Fixed-Telephone Subscriptions” per 100 people, Lao PDR again improved since 2006. In 2013, it reached a rate of 10.2 subscriptions per 100 inhabitants, outperforming Bangladesh, Cambodia and Thailand, and almost reaching Vietnam. While Indonesia registered a rate of 16.1 in that year.

⁷⁴ Phissamay, 2009.

Internet Users



Source: International Telecommunication Union.

Concerning “Broadband Subscriptions” per 100 people, the number in Lao PDR has only marginally increased since 2006 and remains notably low at 0.13 in 2013. All other countries used for comparison have also improved in this regard at a faster pace. In 2007, Bangladesh recorded the lowest level of subscribers at 0.03, but improved to a rate of 0.63 by 2013. Over the same period, Cambodia moved from 0.02 in 2007 to 0.13, the lowest of the group, in 2013. The rate of “Internet Users” per 100 people in Lao PDR reflects a consistent improvement in the number of users from 1.2 per cent in 2006 to 12.5 per cent in 2013. Though it is consistently below the rates registered by Indonesia, Thailand and Vietnam, Lao PDR constantly outperforms Bangladesh and Cambodia over the period 2008-2013. What is yet lacking in order to unlock the latent capacity of the Lao relatively rich infrastructure is appropriate software and content designed so that it fits into local contexts.⁷⁵ The lack of content in the Lao language is one of the major constraints to ICT use in the country.⁷⁶ Furthermore, it is necessary to adopt an ICT human resource development master plan at the national level that includes both formal and non-formal ICT education.⁷⁷

The government of Lao PDR is aware of the role of ICT in industrialization and modernization, as well as in improving the quality of government service and administration. This is why it is undertaking the National e-Government Project (which aims to foster collaboration among government institutions to ensure efficient and effective delivery of public services). However, Lao PDR needs to build the necessary national information infrastructure, increase investment in the ICT sector, develop skilled human resources, and engage in more ICT R&D. There is also a need to develop the public’s awareness and understanding of the role of ICT in development.⁷⁸

Key Indicators

ICT Development Index (IDI)	2007	2008	2010	2011	2012

⁷⁵ Haddawy, 2011.

⁷⁶ Pepall, n.a.

⁷⁷ Phissamay, 2009.

⁷⁸ Ibid.

<p>IDI compares developments in information and communication technologies (ICT) in 154 countries. The Index combines 11 indicators in a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, including households with a computer, the number of Internet users and literacy levels.</p> <p>Source: International Telecommunication Union, Measuring the Information Society.</p>	<table border="1"> <tr><td>Lao PDR</td><td>1.6</td><td>1.6</td><td>1.8</td><td>2.0</td><td>2.1</td></tr> <tr><td>Bangladesh</td><td>1.3</td><td>1.3</td><td>1.5</td><td>1.6</td><td>1.7</td></tr> <tr><td>Cambodia</td><td>1.5</td><td>1.6</td><td>1.9</td><td>2.1</td><td>2.3</td></tr> <tr><td>Indonesia</td><td>2.2</td><td>2.4</td><td>3.0</td><td>3.1</td><td>3.4</td></tr> <tr><td>Thailand</td><td>3.0</td><td>3.0</td><td>3.3</td><td>3.4</td><td>3.5</td></tr> <tr><td>Vietnam</td><td>2.6</td><td>2.8</td><td>3.4</td><td>3.7</td><td>3.8</td></tr> </table> <p>Scale from 1 to 10, with lower scores reflecting lower development levels.</p>	Lao PDR	1.6	1.6	1.8	2.0	2.1	Bangladesh	1.3	1.3	1.5	1.6	1.7	Cambodia	1.5	1.6	1.9	2.1	2.3	Indonesia	2.2	2.4	3.0	3.1	3.4	Thailand	3.0	3.0	3.3	3.4	3.5	Vietnam	2.6	2.8	3.4	3.7	3.8						
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<p>Network Readiness Index</p> <p>The Network Readiness Index measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.</p> <p>Source: World Economic Forum, The Global Information Technology Report.</p>	<table border="1"> <thead> <tr><th></th><th>2011-12</th><th>2012-13</th><th>2013-14</th></tr> </thead> <tbody> <tr><td>Lao PDR</td><td>-</td><td>-</td><td>3.3</td></tr> <tr><td>Bangladesh</td><td>3.2</td><td>3.2</td><td>3.2</td></tr> <tr><td>Cambodia</td><td>3.3</td><td>3.3</td><td>3.4</td></tr> <tr><td>Indonesia</td><td>3.7</td><td>3.8</td><td>4.0</td></tr> <tr><td>Thailand</td><td>3.8</td><td>3.9</td><td>4.0</td></tr> <tr><td>Vietnam</td><td>3.7</td><td>3.7</td><td>3.8</td></tr> </tbody> </table> <p>Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT.</p>		2011-12	2012-13	2013-14	Lao PDR	-	-	3.3	Bangladesh	3.2	3.2	3.2	Cambodia	3.3	3.3	3.4	Indonesia	3.7	3.8	4.0	Thailand	3.8	3.9	4.0	Vietnam	3.7	3.7	3.8														
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<p>Internet Users (per 100 people)</p> <p>The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100.</p> <p>Source: International Telecommunication Union.</p>	<table border="1"> <thead> <tr><th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th></tr> </thead> <tbody> <tr><td>Lao PDR</td><td>6.0</td><td>7.0</td><td>9.0</td><td>10.8</td><td>12.5</td></tr> <tr><td>Bangladesh</td><td>3.1</td><td>3.7</td><td>5.0</td><td>6.3</td><td>6.5</td></tr> <tr><td>Cambodia</td><td>0.5</td><td>1.3</td><td>3.1</td><td>4.9</td><td>6.0</td></tr> <tr><td>Indonesia</td><td>6.9</td><td>10.9</td><td>12.3</td><td>15.4</td><td>15.8</td></tr> <tr><td>Thailand</td><td>20.1</td><td>22.4</td><td>23.7</td><td>26.5</td><td>28.9</td></tr> <tr><td>Vietnam</td><td>26.6</td><td>30.7</td><td>35.1</td><td>39.5</td><td>43.9</td></tr> </tbody> </table> <p>Number of users per 100 people.</p>		2009	2010	2011	2012	2013	Lao PDR	6.0	7.0	9.0	10.8	12.5	Bangladesh	3.1	3.7	5.0	6.3	6.5	Cambodia	0.5	1.3	3.1	4.9	6.0	Indonesia	6.9	10.9	12.3	15.4	15.8	Thailand	20.1	22.4	23.7	26.5	28.9	Vietnam	26.6	30.7	35.1	39.5	43.9
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<p>Fixed-Telephone Subscriptions (per 100 people)</p> <p>Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.</p> <p>Source: International Telecommunication Union.</p>	<table border="1"> <thead> <tr><th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th></tr> </thead> <tbody> <tr><td>Lao PDR</td><td>1.6</td><td>1.6</td><td>1.7</td><td>1.8</td><td>10.0</td></tr> <tr><td>Bangladesh</td><td>0.8</td><td>0.9</td><td>0.6</td><td>0.6</td><td>0.7</td></tr> <tr><td>Cambodia</td><td>0.4</td><td>2.5</td><td>3.6</td><td>3.9</td><td>2.8</td></tr> <tr><td>Indonesia</td><td>14.7</td><td>17.0</td><td>15.8</td><td>15.4</td><td>16.1</td></tr> <tr><td>Thailand</td><td>10.9</td><td>10.3</td><td>9.9</td><td>9.5</td><td>9.0</td></tr> <tr><td>Vietnam</td><td>19.8</td><td>16.1</td><td>11.3</td><td>11.2</td><td>10.1</td></tr> </tbody> </table> <p>Number of subscribers per 100 people.</p>		2009	2010	2011	2012	2013	Lao PDR	1.6	1.6	1.7	1.8	10.0	Bangladesh	0.8	0.9	0.6	0.6	0.7	Cambodia	0.4	2.5	3.6	3.9	2.8	Indonesia	14.7	17.0	15.8	15.4	16.1	Thailand	10.9	10.3	9.9	9.5	9.0	Vietnam	19.8	16.1	11.3	11.2	10.1
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<p>Mobile-Cellular Subscriptions (per 100 people)</p> <p>Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone</p>	<table border="1"> <thead> <tr><th></th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th></tr> </thead> <tbody> <tr><td>Lao PDR</td><td>51.6</td><td>62.6</td><td>84.1</td><td>64.7</td><td>66.2</td></tr> <tr><td>Bangladesh</td><td>34.4</td><td>45.0</td><td>55.2</td><td>62.8</td><td>67.1</td></tr> <tr><td>Cambodia</td><td>44.3</td><td>56.7</td><td>94.2</td><td>128.5</td><td>133.9</td></tr> </tbody> </table>		2009	2010	2011	2012	2013	Lao PDR	51.6	62.6	84.1	64.7	66.2	Bangladesh	34.4	45.0	55.2	62.8	67.1	Cambodia	44.3	56.7	94.2	128.5	133.9																		
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network. Source: International Telecommunication Union .	Indonesia	68.9	87.8	102.5	114.2	121.5
	Thailand	99.5	108.0	116.3	127.3	138.0
	Vietnam	111.4	125.3	141.6	147.7	130.9
	Number of subscribers per 100 people.					
Fixed Broadband Subscriptions (per 100 people)		2009	2010	2011	2012	2013
Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem or other high-speed technologies. Source: International Telecommunication Union .	Lao PDR	0.1	0.1	0.1	0.1	0.1
	Bangladesh	0.2	0.3	0.3	0.4	0.6
	Cambodia	0.2	0.3	0.2	0.2	0.2
	Indonesia	0.8	1.0	1.1	1.2	1.3
	Thailand	4.0	4.9	5.9	8.2	7.4
	Vietnam	3.6	4.1	4.3	4.9	5.6
	Number of subscribers per 100 people.					

2.7. Access to financial services

Whether it is to create a new business or to expand an existing one, entrepreneurs of all sizes and types need financial resources to stay competitive and to grow. Over the last few years, the financial sector in Lao PDR has improved considerably. State-Owned Commercial Banks (SOCBs), such as BCEL, Agriculture Promotion Bank, and Lao Development Bank, made their services more customer-friendly, reduced red tape and diversified their financial products. The entry into the market of a number of foreign and local private banks, such as ANZ-Vientiane Commercial Bank, ACLEDA, ICB, and Phongsavanh Bank, also opened up financial prospects for the private sector. Village saving and credit schemes have also become quite popular in rural areas and serve as an effective alternative source of credit for micro- and small-sized companies and for household purposes.⁷⁹ Furthermore, as financial-sector reforms are going on, the first stock market opened in 2011.⁸⁰

Despite these achievements, the Lao financial system is still weak and its contribution to economic growth is quite small.⁸¹ Banking business is said to be open to competition. However, SOCBs still dominate the banking business with a more than 60 per cent share in terms of assets, deposits and loans.⁸² SOCBs provide loans or credit mostly to large enterprises and State-Owned Enterprises (SOEs), making it difficult for SMEs to gain access to finance from Lao banks.⁸³ In addition, the penetration of formal-bank branch networks is amongst the lowest in the world, with only 25 per cent of households having access to formal and semi-formal suppliers of finance and the rest relying on self-generated wealth, informal market funding or limited traditional micro-finance activities.⁸⁴ As a result, access to finance is one of the most important issues for SMEs. Secondary data confirms this finding. “Domestic Credit to Private Sector” refers to financial resources provided to the private sector, expressed as a percentage of GDP. In this area, Lao PDR performs poorly. Although it has showed a positive trend over the period 2007-2010 registering an

⁷⁹ Phimmavong and Chanthavong, 2009.

⁸⁰ Miller et al., 2013.

⁸¹ Kyophilavong, 2011.

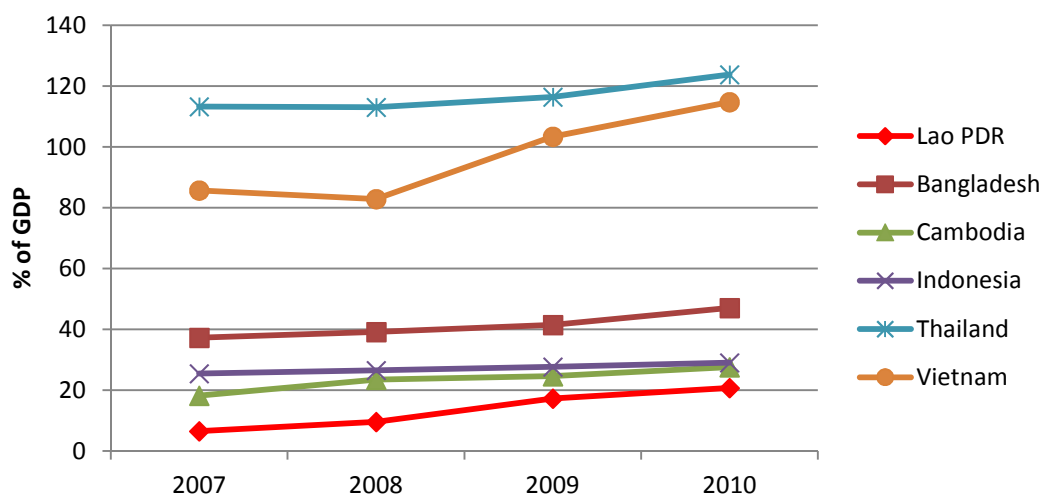
⁸² Kyophilavong, 2010.

⁸³ Kyophilavong, 2011.

⁸⁴ United Nations Capital Development Fund, United Nations Development Programme, 2010.

increase from 6.5 to 20.8 respectively, Lao PDR consistently underperforms all other countries used for comparison. In the latter year, Cambodia records a level of 27.6 per cent, Indonesia 29 per cent, Bangladesh 47.1 per cent, while Vietnam and Thailand record levels beyond hundred – respectively 114.7 per cent and 123.8 per cent. The “Interest Rate Spread” is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. Also in this area, Lao PDR performs poorly, with 19.6 per cent in 2010. This is much higher than the second lowest score, registered by Indonesia at 6.2 per cent in the same year.

Domestic Credit to Private Sector



Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).

Various elements explain why banks are reluctant to lend to SMEs. The main constraints are excessive information asymmetries and serious difficulties in executing collateral. A large number of SMEs that apply for bank loans are not registered and financial institutions can simply not lend to them. Moreover, most SMEs do not have or keep accounting records, as numerous business transactions are settled in cash without invoices. Even when firms have accounting records, banks often do not consider them reliable. Having parallel systems of accounting, one for banks and one for tax authorities, seems to be a practice among many SMEs in Lao PDR.⁸⁵ This is reflected by the “Credit Information Index”, which measures the level of credit information available in a country through public or private registries to facilitate lending decisions. On a scale from 0 to 6 where higher values indicate better performance, Lao PDR, together with Bangladesh, registers the lowest score of the group at 2 in 2013.

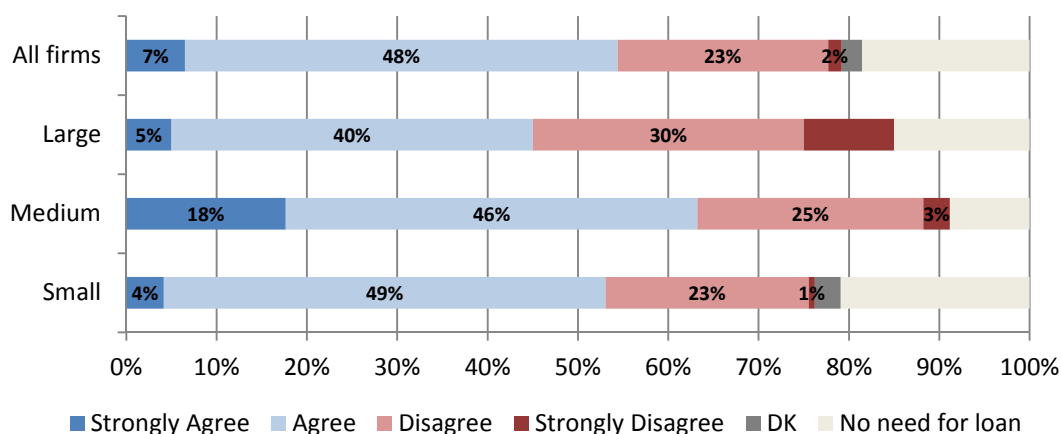
When SMEs default on their loans then, the execution of collateral becomes a lengthy and costly process for commercial banks. The Lao judicial system is not prepared to handle collateral execution in an expedite manner. It takes up to 5 years for banks to take possession of collateral. Furthermore, the legal system of Lao PDR does not have specific provisions to handle and resolve firm insolvency. Therefore, banks prefer to lend only to well-established firms with sufficient collateral (mostly real estate), excluding all start-ups as well as other SMEs with no or insufficient collateral.⁸⁶ Larger firms in Lao PDR are more likely: to have a loan, to have an overdraft facility,

⁸⁵ De Luna-Martinez, 2014.

⁸⁶ Ibid.

to finance more new investment, to have working capital through bank financing, and to have longer-term loans than smaller enterprises.⁸⁷

Access to financial services is a constraint to expansion



Source: Lao PDR EESE Survey.

These findings are confirmed by the EESE survey, where 9 per cent of all participants cite lack of access to finance as their biggest challenge and more than half of all firms agree that this is a major constraint on their ability to operate or expand. This challenge is particularly felt by medium-sized firms (64 per cent). The survey confirms also that there is a clear relationship between firm size and the use of external finance. Large firms are much more likely to have taken a loan from a financial institution in the last three years than small firms. In terms of sectors, half of firms in the mining, construction and manufacturing sector have taken a loan, while only 26 per cent of firms in wholesale and retail trade have done so. Half of respondents obtained their loan from a private commercial bank and 38 per cent from a state-owned bank, with large firms having used more likely a private bank rather than a state-owned bank in comparison to SMEs. In addition, 7 per cent of small respondents had used a village bank or ROSCA⁸⁸ to obtain small loans. Of those firms who have not taken a loan in the last three years and specified a reason, some participants said that high interest rates was the main reason (25 per cent), while few complained about high collateral requirements (4 per cent), complex application procedures (3 per cent) or doubts about the application being approved (2 per cent). Of 133 respondents who gave an answer when asked what would make it easier to get a loan, 48 per cent suggested being able to use a vehicle or equipment as collateral.⁸⁹ Importantly, female-run businesses are mostly not perceived as facing additional challenges in accessing finance and very few participants indicated that banks were biased against women in their lending practices.

⁸⁷ World Bank and Asian Development Bank, 2007.

⁸⁸ A ROSCA is a group of 12 people that contribute a fixed amount every month for 12 months, with members alternating between being lenders and borrowers depending on their position in the cycle.

⁸⁹ It is worth noting that the Government has recently taken steps to encourage the use of movable assets as collateral, through the establishment in 2013 of the Lao Registry Office for Security Interests in Movable Property. This allows individuals and institutions to register their financial interest in moveable assets, in the hope it will encourage financial institutions to accept such assets as collateral and thereby improve access to finance for SMEs.

The Government of Lao PDR has showed interest in supporting Lao firms to gain a better access to financial services and it has developed a plan and a strategy to do this. Nevertheless, its understanding of the issue seems weak. It is important for policy makers to liberalize the financial sector in order to increase competition and have greater diversification in the financial sectors. Moreover, training on access to finance should be provided and credit guarantee schemes for SMEs should be set up. However, owing to recent financial sector improvement, partial liberalization of the financial sector and the demand for finance, the trend towards access to finance has already showed an increase.⁹⁰

Key Indicator						
Domestic Credit to Private Sector (% of GDP) Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for repayment. For some countries these claims include credit to public enterprises. <u>Source:</u> International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).		2007	2008	2009	2010	
	Lao PDR	6.5	9.6	17.2	20.8	
	Bangladesh	37.3	39.2	41.5	47.1	
	Cambodia	18.2	23.5	24.6	27.6	
	Indonesia	25.5	26.6	27.7	29.0	
	Thailand	113.2	113.0	116.4	123.8	
	Vietnam	85.6	82.9	103.3	114.7	
	Credit to private sector (% of GDP).					
	Other Useful Indicators					
	Credit Depth of Information Index Credit depth of information index measures rules affecting the scope, accessibility and quality of credit information available through public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. <u>Source:</u> World Bank, Doing Business Project .		2009	2010	2011	2012
Lao PDR		0	0	2	2	2
Bangladesh		2	2	2	2	2
Cambodia		0	0	0	3	4
Indonesia		4	4	4	4	4
Thailand		5	5	5	5	5
Vietnam		4	4	4	4	4
0=less information to 6=more information.						
Interest Rate Spread Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. <u>Source:</u> International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online). <u>Note:</u> Data for Cambodia is not available.			2007	2008	2009	2010
		Lao PDR	23.5	19.3	21.5	19.6
	Bangladesh	6.8	6.7	6.4	5.9	
	Indonesia	5.9	5.1	5.2	6.2	
	Thailand	4.2	4.6	4.9	4.9	
	Vietnam	3.7	3.1	2.2	1.9	
	Interest rate spread (lending rate minus deposit rate, %).					

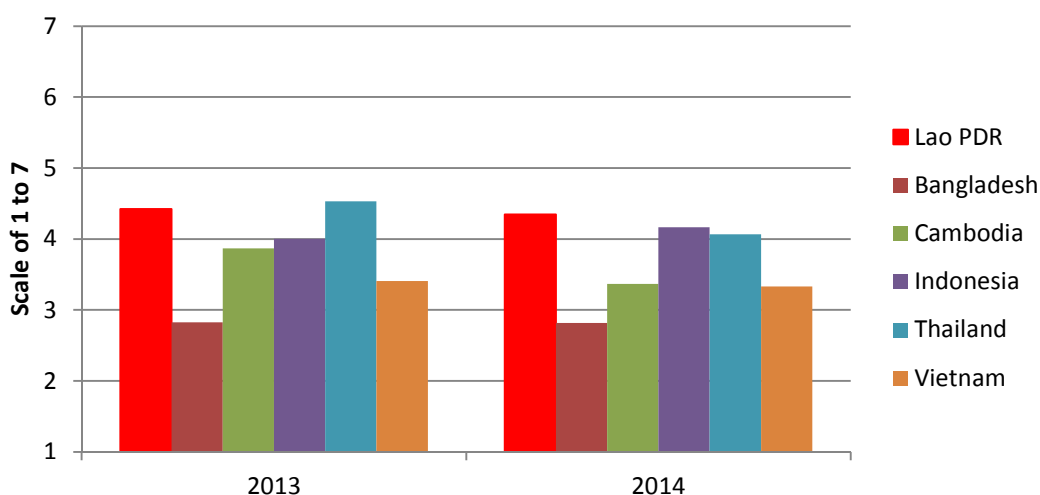
⁹⁰ Kyophilavong, 2011.

2.8. Physical infrastructure

Sustainable enterprises need quality physical infrastructure. Lao PDR shares borders with significant neighbouring countries, including China, Vietnam, Cambodia, Thailand and Myanmar. Strategically the Government plans to transform this land-locked location into a land-linked one where Lao PDR can be the centre of product flows among Asian nations and other regions. As a result, international flights have been established in major cities, which increase the passenger and goods transport capacity. Also the inter-provincial roads in the whole country have been gradually improved in recent years, owing to the considerably large financial support provided by the Asian Development Bank, the Japanese cooperation agency and other governments. The newly-constructed road linking China, Lao PDR and Thailand, crossing the Northern part of Lao PDR has great relevance for trading and transport in the region. Nevertheless, infrastructure in many other areas remains relatively poor and this affects the growth and development.⁹¹

Firms in all manufacturing sectors identify poor infrastructure as one of the most important constraints to investment and productivity growth. Quality of and access to infrastructure services are generally inadequate, imposing high fixed costs, which are especially harmful to small and informal firms. An average firm that uses each of the services is estimated to lose up to 5.5 per cent of sales due to poor transport infrastructure, 3.9 per cent due to poor transport services, 4.3 per cent due to poor electricity, 1.6 per cent due to water supply problems, and 1.8 per cent due to poor telephone services. It is proved that businesses that are most affected by transportation deficits typically have lower value added and experience higher lead times as well as higher transportation expenditures. Firms in Champassak, Oudomxay, and Uangprabang are most affected by inadequate road conditions. Electricity is among the worst constraints to doing business due to high tariffs combined with a low quality of supply. Fixed costs of switching to an industrial/commercial distribution network nearly triples the electricity bill for informal small firms (small consumers), while it “only” doubles for larger ones. In addition, more than 30 days are required to obtain an electricity connection or a mainline telephone connection, and almost 20 days are needed on average to obtain a water connection. This is longer than in any comparator country, including Cambodia, Thailand, Vietnam, and other Asian countries.⁹²

Quality of Overall Infrastructure Index



⁹¹ Phimmavong and Chanthavong, 2009.

⁹² World Bank and Asian Development Bank, 2007.

Source: World Economic Forum, The Global Competitiveness Report 2014.

According to secondary data, Lao PDR performs relatively well in the area of physical infrastructures. The “Quality of Overall Infrastructure Index” reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. In this area, Lao PDR outperformed all the other countries used for comparison, recording a score of 4.3 in 2014. The second highest score in the group was registered by Indonesia at 4.2 in the same year. Secondary data on access to potable water in Lao PDR sheds light on the relatively high need for improvement in this area. When it comes to the percentage of population with access to improved water sources, only 71.5 per cent of the population had access in 2012, up from 63.3 per cent in 2008. Of the countries compared, Cambodia is the only one that registers a lower rate of 71.3 per cent in 2012, while almost 85 per cent of the Bangladeshi and Indonesian populations have access to improved water sources, and in Thailand and Vietnam the numbers are in the high 90s. As for access to electricity, Lao PDR's population fares better than those of Indonesia, Bangladesh and Cambodia, even though the country remained part of ASEAN's low-access group in 2011.⁹³

Infrastructure development will need to keep pace with the country's fast economic growth and rapid urbanization to ensure sustainable growth and improve the welfare of the people. Its weak infrastructure has impaired its manufacturing and industrial potential and does not make it easy to do business in Lao PDR. The Government has rightly introduced regional and sub-regional infrastructure development projects, especially under the ASEAN framework and in the Greater Mekong Sub-region (GMS). Transport infrastructure is a top priority due its anticipated benefits for the tourism industry and the country's logistics. An infrastructure feat that is nearing completion concerns the three GMS Economic Corridors – the East-West, North-South, and Southern Corridors. Roads and railways are being built to strengthen connectivity along the three trading corridors and facilitate the through transport of goods and services.⁹⁴ In the north of the country, the Lao Government plans to execute one of Asia's most ambitious projects: the construction of a US\$7.2 billion, 421-km passenger and freight railway connecting the capital of the south-western Chinese province of Yunnan with the Lao capital, Vientiane – although critics say that the project is absurdly expensive, equivalent to the country's 2010 GDP, and impractical.⁹⁵ Concluding, more investments in transport infrastructure are needed, notwithstanding the very significant public investments already made.

Key Indicator						
Quality of Overall Infrastructure Index		2010	2011	2012	2013	2014
Survey data: “General infrastructure in your country is: 1=underdeveloped, 7=as extensive and efficient as the world's best”. Source: World Economic Forum, The Global Competitiveness Report . Note: Data on Lao PDR is available only from 2013.	Lao PDR	-	-	-	4.4	4.3
	Bangladesh	2.7	2.8	2.8	2.8	2.8
	Cambodia	3.8	4.1	4.2	3.9	3.4
	Indonesia	3.7	3.9	3.7	4.0	4.2
	Thailand	4.9	4.7	4.9	4.5	4.1
	Vietnam	3.0	3.1	3.2	3.4	3.3
		1=underdeveloped, 7=as extensive and efficient as the world's best.				

⁹³ Organisation for Economic Co-operation and Development, 2013.

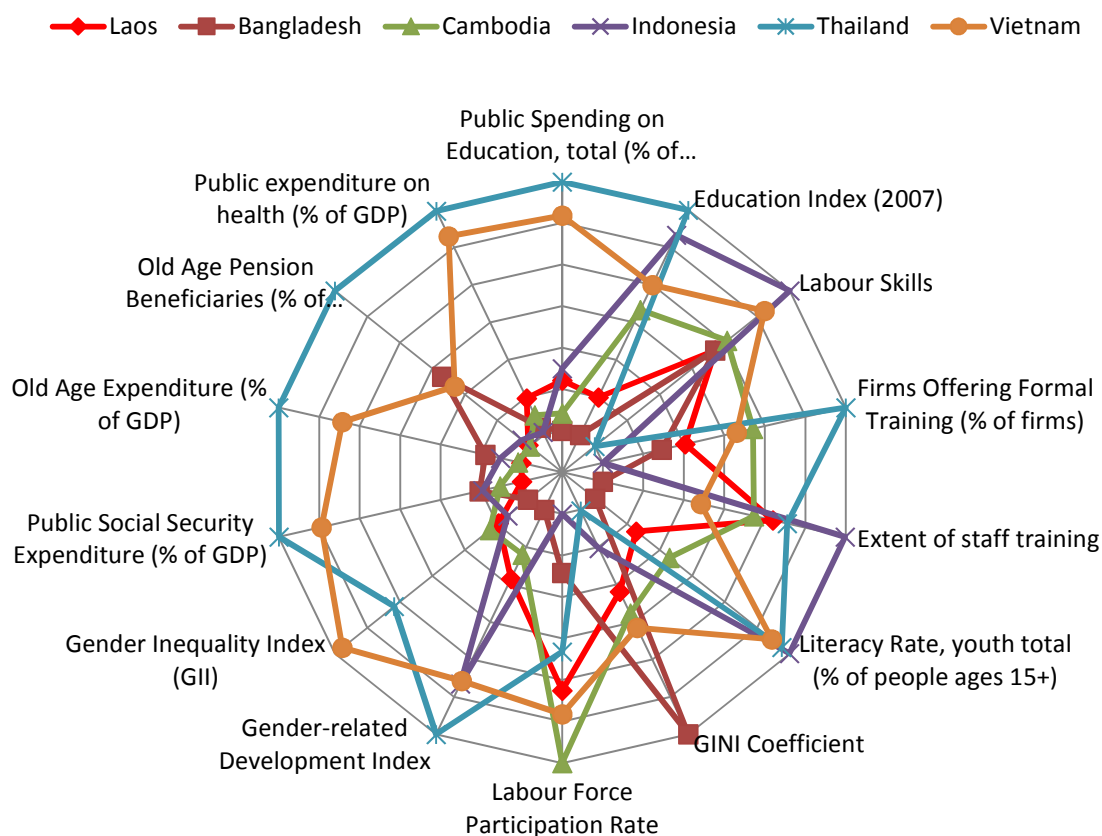
⁹⁴ Ibid.

⁹⁵ Economist Intelligence Unit, 2014f.

Other Useful Indicators						
<p>Access to electricity (% of population with access)</p> <p>Access to electricity is the percentage of population with access to electricity. Electrification data are collected from industry, national surveys and international sources.</p> <p>Source: International Energy Agency, World Energy Outlook (World Development Indicators Online).</p>		2010	2011			
	Lao PDR	63.0	78.0			
	Bangladesh	46.5	59.6			
	Cambodia	73.0	72.9			
	Indonesia	31.1	34.0			
	Thailand	87.7	99.0			
	Vietnam	97.6	96.1			
	% of population with access.					
<p>Improved Water Source (% of population with access)</p> <p>Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres per person per day from a source within one kilometre of the dwelling.</p> <p>Source: World Health Organization and United Nations Children's Fund, Joint Measurement Programme (World Development Indicators Online).</p>		2008	2009	2010	2011	2012
	Lao PDR	63.3	65.4	67.5	69.5	71.5
	Bangladesh	82.0	82.7	83.4	84.1	84.8
	Cambodia	61.3	63.8	66.3	68.8	71.3
	Indonesia	82.7	83.3	83.8	84.4	84.9
	Thailand	95.8	95.8	95.8	95.8	95.8
	Vietnam	89.4	90.9	92.3	93.7	95.0
	% of population with access.					
<p>Paved Roads (% of total roads)</p> <p>Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete or with cobblestones, as a percentage of all the country's roads, measured in length.</p> <p>Source: International Road Federation, World Road Statistics (World Development Indicators Online).</p> <p>Note: Data for Bangladesh, Cambodia and Thailand is not available.</p>		2006	2007	2008	2009	
	Lao PDR	12.9	13.1	13.5	13.7	
	Indonesia	54.9	59.4	59.1	56.9	
	Vietnam	47.0	47.6	-	-	
	% of total roads.					
<p>Quality of Port Infrastructure Index</p> <p>Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7=as developed as the world's best. For landlocked countries, this measures the ease of access to port facilities and inland waterways".</p> <p>Source: World Economic Forum, The Global Competitiveness Report.</p> <p>Note: Data on Lao PDR is available only from 2013.</p>		2010	2011	2012	2013	2014
	Lao PDR	-	-	-	2.6	2.6
	Bangladesh	3.4	3.4	3.3	3.5	3.7
	Cambodia	3.9	4.0	4.2	4.0	3.6
	Indonesia	3.6	3.6	3.6	3.9	4.0
	Thailand	5.0	4.7	4.6	4.5	4.5
	Vietnam	3.6	3.4	3.4	3.7	3.7
	1=underdeveloped, 7=as developed as the world's best.					

3. Social Elements

Indicators assessing social elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The SME sector dominates economic activity in Lao PDR and accounts for substantial employment. Small businesses alone account for 98 per cent of the total registered businesses in the country. However, Lao firms face different challenges, a shortage of skilled workers being the most hindering constraint for firms of all sizes.
- Women are increasingly running their own businesses, with at least 30 per cent of the SMEs owned by women – a rate which compares favourably to many countries and regions. However, firms owned by women tend to be smaller than male-owned businesses and women report greater difficulty in accessing financing and technical skills.
- Despite the challenges, many businesses are still quite positive about their future, with expectations to increase both their workforce

and performance. Such a high optimism together with low-competition culture may cause a long run hindrance to productivity – though the majority of businesses says they are innovating. The Government, recognizing the importance of SME development, has undertaken policies to improve the SME regulatory framework.

- The economy of Lao PDR is modernizing rapidly and this has important implications for the work skills that are needed. It is estimated that 200,000 skilled workers will be required annually over the next five years to sustain growth. However, Lao PDR's education system faces challenges in meeting its goals of providing all students with access to education and improving learning outcomes. Increased spending on education by the Government has begun to produce modest results. Children in rural areas and

villages as well as children from ethnic groups who speak only their mother tongue are generally disadvantaged. Moreover, teachers' salaries are very low, determining low quality of the education services provided. In the school year 2011-2012, the Government implemented an ambitious programme promoting School Based Management (SBM), which appears to be a solid step toward improving the country education quality.

- Lao higher education sector is expanding. Public and private institutions have been proliferating rapidly as the country education sector attempts to meet the increasing demand for skilled graduates. However, quality has become a major challenge for the development of higher education in the country. With regard to Technical and Vocational Education and Training (TVET), the courses offered are not necessarily aligned with labour market needs, or with long-term skill-base requirements of the nation in the future.
- Equipping Lao workers with work skills that are needed has been recognized by the Government as a priority and has been put at the very top of the national agenda. Nevertheless, a major challenge that policy makers are facing is that the state of skills of Lao workers is unclear.
- Impressive poverty reduction has been achieved in Lao PDR over the past decade and promising progress is being made towards achieving the Millennium Development Goals (MDGs). However, gaps remain. Opportunities for men and women predominantly from rural areas and often with poor education are limited. There are also correlations between ethnicity and poverty. Some social and poverty risks are related to the exploitation of mining and hydropower resources.
- Despite the national commitments, gender inequality persists throughout many areas of Lao society and it is especially pronounced in

rural areas and among some ethnic groups. Although the relative position of women within Lao society is better than in many other countries, women lag behind in areas such as education and labour market participation. Even in agriculture sector women farmers have little direct access to agricultural extension services. Women entrepreneurs generally have limited access to market information, technical training, and financial services.

- Based on global estimates, there are likely to be many hundreds of thousands of Lao people with disability. Disability is often seen as shameful (resulting from karma and reincarnation); this means that people with disability are often "invisible" within communities. Positively, the Lao Government has signed and ratified the Convention on the Rights of Persons with Disabilities (CRPD). Nevertheless, many challenges facing disability-inclusive development in Lao PDR exist, especially due to insufficient capacity and financial support.
- Although the principle of providing effective social security is well established in Lao PDR, the challenge is to develop a system that is compatible with the country's ambitions to reach middle-income status based on a strong and competitive market economy. The family remains the overwhelmingly dominant form of social protection. Health care costs and quality of service remain significant factors in health-seeking behaviours and represent a significant and urgent challenge. The development of a national health insurance scheme was recently announced, reflecting the significance of the issue. Although the country maintains a youthful population, also the issue of ageing will emerge and associated social security safety nets, particularly relating to health care, will be required in the longer term.

3.1. Entrepreneurial culture

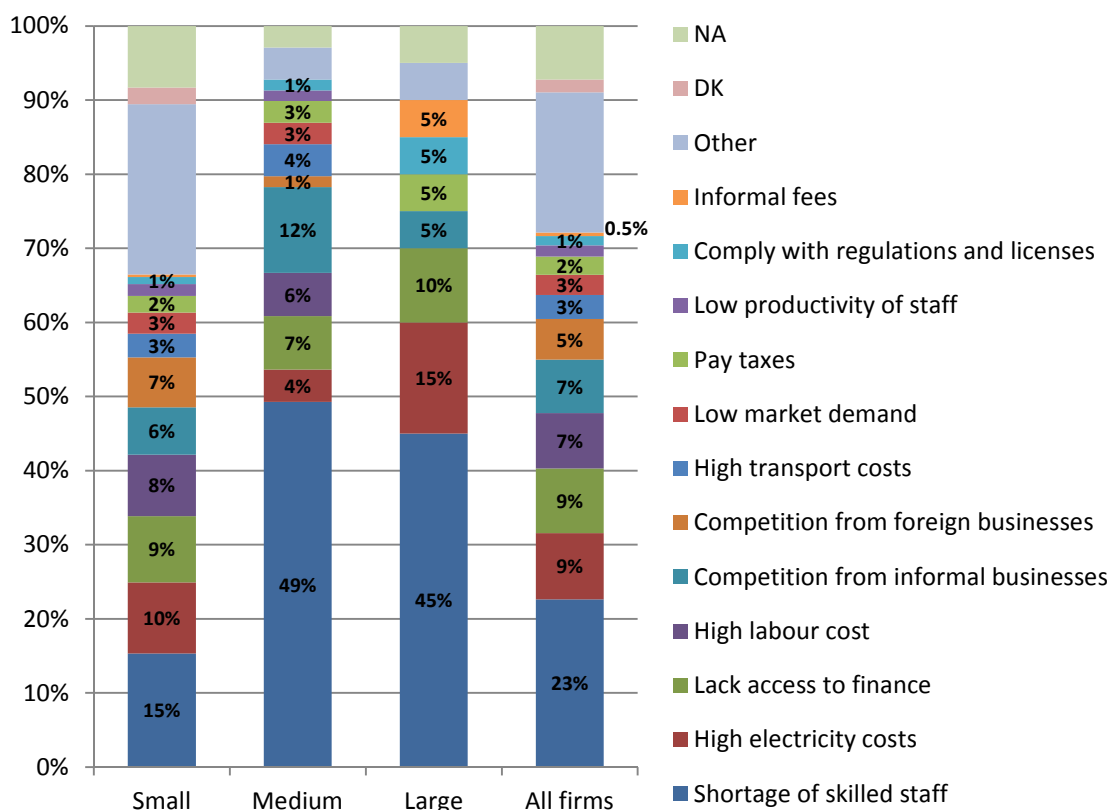
Promoting an entrepreneurial culture is important for increasing people's awareness of the potential of business as an alternative to waged employment in government and the private sector. The Small and Medium Enterprise (SME) sector dominates economic activity in Lao PDR and accounts for substantial employment. SMEs are mainly active in retail and wholesale trade, manufacturing, services, construction, and transportation. Most of the labour force in the country is employed by SMEs which contribute to the generating income, raising the well-being of the majority of the people. According to the National Survey, SMEs in Lao PDR account for 99 per cent of the total registered business in the country, with small business accounting for 98 per cent and medium enterprises for less than 1 per cent of the total enterprises. SMEs employ up to 70 per cent of the total workforce and contribute about 16 per cent to GDP, which is relatively lower as compared to 38.9 per cent in Thailand, 32 per cent in Malaysia and 32 per cent in Philippines. Most of the SMEs are located in the Central and Northern regions of Lao PDR, with a high concentration in the capital city of Vientiane and nearby provinces, and mainly in urban areas. Up to 92 per cent of SMEs are registered as single proprietorship owned by Lao citizens. Many more active SMEs are in rural areas and remain informal, thus not captured in the national surveys so far. Another important feature of SMEs in Lao PDR is that more than 50 per cent of them operate directly from home, and about 10 per cent operate as road side stores, according to the 2007 World Bank Enterprise Survey.⁹⁶

According to the EESE survey findings, SMEs in Lao PDR face different types of challenges. A shortage of skilled workers is the biggest challenge for firms of all sizes, although it is a much bigger challenge for medium-sized (49 per cent) and large firms (45 per cent) than it is for small firms (15 per cent). Other challenges for small firms are high electricity costs (10 per cent), lack of access to finance (9 per cent), high labour costs (8 per cent), and competition from foreign (7 per cent) and informal businesses (6 per cent).⁹⁷ On the other hand, the second most important challenge for medium-sized firms is competition from informal businesses (12 per cent), while for large firms high electricity costs (15 per cent). Interestingly, these figures suggest that small businesses are more concerned with having to pay high salaries than skills shortages. The sector breakdown reveals that the shortage of skilled workers is felt most strongly in the mining, construction and manufacturing sector (41 per cent), while 19 per cent of hotels and restaurants cite high electricity costs as their biggest challenge – which is much higher than for other sectors. Competition from informal businesses is a bigger challenge for firms in wholesale and retail trade (10 per cent) than in other sectors.

⁹⁶ De Luna-Martinez, 2013.

⁹⁷ It should be noted that small firms nominated a much wider range of challenges that were not listed on the questionnaire, as represented in the “other non-specified” category (23 per cent).

Biggest challenge by firm size



Source: Lao PDR EESE Survey.

Women are actively participating in the labour force as well as men, and are increasingly running their own businesses. At least 30 per cent of the SMEs are owned by women in Lao PDR, which compares favourably to many countries and regions, but still lower than the average for East Asia. Around 31 per cent of formal enterprises with more than five employees are owned by female, and female-owned firms are more likely to operate in the retail sector and less likely in the manufacturing sector. Those firms owned by women are much smaller in terms of number of employees compared to firms owned by men. However, female-owned businesses are growing at a much faster pace.⁹⁸ Micro and small businesses owned by women tend to be hindered especially by limited education, limited experiences and limited access to resources. For example, in the case of the business registration process, women face particular difficulties because of their low level of education and the constraints on their time, as well as their lack of confidence in handling legal documents and communicating with officials in authority.⁹⁹ This finding is somewhat confirmed by the EESE survey, where participants were asked whether they think female owners experience any additional challenges compared to their male counterparts. Although more than 70 per cent of respondents believe that female owners do not experience any additional challenges, extra challenges were mentioned in negotiating with buyers (12 per cent) and networking (5 per cent).

Women entrepreneurs are exposed also to other constraints. For example, they are disproportionately affected by limited access to credit facilities, due to the complicated lending

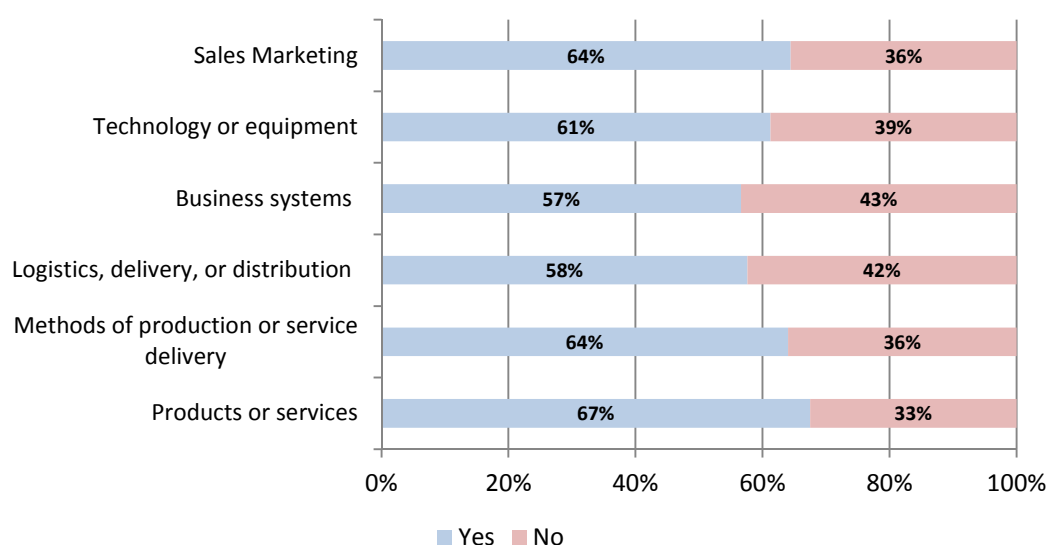
⁹⁸ De Luna-Martinez, 2013.

⁹⁹ ILO, Regional Office for Asia and the Pacific, 2006.

procedures and the lack of the necessary collateral. Moreover, women's firms exist mostly in the villages, as women face mobility constraints, and traditional customs do not allow women to leave their home to work far from the village. Consequently, they tend to lack awareness and have little knowledge of business planning, marketing, business opportunity identification and simple accounting techniques.¹⁰⁰

Despite the challenges faced by the Lao private sector, many businesses are still quite positive. Findings from the EESE survey reveal that nearly half of all firms have increased their profits over the last two years, with 27 per cent of firms experiencing no change in profits and 22 per cent suffering a decrease in profits. The results are broadly similar for firms in all sectors. Regarding workforce, medium-sized and large firms have grown more than small firms. In terms of employment changes for each sector, firms in the mining, construction and manufacturing sector (52 per cent) have increased their workforce significantly more than the other sectors over the past two years. In terms of future employment plans, 42 per cent of firms expect to increase the size of their workforce over the next two years, with another 39 per cent of firms expecting employment to remain unchanged. Medium-sized firms are the most optimistic on employment. Similarly, 71 per cent of medium-sized firms and 80 per cent of large firms are optimistic about prospects for their business over the next two years, while only 42 per cent of small firms are optimistic. However, this general optimism, together with fewer issues surrounding competitiveness¹⁰¹, run the risk of adversely affecting how business owners will invest in their businesses and train their staff members. This could leave the economy vulnerable in the long run, particularly as international firms enter the fray in greater numbers in the wake of ASEAN Free Trade Area (AFTA) and WTO implementation.¹⁰²

New or improved processes in past 3 years



Source: Lao PDR EESE Survey.

¹⁰⁰ Ibid.

¹⁰¹ The 2011 Enterprise Survey conducted by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) reports that Lao firms perceived fewer issues surrounding competitiveness in 2011 compared with 2009.

¹⁰² Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2012.

Continuous innovation and business development are imperative to improve the competitiveness and sustainability of enterprises in Lao PDR. As found in the EESE survey, slightly more than half of all participants indicate that they have introduced new or improved products and processes over the last three years, with new products or services (67 per cent) being the most common innovation. Not surprisingly, small firms appear less likely to engage in innovation than medium-sized or large firms. In fact, 63 per cent of small firms have introduced new or improved products or services over the last three years, compared with 86 per cent of medium-sized firms and 80 per cent of large firms.

With regard to the usage of Business Development Services (BDS), the EESE survey found that most small firms have not purchased BDS from external service providers in the past three years – though around 30-40 per cent of small firms are interested in purchasing these services in the future. Not surprisingly, medium-sized and large firms have made greater use of BDS. Medium-sized firms have used mostly consulting, marketing, IT and HR services, while large firms have made greater use of accounting and legal services, possibly due to auditing and regulatory requirements. Both medium-sized and large firms express significant interest in increasing the use of these services in the future. As a result, business associations such as LNCCI should play a role in linking their members with reputable providers of BDS and in increasing their members’ awareness of government schemes such as the Business Assistance Facility¹⁰³.

Identifying indicators showing the degree of entrepreneurial culture in a country is quite challenging. “New Business Density” indicates the number of newly registered limited liability companies per 1,000 working age people in a year. Lao PDR is characterized by a majority of micro and small enterprises that are normally not limited liability companies. This partly explains why Lao PDR registers rather low values, from 0.02 in 2008 to 0.10 in 2011. These rates are comparable to those recorded for Bangladesh, and are substantially lower than the rates in Cambodia, Indonesia and Thailand over the 2008-11 period. In 2011, Thailand recorded a density rate of 0.71, in Indonesia the rate was 0.27, while for Cambodia the most recent data is the rate of 0.22 registered in 2009. Unfortunately, data is not available for Vietnam.

The Government has recognized the importance of SME development to Lao PDR’s social and economic development, and accordingly the Prime Minister’s Decree No. 42/PMO was issued on April 20, 2004 on the “Small and Medium Enterprise Promotion and Development”. The goals of the Decree are: i) improve the regulatory environment; ii) enhance the competitiveness of establishment; iii) expand domestic and international market access; iv) improve access to finance; v) encourage the development of business organization; vi) enhance entrepreneurial attitudes and characteristics within the society.¹⁰⁴ An SME Promotion and Development Office (SMEPDO) was also established, restructured later to Department of SME Promotion (DoSMEP). The Government has also recognized that formulation of SME policy across line ministries as critical to ensure that there is a consistent approach to SME policy development and ownership among different constituents.¹⁰⁵ Nonetheless, despite the enactment of these policies, there is still a lack of specific support programs to improve the managerial, technical, and entrepreneurial skills of SMEs alongside access to finance.¹⁰⁶

Key Indicator					
New Business Density	2008	2009	2010	2011	2012

¹⁰³ It provides matching grants to Lao businesses that purchase BDS from external providers.

¹⁰⁴ Kyophilavong, 2008.

¹⁰⁵ De Luna-Martinez, 2013.

¹⁰⁶ Kyophilavong, 2008.

<p>The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.</p> <p>Source: World Bank's Entrepreneurship Survey (World Development Indicators Online).</p> <p>Note: Data for Vietnam is not available.</p>	Lao PDR	0.02	0.08	0.07	0.10	-
	Bangladesh	0.05	0.07	0.09	0.10	0.09
	Cambodia	0.30	0.22	-	-	-
	Indonesia	0.24	0.18	0.24	0.27	0.29
	Thailand	0.60	0.59	0.67	0.71	0.86
	The number of newly registered limited liability companies per 1,000 working-age people.					

3.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important in helping workers to find good jobs and enterprises to find the skilled workers they require. The economy of Lao PDR is modernizing rapidly and this has important implications for the work skills that are needed. To find and keep a job, more and more workers will need a broader set of skills and abilities, which go beyond the ability to read and write. In the future, workers will be asked to quickly learn how to operate new machinery, work in larger teams, and solve more complicated problems.¹⁰⁷ It is estimated that 200,000 skilled workers will be required annually over the next five years and immigration from neighbouring countries to meet labour needs is already increasingly reported in order to sustain growth in the short term.¹⁰⁸

Despite sustained economic growth since the mid-1980s, Lao PDR's education system faces challenges in meeting its goals of providing all students with access to education and improving learning outcomes. The Lao education system comprises pre-school education (crèche and kindergarten), primary education (five years), lower secondary education (three years) and upper secondary education (three years). Although most students attend government schools, some enrol in private schools and colleges, which have operated since 1990. Technical and vocational education and training (TVET) is an option for students after they complete either Grade 8 or 11. It has been estimated that only 60% of Lao children who start Grade 1 complete all five years of primary schooling; and while this percentage may be higher in urban areas, it indicates significant under-attendance in rural areas and villages. Instruction in most schools is in Lao, so children from ethnic groups who speak only their mother tongue are disadvantaged, especially in their early schooling years (even if they can or do attend). The quality of teaching in many schools is poor (teachers' salaries are very low at US\$570-US\$650 / year¹⁰⁹), and this leads to increasing drop-out rates in both primary and secondary schooling. To survive on their low salaries, in fact, teachers often have to spend part of each day or week farming, with the result that school hours are often curtailed. Moreover, around one in seven Lao children (nationally) does not attend any school, and in some poor and educationally disadvantaged districts, more than one-third of the local children do not attend at all.¹¹⁰

According to data from the Ministry of Finance, educational expenditure as a percent of total government spending was 13 per cent in 2011-2012. However, non-wage recurrent expenditure in education in the country remains low.¹¹¹ Non-wage, public recurrent expenditure is that which serves to pay for school materials, equipment, teacher training, etc. It currently

¹⁰⁷ World Bank, 2013.

¹⁰⁸ ILO, Regional Office for Asia and the Pacific, 2011.

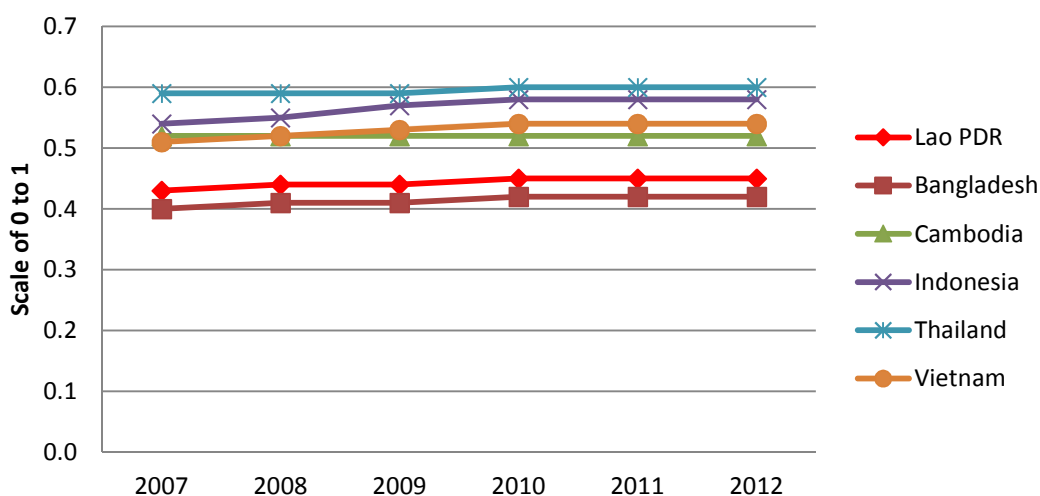
¹⁰⁹ UNESCO 2006 data.

¹¹⁰ AusAID, 2013a.

¹¹¹ Ministry of Finance data, 2012.

represents about 20 per cent of recurrent expenditure, but only between three and seven per cent of total education expenditure over the past four years. As a result, households have to pay non-mandatory fees for schooling in order to make up for the shortfalls, and this could negatively affect access to education for children from poor families. Low levels of non-wage public spending on education also limit learning resources and quality of facilities in classrooms and schools.¹¹² Data on “Public Spending on Education” as a percentage of GDP consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. Though data is not available for all considered years, Lao PDR compares quite poorly with the other countries. In 2010, Lao PDR records a rate of 2.8 per cent of GDP, which is higher only than the rate registered for Cambodia (2.6 per cent) and lower than those registered for Indonesia (3.0 per cent), Thailand (3.8 per cent) and Vietnam (6.3 per cent).

Education Index



Source: United Nations Development Programme, Human Development Report.

The “Education Index” measures educational attainment based on the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio on a scale from 0 to 1 with higher values indicating better performance. Lao PDR performs poorly in this regard. In 2012, Lao PDR recorded a level of 0.45, thereby outperforming Bangladesh at 0.42. Thailand performed the strongest of the group with a rate of 0.60 in that year. Data on the “Youth Literacy Rate” in Lao PDR and the countries used for comparison is scanty. In 2005, the last year for which data is available for Lao PDR, the country registered a rate of 83.9 per cent. Thailand is the only country of those compared for which data is available in 2005. In this year, Thailand recorded a rate almost 15 percentage points higher than that of Lao PDR, at 98.1 per cent.

Given the concern related to the provision of education services, especially to the poor, the Government has adopted decentralization of decision-making through School-Based Management (SBM) as a strategic measures to improve financing and delivery of education services. In the school year 2011-2012, the Government of Lao PDR implemented an ambitious, nationwide School Block Grant programme (SBG) called the "School Operating Cost" programme. This programme provides financial resources to schools and seeks to increase school enrolment, reduce education costs for parents, address pressing quality issues and involve the broader community in school-based management and oversight. Schools can choose to apply the grant to their most

¹¹² Santibanez, 2014.

pressing necessities, from conducting repairs at the school, to acquiring teaching and learning materials, or paying overdue utility bills. The SBG programme in Lao PDR requires joint planning and management by the school principal, teachers and the Village Education Development Council (VEDC). The year 2012-13 was the second year of the programme, and the Government plans to keep the program in place for 2013-14, including an increase in the amount of the block grant. Despite some limitations met in implementation probably due to the massive size of the reform effort, the SBG programme appears to be a solid step toward establishing School Based Management efforts in Lao PDR and, consequently, improving the country education quality.¹¹³

Lao higher education sector is expanding, as opportunities for higher education studies are increasing. After the dissolution of the then Sisavangvong University in the late 1970s (the only Lao university at the time), during the 1980s graduates from Lao upper secondary schools often undertook tertiary studies in East European countries and the USSR, while the National University of Laos (NUoL) was established only in 1996. Enrolments at Lao universities showed a considerable growth in recent years, however, as the Lao Gross Tertiary Enrolment Ratio increased more than eight-fold between 1999 and 2012.¹¹⁴ The current nation's public universities are: the National University of Laos (NUoL) in Vientiane; Champasak University (CU) in Pakse; the University of Health Sciences (within the Ministry of Health); and Souphanouvong University (SU) in Luang Prabang. Public and private institutions have been proliferating rapidly as the country education sector attempts to meet the increasing demand for skilled graduates. However, quality has become a major challenge for the development of higher education in the country. In 2008, approximately 5.3 per cent of the Lao tertiary education age cohort was enrolled at a higher education institution. Student enrolment at the country's public universities totalled 45,677, with the NUoL accounting for about 80 per cent of enrolments. Students at private institutions increased from 4,000 in 2000, to almost 20,000 in 2007. Nevertheless, in 2007, only 57 per cent of upper secondary school graduates were able to gain a place in either a public or private institution.¹¹⁵ Gender inequity in tertiary-level enrolments is slowly decreasing, although the tertiary education sector still faces significant challenges in ensuring equitable access for women, ethnic groups and people with disability. A further challenge relates to the low salaries paid to lecturers in higher education institutions. Academics are often under-qualified, because the low salaries do not attract quality personnel, and those that are skilled and committed often find work in different sectors, or supplement their incomes by after-hours tutoring or teaching.¹¹⁶

- With regard to Technical and Vocational Education and Training (TVET), there are two systems that provide different kinds of training: i) the Formal Vocational Education, which provides training for the vocational certificate level (8+3), technician diploma level (11+2), advance certificate level (8+3+2), and the technician diploma level (11+3); and ii) the Non-Formal Vocational Education, which comprises of a basic vocational training (it focuses on the specific target group after literacy in order to provide job opportunities according to the conditions of the region), and a short-term training course for skills development to respond the demand of socio-economic development.¹¹⁷ However, although there is a corresponding recent rapid increase in the number of TVET institutions and enrolments in Lao PDR, as well as a corresponding broader range of curricula available for study, the courses offered are not necessarily aligned with labour market needs, or with long-term skill-base requirements of the nation in the future.¹¹⁸ Many Laotian businesses find that the current vocational education and training structures do not provide the necessary skills to meet their business demands. The fact that there is no

¹¹³ Santibanez, 2014.

¹¹⁴ United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics, [UIS.Stat](#).

¹¹⁵ Asian Development Bank, 2009.

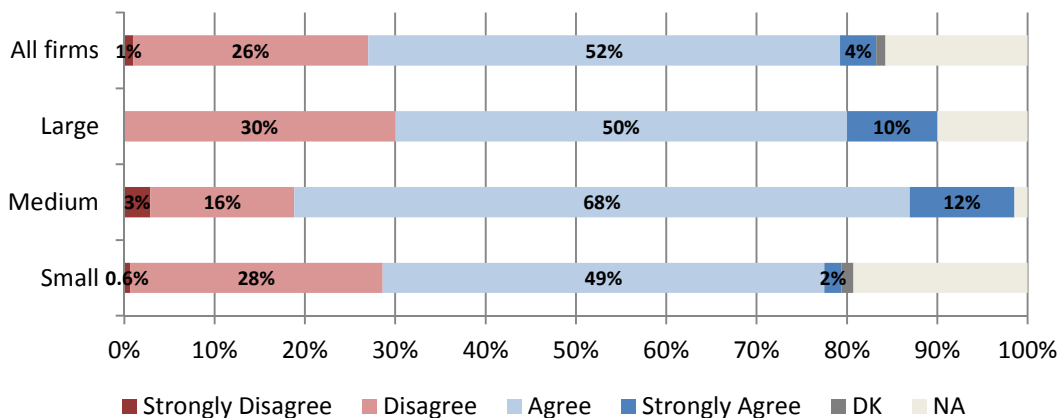
¹¹⁶ AusAID, 2013a.

¹¹⁷ Phoumilay and Douangsavanh, 2008.

¹¹⁸ AusAID, 2013a.

harmonized competency standards across the country, compounds the problem. Employers in Lao PDR are frequently frustrated by both the narrow pool of suitably skilled labour in the country and the inconsistent quality and coverage of so-called “certified” TVET programmes. This is confirmed by the World Bank’s “Investment Climate Assessment 2013 Report” stating that low skill levels are now the number one barrier to investment in the country. Rapid growth in industry and services, particularly in some key emerging sectors such as mining, trade, hydropower, hotels and restaurants, telecommunications, IT and garments is being held back by skills shortages.

Negative impact of skills shortages on firm growth over past 12 months



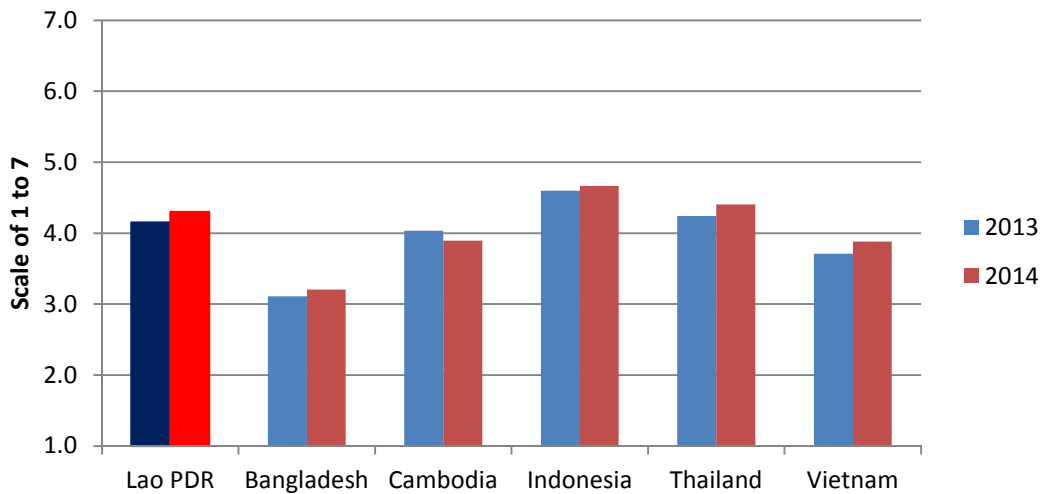
Source: Lao PDR EESE Survey.

A clear finding of the EESE survey is that many businesses (23 per cent) identify a shortage of skilled workers as their biggest challenge. Around 56 per cent of firms consider difficult recruiting or retaining medium- or high-skilled workers. These difficulties are especially a problem for medium-sized firms (79 per cent) and large firms (60 per cent), and in sectors such as mining, construction and manufacturing (80 per cent) and accommodation and food (65 per cent). Interestingly, firms experience similar difficulties in recruiting or retaining *low-skilled* workers. This rather unique finding¹¹⁹ stems, at least in part, from low productivity and low wages relative to Thailand, which results in large numbers of Laotians migrating to Thailand in search of higher wages. In addition, most firms agree that the skills shortages have had a negative impact on their growth over the past 12 months. This is especially the case for medium-sized firms (80 per cent), but less so for small firms (51 per cent) and large firms (56 per cent). Respondents were also asked to indicate the importance of four particular attributes¹²⁰ when recruiting for skilled positions. The figure reveals a clear trend, with large firms placing the highest importance on each attribute, and small firms placing the lowest importance on each attribute (with medium-sized firms in the middle). Small firms place also the lowest importance on problem-solving / decision-making, and technical knowledge / skills.

¹¹⁹ Labour shortages in most developing countries tend to be found in medium- and high-skilled labour only.

¹²⁰ The four attributes are: work ethic and honesty; communication and teamwork; problem-solving and decision-making; and technical knowledge and skills.

Extent of Staff Training

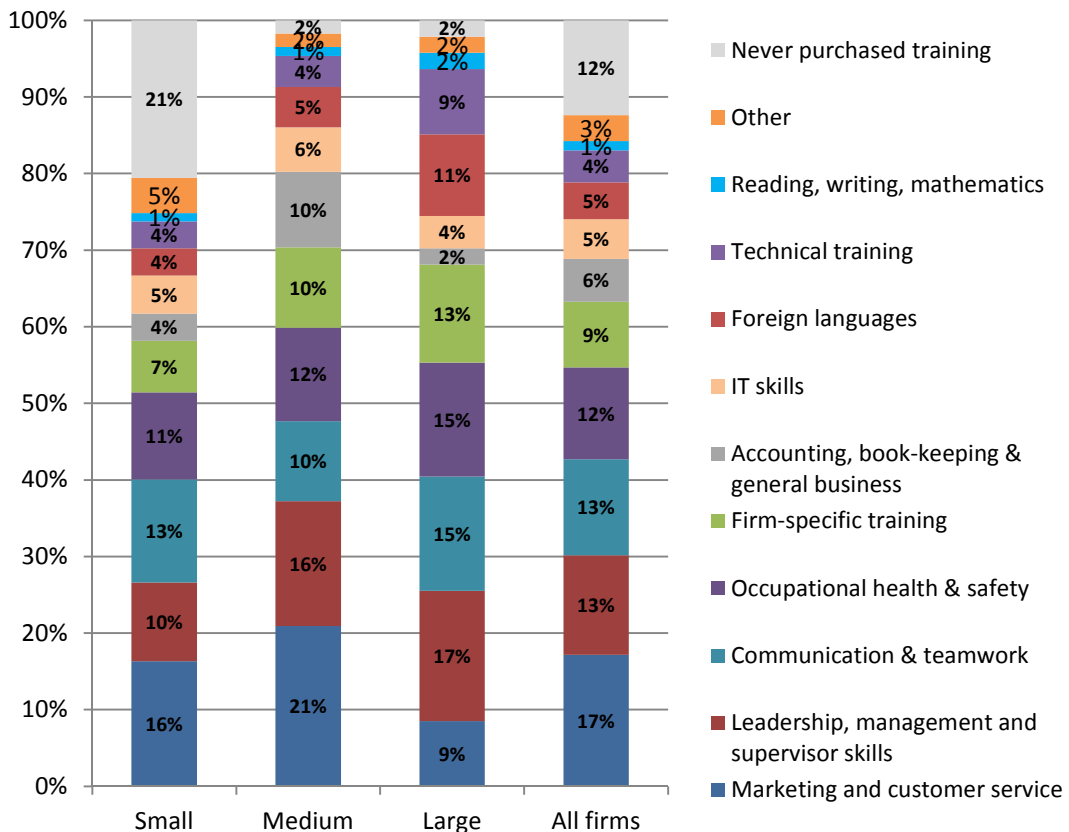


Source: World Economic Forum, The Global Competitiveness Report 2014.

Perceptions of Lao business leaders concerning the extent of investment in staff training slightly improved between 2013 and 2014, according to the indicator “Extent of Staff Training”. This indicator shows whether companies in a country invest little or heavily in training and employee development to attract, train and retain staff, on a scale from 1 to 7 with higher values indicating more investments. Lao PDR performs comparatively well in this area, recording a score of 4.3 in 2014. This is higher than Bangladesh, Cambodia and Vietnam, but lower than Indonesia and Thailand, which recorded respectively scores of 4.7 and 4.4 in the same year. When it comes to the percentage of firms offering formal training programmes for their permanent, fulltime employees, only 28.5 per cent of the enterprises did it in 2012, according to the World Bank Enterprise Surveys. Of the countries compared, Thailand, Cambodia and Vietnam registered higher rates, respectively, of 75.3 per cent in 2006, 48.4 per cent in 2007 and 43.5 per cent in 2009. Bangladesh and Indonesia underperformed Lao PDR in this area, recording rates respectively of 21.9 per cent in 2013 and 4.7 in 2009. In contrast to the inadequate educational and vocational training provided, this data implies that the strongest source of training in Lao PDR is provided by companies to their staff. While this is very positive for the country, such training tends to be more prevalent in larger formal sector companies, making it essential that the Government step up efforts to promote enterprise and vocational training for the general public.

Findings from the EESE survey confirm this possibility, where small companies tend to be more negatively affected by the lack of skills compared to larger companies. It found that 75 per cent of large firms and 67 per cent of medium-sized firms have a budget for training their employees, while only 16 per cent of small firms have a budget. Similarly, around three quarters of medium-sized and large firms have somebody in their organization who is responsible for making decisions about employee training, while only 30 per cent for small firms have such a person. It is no wonder that medium-sized (86 per cent) and large firms (90 per cent) are much more likely to have provided some form of training to their employees over the past 12 months than small firms (30 per cent). Firms in the mining, construction and manufacturing sector (68 per cent) are most likely to provide training while firms in wholesale and retail trade (27 per cent) are least likely. Of the 228 firms that indicated who had conducted their employee training, only 6 per cent of respondents (mostly medium-sized firms) said that business associations had conducted the training. Also in terms of future plans for training, less than half of small firms intend to provide training to their employees in the next 12 month, while more than 90 per cent of medium-sized and large firms intend to do so.

Skills that need development



Source: Lao PDR EESE Survey.

When surveyed firms were asked to nominate the three topics in which there is the greatest need to develop their employees' skills, the most common responses were marketing and customer service, leadership and management, communication and teamwork, and health and safety. Large firms have an additional interest in foreign languages, while medium-sized firms have a stronger interest in accounting and book-keeping than other size firms. Moreover, the survey found that the biggest constraint to providing training is considered to be the lack of available time by firms of all sizes. Medium-sized firms struggle also to find suitable training options, with 22 per cent citing a lack of information about available courses/providers and another 9 per cent citing a lack of good quality courses/providers. Business associations such as LNCCI may be able to help their members with this challenge by providing them with information or by offering training services to their members. Among small firms, more than half believe that no training is needed. This may reflect the nature of their business (with some types of small businesses having less obvious training needs) as well as a lack of understanding about how training can benefit them. Therefore, business associations such as LNCCI could also highlight to their members that training can play a valuable role in boosting their productivity and competitiveness.

Due to the rapid modernization and the increased openness of Lao economy, job requirements are evolving faster than expected. In addition, part of ASEAN's goal of transforming itself into a single market means that it will allow skilled workers to look for jobs across the region by 2015. Equipping Lao workers with such skills is not done overnight. The Government recognizes this and has put skills enhancement at the very top of the national agenda, making it one of the major goals of the 7th National Social and Economic Development Plan. Nevertheless, a major challenge that policy makers are facing is that the state of skills of Lao workers is unclear. To design a good strategy to improve the skill level of workers, one needs a solid understanding of

the strengths and weaknesses of the current workforce. In Lao PDR, the number of school graduates is known. However, the kinds of skills they master (or do not master) and how they fare compared to graduates from neighbouring countries is unclear. Information on these is needed to make better use of the Government's efforts and resources.¹²¹

Key Indicators							
<p>Public Spending on Education, total (% of GDP)</p> <p>Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.</p> <p>Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online).</p>		2006	2007	2008	2009	2010	
	Lao PDR	3.0	3.1	2.3	-	2.8	
	Bangladesh	2.5	2.6	2.4	2.2	-	
	Cambodia	-	1.6	-	-	2.6	
	Indonesia	-	3.0	2.9	3.5	3.0	
	Thailand	4.3	3.8	3.8	4.1	3.8	
	Vietnam	-	-	4.9	-	6.3	
	Public spending on education as share (%) of GDP.						
<p>Education Index</p> <p>It is based on mean years of schooling (of adults) and expected years of schooling (of children). The Mean years of schooling (of adults) is the average number of years of education received by people ages 25 and older, converted from education attainment levels using official durations of each level. The Expected Years of Schooling (of children) is the number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life.</p> <p>Source: UNDP, Human Development Report.</p>		2007	2008	2009	2010	2011	2012
	Lao PDR	0.43	0.44	0.44	0.45	0.45	0.45
	Bangladesh	0.40	0.41	0.41	0.42	0.42	0.42
	Cambodia	0.52	0.52	0.52	0.52	0.52	0.52
	Indonesia	0.54	0.55	0.57	0.58	0.58	0.58
	Thailand	0.59	0.59	0.59	0.60	0.60	0.60
	Vietnam	0.51	0.52	0.53	0.54	0.54	0.54
	On a scale from 0 to 1. Higher values correspond to better performance.						
<p>Firms Offering Formal Training (% of firms)</p> <p>Firms offering formal training are the percentage of firms offering formal training programmes for their permanent, fulltime employees.</p> <p>Source: World Bank, Enterprise Surveys and World Development Indicators Online.</p>		2006	2007	2009	2012	2013	
	Lao PDR	28.2	-	11.2	28.5	-	
	Bangladesh	-	-	-	-	21.9	
	Cambodia	-	48.4	-	-	-	
	Indonesia	-	-	4.7	-	-	
	Thailand	75.3	-	-	-	-	
	Vietnam	-	-	43.5	-	-	
	% of firms offering formal training.						
<p>Extent of Staff Training</p> <p>The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".</p> <p>Source: World Economic Forum, The Global Competitiveness</p>		2010	2011	2012	2013	2014	
	Lao PDR	-	-	-	4.2	4.3	
	Bangladesh	3.1	3.3	3.0	3.1	3.2	
	Cambodia	3.7	3.6	3.9	4.0	3.9	
	Indonesia	4.4	4.2	4.3	4.6	4.7	
	Thailand	4.1	4.1	4.2	4.2	4.4	

¹²¹ World Bank, 2013.

Report . Note: Data on Lao PDR is available only from 2013.	<table border="1"> <tr> <td>Vietnam</td> <td>4.1</td> <td>3.5</td> <td>3.3</td> <td>3.7</td> <td>3.9</td> </tr> <tr> <td colspan="6">1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees.</td> </tr> </table>					Vietnam	4.1	3.5	3.3	3.7	3.9	1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees.																																			
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Literacy Rate, youth total (% of people ages 15-24) Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life. Source: United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online).	<table border="1"> <thead> <tr> <th></th> <th>2005</th> <th>2006</th> <th>2009</th> <th>2010</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>83.9</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Bangladesh</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>79.9</td> </tr> <tr> <td>Cambodia</td> <td>-</td> <td>-</td> <td>87.1</td> <td>-</td> <td>-</td> </tr> <tr> <td>Indonesia</td> <td>-</td> <td>96.7</td> <td>99.5</td> <td>-</td> <td>-</td> </tr> <tr> <td>Thailand</td> <td>98.1</td> <td>-</td> <td>-</td> <td>96.6</td> <td>-</td> </tr> <tr> <td>Vietnam</td> <td>-</td> <td>-</td> <td>97.1</td> <td>-</td> <td>-</td> </tr> </tbody> </table> <p>% of people.</p>						2005	2006	2009	2010	2012	Lao PDR	83.9	-	-	-	-	Bangladesh	-	-	-	-	79.9	Cambodia	-	-	87.1	-	-	Indonesia	-	96.7	99.5	-	-	Thailand	98.1	-	-	96.6	-	Vietnam	-	-	97.1	-	-
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3.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed. Lao PDR classified as a Medium-Human Development country in 2014, ranking at 139 out of 187 countries on the UNDP Human Development Index.¹²²

Impressive poverty reduction has been achieved in Lao PDR over the past decade and promising progress is being made towards achieving the Millennium Development Goals (MDGs). However, gaps remain. According to national measures, poverty fell from 39.1 per cent of the population in 1998 to 33.5 per cent in 2003 and to 27.6 per cent in 2008.¹²³ Moreover, of a total 145 districts in Lao PDR, the number of districts classified as poor has dropped to 37 in 2013 from 47 in 2010, according to Lao National Committee for Rural Development and Poverty Eradication official Oungeun Duangmany. The target is to reduce the proportion of poor families to 9 per cent in 2015, and to remove Lao PDR from the list of Least Developed Countries by 2020.¹²⁴

¹²² United Nations Development Programme, 2014.

¹²³ World Bank, 2012b.

¹²⁴ Asia Monitor, 2013.

Nevertheless, social indicators have not improved as expected with notably some population groups in remote areas lagging behind. Opportunities for men and women predominantly from rural areas and often with poor education are limited. Urbanization is also increasing, with the urban population rising from 17 per cent to 26 per cent over the period 1995-2005, and generating a growing need for urban employment creation and social protection. However, labour remains overwhelmingly concentrated within the agriculture sector (76.6 per cent in 2005), with less than 1 per cent of the labour force moving out of agriculture annually. Labour migration flows across borders were mostly informal and illegal. Such migration increases risk of abuse by employers – reports of abuse are common – and potentially affects an estimated 200,000-plus Lao migrant workers in Thailand as well as an estimated 100,000 migrants within Lao PDR from neighbouring countries. Recently, Thailand signed an MOU with Lao PDR, under which migrant workers are recruited in their countries and provided the necessary documents to migrate regularly to Thailand for employment and on the other hand allows for the regularisation of migrants from Lao PDR who entered Thailand. As a result, the last few years have seen a gradual increase in the number of workers regularly migrating for work through the Lao PDR-Thailand MOU. As of June 2014, under the terms of this agreement 21,866 workers had legally migrated to Thailand (IOM, 2014). In 2013, a more than three-fold increase in the number of male migrant workers went abroad through legal channels, creating a notable gender difference among the Laotian workers in Thailand. Recruitment agencies in Lao PDR estimate, however, that as many as 40 per cent of regular migrants do not complete the full twenty-four-month term of their contracts with registered employers (ILO, 2014).

Lao PDR has a rich ethnic diversity, with some 49 officially recognized ethnic groups, and correlations between ethnicity and poverty are also present. For example, though non-Lao Loum ethnic groups account for only one-third of the national population, they represent more than half of all people who are poor. There are also disparities between major ethno-linguistic groups, with the poverty headcount varying from 25 per cent for the Lao Tai to 54 per cent for the Mon Khmer.¹²⁵

The “GINI Coefficient” measures the extent to which the distribution of income among individuals or households within an economy is equal. Absolute equality corresponds to a value of 0, whereas absolute inequality is represented by 100. Available data for Lao PDR is very scanty and is only available for 2008 in the most recent years. Nonetheless, based on the data available, the country registers 36.7 per cent, showing a better rate than Cambodia and Thailand. On the contrary, Indonesia and Vietnam reflect more positive degrees of equality than Lao PDR, recording respectively rates of 34.1 per cent and 35.6 per cent. Data for Bangladesh is available only in 2010, when it registers a coefficient of 32.1 per cent. Despite the consistent high macroeconomic growth rates that Lao PDR has reported since liberalization and privatization policies took place in the 1980s, economic inequality increased. This was due mainly to the rapid expansion of extractive industries and the influx of thousands of Chinese businesses, particularly in the north of the country.¹²⁶ The exploitation of mining and hydropower resources continues to pose social and poverty-related risks. In particular, the considerable dependence of the majority of households on agricultural land, rivers, and forests for their income and food makes them vulnerable to falling or falling more deeply into poverty and to negative nutritional outcomes, as the proposed hydro and mining projects are implemented. The populations who live close to such projects may also be subject to negative effects on health and losses of social and cultural capital. Distributional factors further complicate the effects of mining and hydro projects, as those living closest to a project tend

¹²⁵ ILO, Regional Office for Asia and the Pacific, 2011.

¹²⁶ Freedom House, 2013.

to have to bear the brunt of the negative effects, while the benefits tend to accrue more to those at the regional and national levels. Thus, inequality may increase within the affected communities.¹²⁷

Promoting gender equality and encouraging participation of women, particularly those in disadvantaged and ethnic communities, is essential to the country to achieve the national goal of reducing poverty and graduating from Least Developed Country status by 2020. The Lao Government has made some progress in promoting gender equality, which has been reflected in the national framework, consisting of the National Constitution, several laws and policies, various international conventions, and institutions such as the Lao Women's Union (LWU) (a mass organisation whose main responsibility is to protect women and children's rights and interests) and the Lao National Commission for the Advancement of Women (LaoNCAW) (the semi-government body responsible for formulating policy guidance and action plans to promote gender equality at all levels).¹²⁸ However, despite the national commitments, gender inequality persists throughout many areas of Lao society.

Although the relative position of women within Lao society is better than in many other countries, women lag behind in areas such as education and labour market participation.¹²⁹ Lao women are also primarily responsible for maintaining their families' food security and health. The multiple chores of women, arising from the traditional system of gender roles and division of labour, hinder women's full participation in public life and in economic development. The negative cultural values disadvantage women also in terms of their participation in politics and decision-making processes.¹³⁰ These gaps are especially pronounced in rural areas and among some ethnic groups. Ethnic minority women and girls, in fact, are generally more disadvantaged because of their low literacy levels, limited access to health care and other basic services, long working hours, and limited roles in community decision making.¹³¹ The "Gender Inequality Index" measures the loss due to inequality in achievements in health, empowerment and the labour market. Values range from 0, reflecting perfect equality, to 1, reflecting total inequality. Since 2005, Lao PDR has improved from a level of 0.55 to 0.48 in 2012. This performance is outperformed by Vietnam at 0.30, Thailand at 0.36 and Cambodia at 0.47 in 2012, while Indonesia and Bangladesh perform the worst in that year respectively with scores of 0.49 and 0.52. The "Gender Equality Rating" measures the extent to which a country has implemented institutions and programmes to enforce laws and policies aimed at promoting equal access for men and women to education, health, the economy, and legal protection. On a scale of 1 to 6, where higher values signify greater equality, Lao PDR performs quite well. In 2013, the country registers a score of 4.0, the same that Cambodia records, but higher than Bangladesh at 3.5 and lower than Vietnam at 4.5. Unfortunately, data for Indonesia and Thailand is not available. The "Gender-related Development Index" measures average achievements in long and healthy life, knowledge and a decent standard of living, adjusted to account for inequalities between men and women. Higher values indicate a better situation. Lao PDR shows improvements in this regard over the period 2004-2007, moving from 0.55 to 0.61. In the latter year, the country does not perform poorly relative to the countries used for comparison; Bangladesh and Cambodia earn a lower score, while Indonesia, Thailand and Vietnam record the strongest levels at 0.73, 0.78 and 0.72 respectively.

¹²⁷ World Bank, 2010.

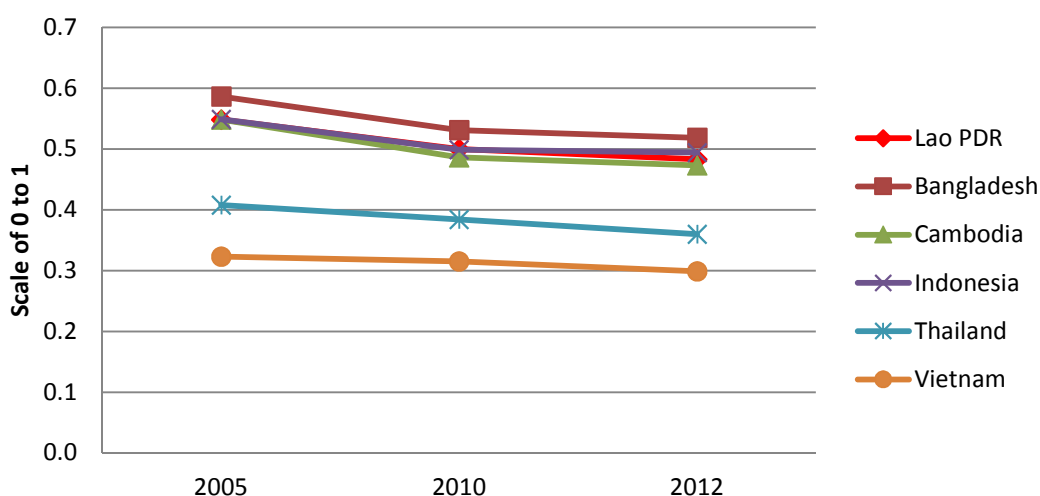
¹²⁸ AusAID, 2013a.

¹²⁹ ILO, Regional Office for Asia and the Pacific, 2011.

¹³⁰ ILO, Regional Office for Asia and the Pacific, 2006.

¹³¹ Asian Development Bank, 2004.

Gender Inequality Index



Source: United Nations Development Programme, Human Development Report.

In education, progress towards reducing gender disparity is still slow. Although the number of girls per 100 boys enrolled in primary education increased from 77 in 1991 to 86 in 2006, there are still fewer girls than boys enrolled at all education levels, particularly at tertiary level, and in rural areas where the gap is still wide. Women's literacy rate (63 per cent) is still significantly lower than that of men's (83 per cent). The main factors contributing to this are the prevalence of poverty and restricting traditional beliefs. Low education levels limit women's economic opportunities and their prospects of obtaining non-agricultural wage employment. Subsequently, women tend to be restricted to low-wage agriculture-related employment and small-scale enterprises.¹³² Nevertheless, even in agriculture sector women farmers have little direct access to agricultural extension services. Although ethnic Lao women have traditional rights to inherit and own land, in some upland ethnic groups they have traditionally accessed land mainly through their husbands or male relatives. Women are extremely active also in handicraft production, food processing, small-scale trading, and services. However, women entrepreneurs have limited access to market information, technical training, and financial services.¹³³ Moreover, the lack of education generally limits women's ability in dealing with legal procedures or gaining access to justice. The "Female Economic Activity Index" measures the share of women over the age of 15 who work in industry, agriculture or services as a percentage of men. Between the years 2003-05, Lao PDR showed a decrease in the rate of women employed, reaching 54 per cent in the latter year. This is higher than the rate registered by Indonesia (51 per cent), but lower than those registered by Cambodia (74.4 per cent) and Vietnam (72.2 per cent) in the same year – the only countries used for comparison for which data is available.

In the political sphere, significant progress has been made in the National Assembly, where the number of female representatives has increased from 6 per cent in 1990, to 25 per cent in 2006. Unfortunately, however, women's representation at the sub-national level remains very low.¹³⁴ The limited role of women in village leadership and the limited number of ethnic minority women working as technical staff in provincial and district offices hampers the effectiveness of poverty reduction programmes in rural areas and provides few role models for ethnic minority girls.¹³⁵ Data

¹³² AusAID, 2013a.

¹³³ Asian Development Bank, 2004.

¹³⁴ AusAID, 2013a.

¹³⁵ Asian Development Bank, 2004.

in the table below confirm the significant disparities in representation of men and women in senior Lao Government positions.¹³⁶

Positions	Total	# Females	# Males	% Females	% Males
Minister and equivalent	37	3	34	8.10	91.90
Vice-minister and equivalent	67	3	64	4.48	95.52
Director of Department and equivalent	416	37	379	8.90	91.10
Governor of prov., capital and special zone	18	0	18	0	100
Vice-governor of prov., capital and sp. zone	32	0	32	0	100
Head of provincial cabinet	18	1	17	5.56	94.44
Vice-head of provincial cabinet	55	0	55	0	100
Chief of district	141	3	138	2.13	97.87
Deputy chief of district	181	2	179	1.10	98.90
Head of district cabinet	141	0	141	0	100
Vice-head of district cabinet	213	2	211	0.94	99.06
Chief of village	10,944	145	10,799	1.32	98.68
Total	12,269	196	12,067	1.60	98.40

Based on global estimates, there are likely to be many hundreds of thousands of Lao people with disability. The last National Census (2005) identified 80,000 people with disability in Lao PDR. However, the World Health Organization (WHO) estimates that 10 per cent of the population (of 6.5 million, thus 650,000) is disabled. Disability is often seen as shameful (resulting from karma and reincarnation); this means that people with disability are often “invisible” within communities. There is no robust information on the numbers of children with disability both in and out of school, although it is suggested that just 4 per cent of school-aged children with disability receive educational services. Positively however, the Lao Government has signed and ratified the Convention on the Rights of Persons with Disabilities (CRPD). The peak body representing people with disability, the Laos Disabled People’s Association (LDPA) also has a relatively well-established sub-national membership structure. There is also a generally good understanding of appropriate models of disability-inclusive education by key stakeholders. Nevertheless, many challenges facing disability-inclusive development in Lao PDR exist. In addition to the lack of quality information, disability-specific stakeholders face significant challenges in implementing activities due to insufficient capacity and financial support.¹³⁷ Most assistance is provided by international NGOs, UN agencies, and some aid programs of friendly states.¹³⁸

Key Indicators					
GINI coefficient		2008	2009	2010	2011
Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A	Lao PDR	36.7	-	-	-
	Bangladesh	-	-	32.1	-
	Cambodia	37.9	36.0	-	-

¹³⁶ Lao PDR National Strategy for the Advancement of Women, 2006 – 2010, Vientiane, January 2006, pp. 22-23, as quoted in United Nations Development Programme, Evaluation Office, 2007.

¹³⁷ AusAID, 2013a.

¹³⁸ Dizard et al., 2012.

<p>value of 0 represents absolute equality, a value of 100 absolute inequality.</p> <p>Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments (World Development Indicators Online).</p>	<table border="1"> <tr> <td>Indonesia</td> <td>34.1</td> <td>-</td> <td>35.6</td> <td>38.1</td> </tr> <tr> <td>Thailand</td> <td>40.5</td> <td>40.0</td> <td>39.4</td> <td>-</td> </tr> <tr> <td>Vietnam</td> <td>35.6</td> <td>-</td> <td>-</td> <td>-</td> </tr> </table> <p>0=perfect equality, 100=perfect inequality.</p>	Indonesia	34.1	-	35.6	38.1	Thailand	40.5	40.0	39.4	-	Vietnam	35.6	-	-	-																																		
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<p>Gender Inequality Index (GII)</p> <p>The Gender Inequality Index is a composite index measuring loss in achievements in three dimensions of human development – reproductive health, empowerment and labour market – due to inequality between genders.</p> <p>Source: UNDP, Human Development Report.</p>	<table border="1"> <thead> <tr> <th></th> <th>2005</th> <th>2010</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>0.55</td> <td>0.50</td> <td>0.48</td> </tr> <tr> <td>Bangladesh</td> <td>0.59</td> <td>0.53</td> <td>0.52</td> </tr> <tr> <td>Cambodia</td> <td>0.55</td> <td>0.49</td> <td>0.47</td> </tr> <tr> <td>Indonesia</td> <td>0.55</td> <td>0.50</td> <td>0.49</td> </tr> <tr> <td>Thailand</td> <td>0.41</td> <td>0.38</td> <td>0.36</td> </tr> <tr> <td>Vietnam</td> <td>0.32</td> <td>0.32</td> <td>0.30</td> </tr> </tbody> </table> <p>Values range from 0 (perfect equality) to 1 (total inequality).</p>		2005	2010	2012	Lao PDR	0.55	0.50	0.48	Bangladesh	0.59	0.53	0.52	Cambodia	0.55	0.49	0.47	Indonesia	0.55	0.50	0.49	Thailand	0.41	0.38	0.36	Vietnam	0.32	0.32	0.30																					
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<p>Labour Force Participation Rate</p> <p>The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.</p> <p>Source: ILO, Summary of the Key Indicators of the Labour Market (8th edition).</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>81.1</td> <td>80.8</td> <td>80.6</td> <td>80.4</td> <td>80.4</td> <td>80.5</td> </tr> <tr> <td>Bangladesh</td> <td>73.2</td> <td>73.2</td> <td>73.3</td> <td>73.4</td> <td>73.4</td> <td>73.5</td> </tr> <tr> <td>Cambodia</td> <td>84.1</td> <td>84.5</td> <td>84.6</td> <td>84.7</td> <td>84.8</td> <td>84.8</td> </tr> <tr> <td>Indonesia</td> <td>69.9</td> <td>69.8</td> <td>70.0</td> <td>69.9</td> <td>70.0</td> <td>70.0</td> </tr> <tr> <td>Thailand</td> <td>78.5</td> <td>78.7</td> <td>78.1</td> <td>77.9</td> <td>78.1</td> <td>78.2</td> </tr> <tr> <td>Vietnam</td> <td>81.5</td> <td>81.4</td> <td>81.3</td> <td>81.3</td> <td>81.6</td> <td>81.9</td> </tr> </tbody> </table> <p>The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.</p>		2007	2008	2009	2010	2011	2012	Lao PDR	81.1	80.8	80.6	80.4	80.4	80.5	Bangladesh	73.2	73.2	73.3	73.4	73.4	73.5	Cambodia	84.1	84.5	84.6	84.7	84.8	84.8	Indonesia	69.9	69.8	70.0	69.9	70.0	70.0	Thailand	78.5	78.7	78.1	77.9	78.1	78.2	Vietnam	81.5	81.4	81.3	81.3	81.6	81.9
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<p>Gender-related Development Index (GDI)</p> <p>A composite index measuring average achievement in the three basic dimensions captured in the human development index - a long and healthy life, knowledge, and a decent standard of - adjusted to account for inequalities between men and women.</p> <p>Source: UNDP, Human Development Report.</p> <p>Note: GDI replaced by the Gender Inequality Index (GII), starting from 2010 Report.</p>	<table border="1"> <thead> <tr> <th></th> <th>2004</th> <th>2005</th> <th>2007</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>0.55</td> <td>0.59</td> <td>0.61</td> </tr> <tr> <td>Bangladesh</td> <td>-</td> <td>-</td> <td>0.54</td> </tr> <tr> <td>Cambodia</td> <td>0.58</td> <td>0.59</td> <td>0.59</td> </tr> <tr> <td>Indonesia</td> <td>0.70</td> <td>0.72</td> <td>0.73</td> </tr> <tr> <td>Thailand</td> <td>-</td> <td>-</td> <td>0.78</td> </tr> <tr> <td>Vietnam</td> <td>0.71</td> <td>0.73</td> <td>0.72</td> </tr> </tbody> </table> <p>The lower the value, the more heavily a society is penalized for having inequalities.</p>		2004	2005	2007	Lao PDR	0.55	0.59	0.61	Bangladesh	-	-	0.54	Cambodia	0.58	0.59	0.59	Indonesia	0.70	0.72	0.73	Thailand	-	-	0.78	Vietnam	0.71	0.73	0.72																					
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<p>Female economic activity is a measure of women over the age of fifteen who are working in industry, agriculture, or services as a percent of males.</p> <p>Source: UNDP, Human Development Report.</p> <p>Note: Data on Bangladesh and Thailand is not available.</p>	Lao PDR	74.6	54.0	54.0
	Cambodia	80.1	74.4	74.4
	Indonesia	56.3	50.7	51.0
	Vietnam	73.3	72.4	72.2
		% aged 15 and older.		

3.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. In Lao PDR, the family remains the overwhelmingly dominant form of social protection, with strong and enduring positive cultural attitudes associated with parental care by adult children. Health care costs and quality of service remain significant factors in health-seeking behaviours and represent a significant and urgent challenge. Medical costs are, in fact, a major cause of household indebtedness and compound poverty. The establishment of an Occupational Safety and Health (OSH) Master Plan in 2005 by the Lao Ministry of Labour and Social Welfare (MOLSW) was an important step in raising issues. However, implementation and enforcement challenges remain.¹³⁹

In Lao PDR, there are four formal social health-protection systems: the State Authority of Social Security (SASS), the Social Security Organization (SSO), Community Based Health Insurance (CBHI) and Health Equity Funds (HEFs). Coverage of social protection is however limited. The ratio of health care fund contributors to the total population is only 2.9 per cent, and the ratio of pension beneficiaries and contributors to the total labour force is only 6.15 per cent.¹⁴⁰ When cost is measured as a percentage of GDP, the country has one of the smallest social security systems in Asia. The main beneficiaries of the current system are elderly former civil servants, soldiers and veterans who receive pensions.¹⁴¹ Although Lao PDR compares relatively well in the area of "Public Social Security Expenditure" as a percentage of GDP, its performance as such is rather poor. In 2009 (the only year for which data is available for all countries compared), Lao PDR recorded a rate of 2.5 per cent of GDP, which is higher than the rates registered for Cambodia (1.9 per cent) and Bangladesh (2.3 per cent), similar to the rate registered for Indonesia (2.9 per cent), and significantly lower than those registered for Vietnam (6.5 per cent) and Thailand (8.2 per cent). However, the public expenditure for social security as a percentage of GDP for Lao PDR decreased between 2009 and 2010, recording a rate of 1.7.

In line with the accepted definition of social security protection, a three pillar framework for social protection comprises a first pillar of a general, social assistance safety net income protection provided by the government, a second or social insurance pillar comprising mandatory contributions and a third, voluntary, private insurance pillar supplement the other two. Lao PDR does not have a strong first pillar, as programmes are severely under-budgeted. The provision of basic health services and immunization is the only protection available, and social assistance is provided only to the very poor – though the extent of this protection is not known. The development of the second pillar began with a social security scheme implemented in 2001. The scheme provides comprehensive coverage for old age, disability, survivorship, work injury, sickness and maternity. However, the scheme only covers employees in enterprises employing 10 or more

¹³⁹ ILO, Regional Office for Asia and the Pacific, 2011.

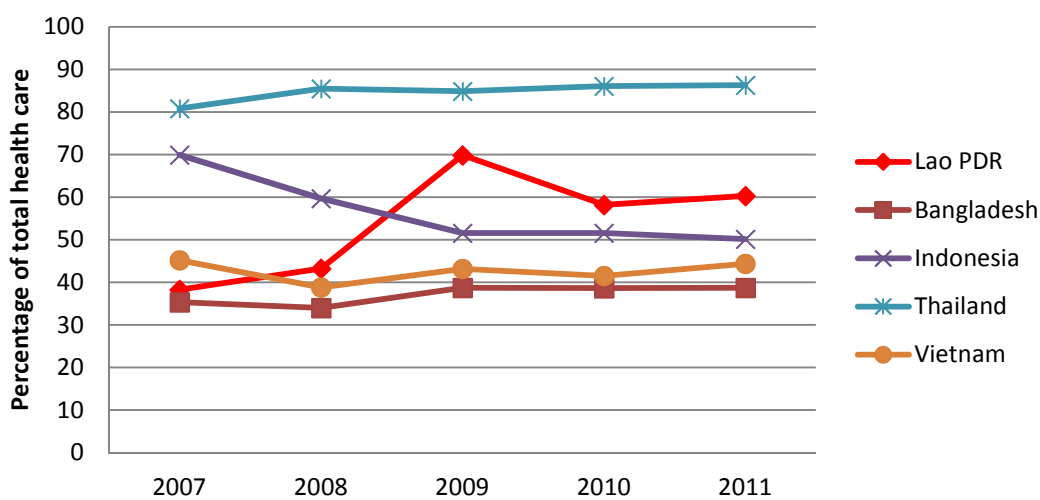
¹⁴⁰ Leebouapao, 2010.

¹⁴¹ AusAID, 2013b.

workers and is presently implemented in the capital city only. Self-employed people (i.e. the informal sector) and a major part of the county are not covered by the scheme. The growth of the third pillar is not encouraged by the current state of economic development in the country.¹⁴² Nevertheless, in 2002, the Government initiated the pilot of a community-based health insurance scheme in collaboration with the World Health Organization. Implemented on a voluntary basis, the non-profit scheme aimed to provide better access to health services through minimum prepayment for the targeted population, and it was envisaged as the third pillar to the public and private sector social insurance schemes. In 2006, more than 3,000 families (almost 16,000 people) became members of the scheme.¹⁴³

The Lao hospital system is almost exclusively public. The private health sector includes licensed pharmacies, clinics and unlicensed providers, although eighty per cent of the private clinics are located in urban areas, mostly in the capital Vientiane. The government spending on health is low, and out-of-pocket expenditure on drugs and hospital services is high.¹⁴⁴ “Public Expenditure on Health” as a percentage of GDP consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. Lao PDR performs quite poorly in this area. The country records a rate of 1.5 per cent in 2012, which is higher than the rates registered for Bangladesh, Cambodia and Indonesia, but considerably lower than those registered for Thailand and Vietnam, respectively 3.0 per cent and 2.8 per cent. The “Coverage by Health Care” indicator measures the percentage of total (public and private) health care expenditure not financed by private household’s out of pocket payments. In this area, Lao PDR performs well, with a record of 60 per cent in 2011. This is the second-best rate, among the countries compared, after Thailand at 86 per cent. The other countries register lower rates; respectively, Bangladesh at 39 per cent, Indonesia at 50 per cent and Vietnam at 44 per cent. Data for Cambodia is not available.

Coverage by Health Care



Source: World Health Organization WHOSIS, ILO Social Security Expenditure Database.

However, the Lao health care sector has undergone changes in recent years. In 1995, the Prime Ministry Decree 52 paved the way for the introduction of an official cost recovery system

¹⁴² Singh, 2008.

¹⁴³ Asian Development Bank, 2010.

¹⁴⁴ Jönsson, 2008.

that ensured that everybody should pay for services. The poorest were exempted from paying, but in practice the identification of the poor turned out to be difficult. In addition, many patients in urban areas preferred private services due to unwelcoming attitudes of public health staff and procedural barriers, when affordable. This policy reform has in practice resulted in an inequitable system where those better-off have access to unlimited quality care options, while the poor's access to health care is very limited. Health equity funds, designed to cater to the needs of the poorest households and communities, exist as pilot projects in some provinces and represent one important social protection scheme. In late 2005, a Law on Health Care was passed by the General Assembly in order to better cater for the poor.¹⁴⁵ Studies on the results of the new law and regulations are not yet available.

Key challenges for the Lao social health-protection systems are represented by the fact that: i) the majority of both labour force and population are in low-income groups, poor people and engaged in the informal sector; ii) the population is ageing and there will be more old people due to the increasing life expectancy of Lao people; iii) the Government revenue is limited, and is insufficient for social assistance within the country. The Lao Government is planning to develop a new social protection scheme to face these challenges and to increase the coverage of social protection. This reflects the significance of the issue.¹⁴⁶

Key Indicators						
Public Expenditure on Health (% of GDP) Public expenditure on health as a percentage of GDP—Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. Source: World Health Organization National Health Account database (World Development Indicators Online).		2008	2009	2010	2011	2012
	Lao PDR	1.0	1.8	1.2	1.4	1.5
	Bangladesh	1.3	1.4	1.3	1.5	1.2
	Cambodia	1.0	1.2	1.3	1.3	1.3
	Indonesia	1.0	1.0	1.1	1.1	1.2
	Thailand	3.0	3.1	2.8	3.2	3.0
	Vietnam	2.3	2.7	3.2	3.1	2.8
	% of GDP.					
Coverage by Health Care (% of total health care) Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator). Source: World Health Organization WHOSIS, ILO Social Security Expenditure Database . Note: Data for Cambodia is not available.		2007	2008	2009	2010	2011
	Lao PDR	38	43	70	58	60
	Bangladesh	35	34	39	39	39
	Indonesia	70	60	52	52	50
	Thailand	81	86	85	86	86
	Vietnam	45	39	43	42	44
		% of total health care.				
Public Social Security Expenditure (% of GDP) Total Social Expenditure as a percentage of GDP. Source: ILO Social Security Inquiry .		2008	2009	2010		
	Lao PDR	1.4	2.5	1.7		
	Bangladesh	-	2.3	-		
	Cambodia	-	1.7	-		
	Indonesia	-	2.9	2.6		

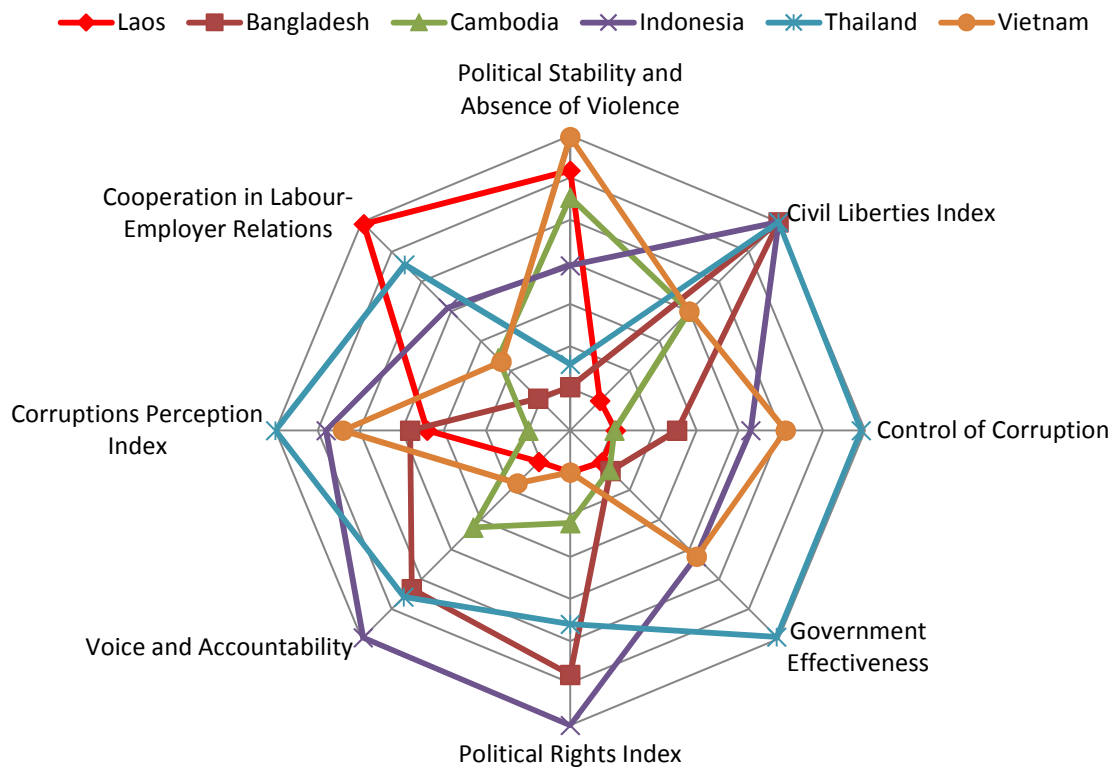
¹⁴⁵ Jönsson, 2008.

¹⁴⁶ Leebouapao, 2010; ILO, Regional Office for Asia and the Pacific, 2011.

	Thailand	-	8.2	-
	Vietnam	6.0	6.5	6.3
	% of GDP.			
Other Useful Indicators				
Old Age Expenditure (% of GDP)		2010	2011	
Public social security expenditure on benefits targeting persons in old age. Source: ILO Social Security Inquiry .	Lao PDR	0.1	-	
	Bangladesh	-	0.7	
	Cambodia	-	0.2	
	Indonesia	0.5	-	
	Thailand	-	4.2	
	Vietnam	3.1	-	
	% of GDP.			
Old Age Pension Beneficiaries		2010	2011	Legal retirement age (basis for denominator)
Old age effective coverage. Proportion of elderly (above statutory pensionable age) receiving an old age pension. Source: ILO Social Security Inquiry .	Lao PDR	5.6	-	60+
	Bangladesh	-	39.5	65+ (62+ for OA allowances for women)
	Cambodia	5.0	-	55+
	Indonesia	8.1	-	55+
	Thailand	81.7	-	60+
	Vietnam	34.5	-	60+ Men 55+ Women
	% of population above the statutory retirement age benefiting from an old-age pension.			

4. Political elements

Indicators assessing political elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Lao PDR experiences overall political stability, owing to rapid economic growth, together with the maintenance of the country's extensive internal-security apparatus and the effective management of the most recent leadership transition within the ruling party. Also the country's border security is improving.
- However, several factors generate tensions and could cause political instability in the next couple of years. The widening gap between rural and urban incomes could become a source of social discontent, as well as the concerns about food security, given the vulnerability of rice crops.
- Good governance and accountability is quite a problematic issue in Lao PDR. The LPRP is the sole political party and the bureaucracy is a highly politicized arm of the party, as is the media. As a result, civil society is severely stunted.
- Patron-client relationships are widespread in the Lao political system. As a result, the governance system as a whole is weak and allegations of corruption being very widespread, especially in the banking system as well as the debasement of the legal system through rulings decided by bribery. One area in which there has been improvement is in the registration and regulation of foreign business ventures. The Government has instituted a number of reforms designed to improve governance and transparency, but they are not effective.
- Industrial relations in Lao PDR have not evolved apace with the emerging private sector and lag behind even in comparison to other regional "transition" economies. The 2006 Lao Labour Law establishes basic national labour standards (such as minimum wages, restrictions on overtime, and entitlements such as maternity and sick leave) and incorporates elements of ILO core labour standards. However, these appear to be only weakly enforced. Workers do not benefit free, collective bargaining and strikes are not

legal. There is little evidence that the LFTU is able to effectively protect workers' rights in particular in private sector companies.

- The human rights situation in Lao PDR has improved somewhat. However, numerous

issues remain, such as the discrimination against members of ethnic minority tribes (especially Hmong), the harassment of Christians, the lack in the protection of land rights and the deportation of refugees. The Government has made some improvements in combating women trafficking, though this remains a major issue.

4.1. Peace and political stability

Peace and political stability are basic preconditions to nurture the formation and growth of sustainable enterprises. Lao PDR experiences overall political stability. While domestic opposition elements have in the past employed terrorist tactics, such as ambushing civilian buses in 2003 and bombing civilian targets in 2004 (whose responsibility was claimed by the “Underground Government of the Free Democratic People of Laos”)¹⁴⁷, the ruling LPRP does not face serious challenges to its authority. Also, in the next years, it is expected that the rapid economic growth, together with the maintenance of the country’s extensive internal-security apparatus, will perpetuate the ruling party’s dominance. The LPRP’s effective management of its most recent leadership transition, at the ninth five-yearly party congress, in March 2011, cemented the party’s grip on power.¹⁴⁸

Nevertheless, several factors generate tensions and could cause political instability in the next couple of years. The widening gap between rural and urban incomes could become a source of social discontent, as could the Government’s unpopular practice of leasing land to overseas companies. In mid-2012 a moratorium was re-imposed on the granting of new land concessions until at least 2015, following complaints from villagers. Should the Government recommence the leasing of new areas of land, protests (which have so far been small and isolated) could coalesce and escalate. Also the concerns about food security remains a potential source of social unrest, given the vulnerability of rice crops to bad weather and flooding. The construction of residential and commercial buildings on rice paddies is worsening this situation. Official corruption and the opacity of government expenditure is another issue, which is generating public discontent. However, prospects for reforms that would lead to significant improvements in fiscal transparency remain dim. Finally, there are continued ethnic tensions – especially in Hmong areas – though no recent attacks by rebels have been reported.¹⁴⁹

Secondary data on “Political Stability and Absence of Violence” assesses countries’ political stability on a scale from -2.5 to 2.5 where higher values correspond to better performance. Considering this indicator, Lao PDR performs discretely well over time, raising from -0.2 in 2007 to 0.0 in 2012. Relative to the five countries used for comparison, Lao PDR consistently records the second-best values after Vietnam. In 2012, it far outperformed the scores for Bangladesh (-1.4), Thailand (-1.2), Indonesia (-0.6) and Cambodia (-0.1), and underperformed Vietnam at 0.3.

Lao PDR’s border security is improving. The cooperation between Vietnam and Lao PDR has achieved relevant results in various fields. For example, both governments’ policies and laws have been enforced, 14 primary schools and five clinics in the area were built, and literacy classes for more than 1,600 people were organized as well as free health checks for 1,389 individuals. As a result, border security saw positive changes in 2013, with a reduction in cross-border smuggling, drug trafficking and illegal migration, improvements to living conditions for residents in border areas, and the strengthening of the bilateral relationship between Vietnam and Lao PDR to promote a peaceful, friendly and stable national border.¹⁵⁰

Key Indicator

¹⁴⁷ United States Department of State, 2010; Memorial Institute for the Prevention of Terrorism, 2008; Bourdet, 2002.

¹⁴⁸ Economist Intelligence Unit, 2014e.

¹⁴⁹ Ibid.

¹⁵⁰ The Voice of Vietnam, 2013.

Political Stability and Absence of Violence		2007	2008	2009	2010	2011	2012
The likelihood that the government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism. Source: World Bank, Worldwide Governance Indicators .	Lao PDR	-0.2	0.0	-0.2	-0.3	-0.1	0.0
	Bangladesh	-1.5	-1.5	-1.5	-1.4	-1.4	-1.4
	Cambodia	-0.4	-0.3	-0.6	-0.5	-0.3	-0.1
	Indonesia	-1.2	-1.1	-0.8	-0.9	-0.8	-0.6
	Thailand	-1.2	-1.3	-1.4	-1.4	-1.1	-1.2
	Vietnam	0.2	0.1	0.2	0.1	0.2	0.3
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.						

4.2. Good governance

Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development. In Lao PDR, the LPRP is the sole political party. It determines who may stand for election to the National Assembly (NA), controls the government, and directs all mass organizations. The bureaucracy is a highly politicized arm of the party, as is the media. As a result, civil society is severely stunted, corruption has become endemic, and rule of law is honoured more in the breach than in the observance.¹⁵¹

The most significant events in the Lao political calendar are the five-yearly LPRP congresses, during which NA elections are held. However, all NA candidates require endorsement by the party-controlled Lao Front for National Construction, whose structure parallels that of the party. The total dominance exercised by the party thus eliminates any checks and balances that might apply between the executive, legislative, and judicial branches of government. Civil society hardly exists in Lao PDR and organisations are not fully independent. The Ministry of Information and Culture controls all media. As a consequence, there is no real freedom of the press in Lao PDR.¹⁵² According to the 2014 World Press Freedom Index Lao PDR and Vietnam have the lowest records on press freedom in Southeast Asia, with Lao PDR ranking 172nd.¹⁵³ While very few Lao have access to the internet, its content is not heavily censored.¹⁵⁴ Secondary data on “Voice and Accountability” assesses the extent to which citizens participate in selecting their government, as well as freedom of expression, freedom of association and a free media on a scale from -2.5 to 2.5, with higher values indicating better governance. In this regard, over the period 2007-2012, Lao PDR consistently records the lowest score of the group of countries compared, averaging 1.6. Only Vietnam registers a similar score, averaging 1.5 over the same time frame. The other countries register higher scores, though anyway below 0.

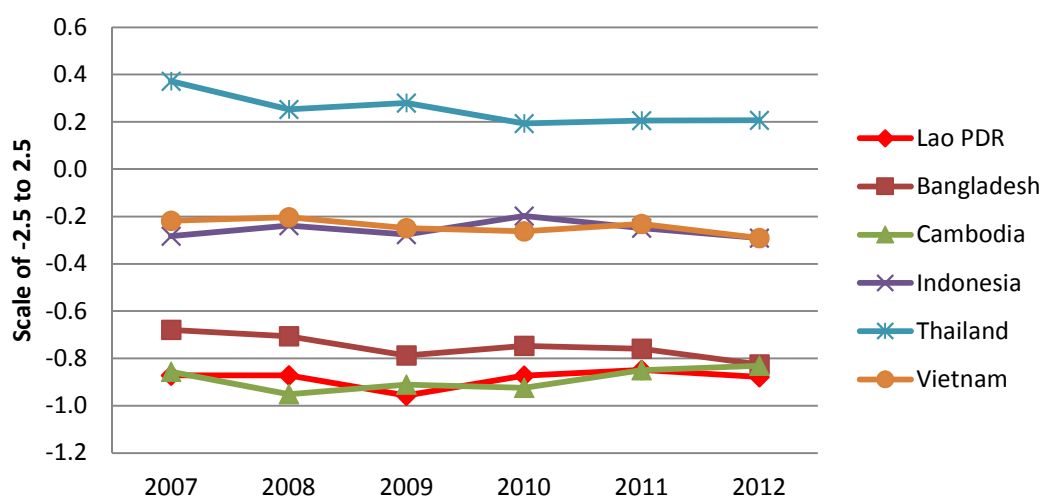
¹⁵¹ Dizard et al., 2012.

¹⁵² Ibid.

¹⁵³ Reporters Without Borders, [World Press Freedom Index](#).

¹⁵⁴ Freedom House, 2013.

Government Effectiveness



Source: World Bank, Worldwide Governance Indicators.

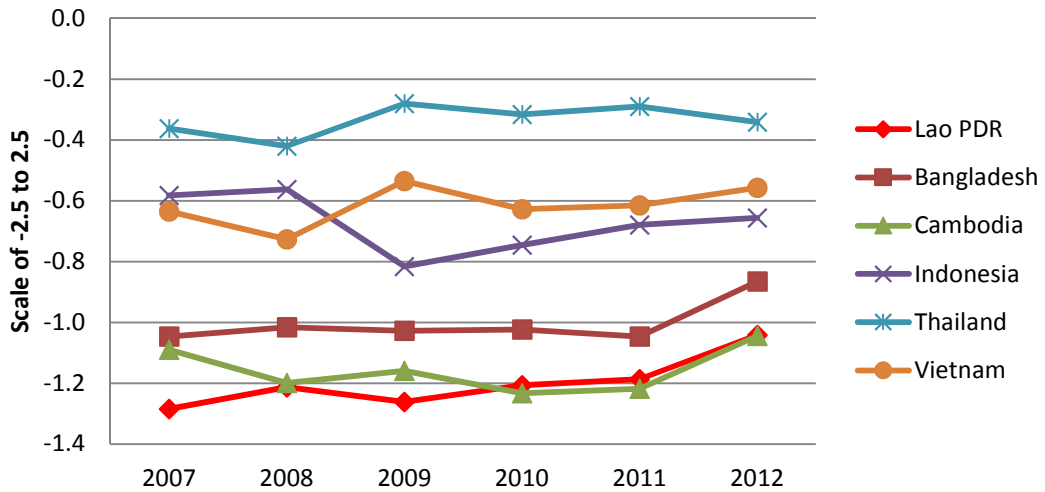
The LPRP has not showed much commitment in initiating profound democratic reforms in the country. Patron-client relationships are widespread in the Lao political system. Patronage is provided in a variety of ways, for which gratitude is shown in monetary form. As a result, the public service is often corrupt and incompetent, with officials loath to make decisions or take responsibility.¹⁵⁵ “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government’s commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Lao PDR averages -0.9 over the period 2007-12. The other countries generally recorded higher scores over the same period, with Thailand registering the highest score of the group at 0.2 in 2012.

Corruption is widespread and regulation of virtually every facet of life provides many opportunities for bribery. Over the decade from 1986 to 1996, corruption became widespread within the LPRP. A number of policies and laws were thereafter adopted by the Government, including the ratification of the UN Convention against Corruption in 2009. Nonetheless, none of the measures introduced has had much effect on the prevalence or level of corruption. Apart from the usual bribes and evasion of duties and taxes, the most damaging forms have been: i) the plunder of the banking system by those with political connections, who obtain loans that are never repaid, and ii) the debasement of the legal system through rulings decided by bribery and political pressure. Direct state involvement in the economy through SOEs increases the opportunities for bribery. One area in which there has been improvement is in the registration and regulation of foreign business ventures, where the application procedures have been streamlined and the required bribery limited. As no protection is provided by the state for those who report corruption, no one does. The Government has instituted a number of reforms designed to improve governance and transparency (such as establishing an Audit Office), but they lack effectiveness. Even revenue collection is often severely compromised due to corruption.¹⁵⁶

¹⁵⁵ Dizard et al., 2012.

¹⁵⁶ Dizard et al., 2012.

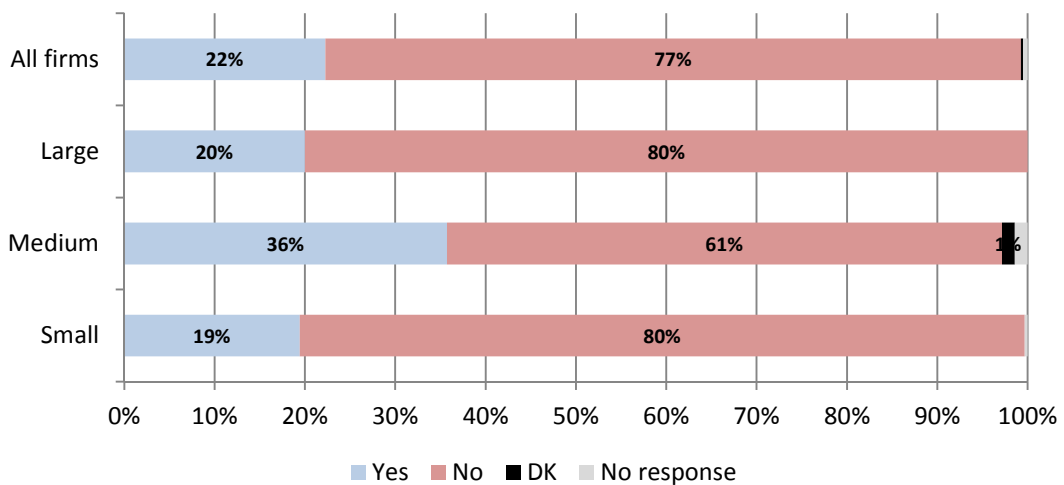
Control of Corruption



Source: World Bank, Worldwide Governance Indicators.

“Control of Corruption” measures the extent to which public power is exercised for private gain and the extent to which the state is captured by elites and private interests. On a scale from -2.5 to 2.5 where higher values reflect better performance, over the period 2007-12, Lao PDR maintained notably low levels, consistently below -1. In 2012, the country recorded a level of -1.0, thus the same score as for Cambodia, but underperforming all other countries used for comparison. Bangladesh recorded the next lowest value at -0.9 and Thailand recorded the highest at -0.3 in the same year. The “Corruption Perceptions Index” measures the perceived levels of public sector corruption as seen by business people and country analysis in a given country. On a scale from 0 (“highly corrupt”) to 10 (“highly clean”), Lao PDR has improved somewhat moving from 2.0 in 2008 to 2.6 in 2013. This is still low however, relative to the countries used for comparison, where only Cambodia recorded a lower score in 2013 at 2.0, and Thailand recorded the highest of the group at 3.5.

Informal payments to officials in past 12 months



Source: Lao PDR EESE Survey.

The EESE survey reveals that 22 per cent of participating firms have given informal payments or gifts to Government officials in the last 12 months, with more medium-sized firms doing so compared to small firms or large firms. Firms in the mining, construction and manufacturing sector (33 per cent) are most likely to have made such a payment, while firms in wholesale and retail trade (11 per cent) are least likely. Based on location, firms in Champasak (28 per cent) are most likely while firms in Savannakhet (14 per cent) are least likely. Interestingly, this issue seems to show a slight gender effect, with firms owned by men (28 per cent) more likely to have made a payment than firms owned by women (17 per cent). Of the 91 respondents who specified the reason why they made unofficial payments, the most common reason was to keep good relations with government officials (56 per cent), followed by to smooth the process of paying taxes (19 per cent). The EESE survey also asked business representatives to propose recommendations on what could be done to reduce the need to provide informal payments. In total, 110 participants provided 130 suggestions. Of these, the most common were to launch an awareness campaign to change public acceptance of the practice (45 per cent), and to make it easier to apply for permits and taxes online (20 per cent). Only 16 per cent of responses were for business associations to provide some kind of confidential complaints mechanism.

The “Political Rights Index” measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government on a scale from 1 to 7, with 1 representing the most free and 7 representing the least free. Lao PDR performs very poorly in this area, consistently recording 7 over the period 2009-2014. In the group of countries used for comparison, only Vietnam performs as bad as Lao PDR, while Indonesia and Bangladesh record the best scores at 2 and 3 respectively in 2014. In practice political or other forms of dissent are not tolerated and dealt with harshly in Lao PDR.¹⁵⁷The “Civil Liberties Index” measures freedom of expression, assembly, association, and religion on the same scale as the “Political Rights Index”. In this area, Lao PDR performs poorly in the group, steadily registering a score of 6 over the period 2009-2014. Freedom of speech is severely constrained, as is the practice of religious faiths.¹⁵⁸ The LPRP, in fact, controls the clergy training and supervises the temples, while Christians are jailed or expelled. In 2012, Christian activist groups reported more than twice as many cases of persecution against Lao Christians as in 2011. Academic freedom is also not respected, as university professors cannot teach or write about politically sensitive topics. In addition, freedom of assembly is severely restricts, with cases of demonstrators that have disappeared.¹⁵⁹

Key Indicators		2007	2008	2009	2010	2011	2012
Control of Corruption The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Source: World Bank, Worldwide Governance Indicators .	Lao PDR	-1.3	-1.2	-1.3	-1.2	-1.2	-1.0
	Bangladesh	-1.0	-1.0	-1.0	-1.0	-1.0	-0.9
	Cambodia	-1.1	-1.2	-1.2	-1.2	-1.2	-1.0
	Indonesia	-0.6	-0.6	-0.8	-0.7	-0.7	-0.7
	Thailand	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
	Vietnam	-0.6	-0.7	-0.5	-0.6	-0.6	-0.6
	Estimate of governance measured on a scale from						

¹⁵⁷ New Zealand Ministry of Foreign Affairs & Trade, 2008.

¹⁵⁸ Ibid.

¹⁵⁹ Freedom House, 2013.

	approximately -2.5 to 2.5. Higher values correspond to better governance.																																																	
<p>Corruption Perceptions Index (CPI)</p> <p>The Transparency International CPI measures the perceived levels of public sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.</p> <p>Source: Transparency International.</p> <p>Note: In 2012, Transparency International changed the CPI scale from 0-10 to 0-100. In the interest of comparison, the numbers reflected here for 2012 are thus altered, where the original score given is divided by 10.</p>	<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>2.0</td> <td>2.0</td> <td>2.1</td> <td>2.2</td> <td>2.1</td> <td>2.6</td> </tr> <tr> <td>Bangladesh</td> <td>2.1</td> <td>2.4</td> <td>2.4</td> <td>2.7</td> <td>2.6</td> <td>2.7</td> </tr> <tr> <td>Cambodia</td> <td>1.8</td> <td>2.0</td> <td>2.1</td> <td>2.1</td> <td>2.2</td> <td>2.0</td> </tr> <tr> <td>Indonesia</td> <td>2.6</td> <td>2.8</td> <td>2.8</td> <td>3.0</td> <td>3.2</td> <td>3.2</td> </tr> <tr> <td>Thailand</td> <td>3.5</td> <td>3.4</td> <td>3.5</td> <td>3.4</td> <td>3.7</td> <td>3.5</td> </tr> <tr> <td>Vietnam</td> <td>2.7</td> <td>2.7</td> <td>2.7</td> <td>2.9</td> <td>3.1</td> <td>3.1</td> </tr> </tbody> </table> <p>The scores are on a scale from 0 (highly corrupt) to 10 (highly clean).</p>		2008	2009	2010	2011	2012	2013	Lao PDR	2.0	2.0	2.1	2.2	2.1	2.6	Bangladesh	2.1	2.4	2.4	2.7	2.6	2.7	Cambodia	1.8	2.0	2.1	2.1	2.2	2.0	Indonesia	2.6	2.8	2.8	3.0	3.2	3.2	Thailand	3.5	3.4	3.5	3.4	3.7	3.5	Vietnam	2.7	2.7	2.7	2.9	3.1	3.1
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<p>Voice and Accountability</p> <p>The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.</p> <p>Source: World Bank, Worldwide Governance Indicators.</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Lao PDR</td> <td>-1.7</td> <td>-1.6</td> <td>-1.6</td> <td>-1.6</td> <td>-1.6</td> <td>-1.6</td> </tr> <tr> <td>Bangladesh</td> <td>-0.5</td> <td>-0.5</td> <td>-0.3</td> <td>-0.3</td> <td>-0.3</td> <td>-0.4</td> </tr> <tr> <td>Cambodia</td> <td>-0.9</td> <td>-1.0</td> <td>-0.9</td> <td>-0.9</td> <td>-0.9</td> <td>-1.0</td> </tr> <tr> <td>Indonesia</td> <td>-0.1</td> <td>-0.1</td> <td>0.0</td> <td>-0.1</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>Thailand</td> <td>-0.6</td> <td>-0.5</td> <td>-0.5</td> <td>-0.5</td> <td>-0.4</td> <td>-0.3</td> </tr> <tr> <td>Vietnam</td> <td>-1.5</td> <td>-1.5</td> <td>-1.5</td> <td>-1.5</td> <td>-1.4</td> <td>-1.4</td> </tr> </tbody> </table> <p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>		2007	2008	2009	2010	2011	2012	Lao PDR	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	Bangladesh	-0.5	-0.5	-0.3	-0.3	-0.3	-0.4	Cambodia	-0.9	-1.0	-0.9	-0.9	-0.9	-1.0	Indonesia	-0.1	-0.1	0.0	-0.1	0.0	0.0	Thailand	-0.6	-0.5	-0.5	-0.5	-0.4	-0.3	Vietnam	-1.5	-1.5	-1.5	-1.5	-1.4	-1.4
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	2009	2010	2011	2012	2013	2014																																												
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	2009	2010	2011	2012	2013	2014																																												

The Civil Liberties Index measures freedom of expression, assembly, association, and religion.

Source: Freedom House, [The Freedom in the World Survey](#).

Lao PDR	6	6	6	6	6	6
Bangladesh	4	4	4	4	4	4
Cambodia	5	5	5	5	5	5
Indonesia	3	3	3	3	3	4
Thailand	4	4	4	4	4	4
Vietnam	5	5	5	5	5	5

Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.

4.3. Social dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large. Despite several historical transformations in the industrial relations in Lao PDR – from the French colonial era to the Royal Lao Government model, then to the revolutionary era in 1975, and finally to the NEM model – there have been significant elements of continuity. Lao PDR has remained a predominantly agrarian society in which waged workers comprise a minority of the labour force. In the current industrial relations model, for example, workers do not yet benefit free, collective bargaining. However, some aspects have changed, such as: i) the attitudes towards and definitions of property rights in the workplace; ii) the relative status of employer and employees; and iii) changes in the essence of employer, union and government strategies.¹⁶⁰

Although the 2006 Lao Labour Law establishes basic national labour standards (such as minimum wages, restrictions on overtime, and entitlements such as maternity and sick leave) and incorporates elements of ILO core labour standards, these appear to be only weakly enforced.¹⁶¹ There is little room for trade union activities in the law. All unions must belong to the Lao Federation of Trade Unions (LFTU), directly controlled by the ruling party. The law further prohibits union members from organising an "illegal group, gathering, or protest and acts", and those who join an organisation that encourages protests, demonstrations and actions that might cause "turmoil or social instability" face imprisonment. Moreover, while protection against anti-union dismissals is secured, the law does not protect workers against retaliation short of dismissal, e.g. transfers for "disciplinary reasons". Finally, the dispute resolution system fails to provide any possibility of legal strike action. As a result, in practice, the LFTU effectively enables the party to control the workers and ensures enforcement of the labour law. There is little evidence that the union is able to effectively protect workers' rights in particular in private sector companies.¹⁶² When individuals are dissatisfied with working conditions, they have little alternative than to quit.¹⁶³ According to the Freedom House, the main purpose of the LFTU is rather to keep wages to levels that will attract foreign investment.¹⁶⁴

The EESE survey findings show that 43 per cent of firms in the sample are members of LNCCI (including through a provincial chamber of commerce) – specifically, 31 per cent of small firms, 84 per cent of medium-sized firms and 90 per cent of large firms. The most common reasons for small firms not being a member are that they have never heard of LNCCI (57 per cent) or feel

¹⁶⁰ Fry, 2008.

¹⁶¹ World Bank, 2012a.

¹⁶² International Trade Union Confederation, 2012.

¹⁶³ World Bank, 2012a.

¹⁶⁴ Dizard et al., 2012.

that LNCCI does not represent their interests (13 per cent). The most common benefits of being a member of LNCCI (or provincial chamber) are indicated in access to new business networks (55 per cent) and LNCCI's arrangement of events, conferences and workshops (47 per cent). Interestingly, only 29 per cent of respondents consider the fact that LNCCI represents their interests to Government as a benefit of membership, while only 20 per cent consider training provided by the chamber to be a benefit. According to survey participants, LNCCI and the provincial chambers need to address a broad range of issues in their advocacy efforts with the Government. Advocating for transparent and streamlined arrangements relating to taxation, regulation and other interactions with government officials are among the most important – but by no means the only – areas that the chambers need to focus on.

In comparison to other regional “transition” economies, such as China, Vietnam and Cambodia, Lao PDR seems to be lagging behind.¹⁶⁵ During the 2000s, in fact, political and trade union leaders in China and Vietnam (which are the models often used by Lao economic policy makers) began to recognize that without properly functioning trade unions to represent workers in collective bargaining and social dialogue, it would be hard to maintain the stability and cohesion needed for sustained economic development.¹⁶⁶ “Cooperation in Labour-Employer Relations” determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation. In this area, Lao PDR has registered the highest scores of the countries compared, recording 5.1 2014.

Key Indicator						
Cooperation in Labour-Employer Relations The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: “Labour-employer relations in your country are”. Source: World Economic Forum, The Global Competitiveness Report . Note: Data on Lao PDR is available only from 2013.		2010	2011	2012	2013	2014
	Lao PDR	-	-	-	5.3	5.1
	Bangladesh	4.1	4.0	4.2	4.1	4.0
	Cambodia	4.2	4.2	4.3	4.3	4.2
	Indonesia	4.6	4.3	4.4	4.6	4.6
	Thailand	4.9	4.8	4.7	4.8	4.9
	Vietnam	4.8	4.5	4.5	4.4	4.2
	1 = generally confrontational, 7 = generally cooperative.					
Other Useful Indicators						
Trade Union Density Rate The trade union density rate conveys the number of union members who are employed as a percentage of the total number of persons in employment. A trade union is defined as a workers' organization constituted for the purpose of furthering and defending the interests of workers. Trade union membership is defined as the total number of workers that belong to a trade union. For the purpose of this compilation and this indicator in particular, this number excludes, whenever possible, union members who are not in employment (unemployed, retired, etc.). The employed comprise all persons of working age who, during a		2007	2010	2011		
	Lao PDR	-	15.5	-		
	Thailand	1.4	-	-		
	Vietnam	-	-	14.6		
% of total employment.						

¹⁶⁵ Fry, 2008.

¹⁶⁶ World Bank, 2012a.

specified brief period, were in one of the following categories: a) paid employment (whether at work or with a job but not at work); or b) self-employment (whether at work or with an enterprise but not at work).

Source: ILO, [Industrial Relations Data](#).

Note: Data for Bangladesh, Cambodia and Indonesia is not available.

4.4. Respect for universal human rights and international labour standards

Respect for human rights and international labour standards is a distinctive feature of societies that have successfully integrated sustainability and decent work. Lao PDR has ratified all 9 main human rights conventions. Bangladesh, Indonesia, Thailand and Vietnam have adopted only 8 of the 9 main human rights conventions. Lao PDR has adopted 5 of the 8 ILO core conventions, but has not yet ratified the conventions on freedom of association and collective bargaining, and the abolition of forced labour. Of the other countries used for comparison, only Cambodia and Indonesia have ratified all 8 ILO core conventions, Bangladesh 7 out of 8, while Thailand and Vietnam 5.

Although Lao PDR has signed or ratified some key international conventions on human rights over the past decades, it has mostly failed to implement these conventions domestically.¹⁶⁷ While a degree of freedom of speech is permitted in private, no public freedom of speech exists. Access to prisons in Lao PDR is denied to human rights organizations, but former inmates report that conditions are appalling. Amnesty International has long denounced the use of torture.¹⁶⁸ Discrimination against members of ethnic minority tribes is common. Some Hmong refugees who returned to the country from Thailand in late 2009 and early 2010 appear to have vanished and some Hmong are known to be held in jails as political prisoners. In December 2012, internationally acclaimed antipoverty activist Sombath Somphone disappeared.¹⁶⁹ Harassment of Christians in provincial areas have been reported, with confiscation of property, closing of churches, short-term detention and forced recanting.¹⁷⁰ With no fair or robust system to protect land rights or ensure compensation for displacement, development projects often spur public resentment. Refugees who arrive in the country often are deported, as it happened in 2012 when 20 refugees from North Korea were arrested and deported.¹⁷¹

Gender-based discrimination and abuse are widespread. An estimated 15,000 to 20,000 women and girls from the Mekong region, including Lao PDR, are trafficked each year for prostitution. However, the Government has made some improvements in combating trafficking over the last five years, including closer cooperation with neighboring governments.¹⁷² People who use drugs, homeless people, street children, people with mental disabilities, and others deemed “undesirable” are forcibly detained in a so-called treatment centre in Vientiane, where they risk beatings and other abuse. Detainees are held without due process for periods of three months to more than a year. Some detainees protest their detention by attempting suicide.¹⁷³

¹⁶⁷ International Federation for Human Rights, 2012.

¹⁶⁸ Dizard et al., 2012.

¹⁶⁹ Freedom House, 2013.

¹⁷⁰ Amnesty International, 2013.

¹⁷¹ Freedom House, 2013.

¹⁷² Ibid.

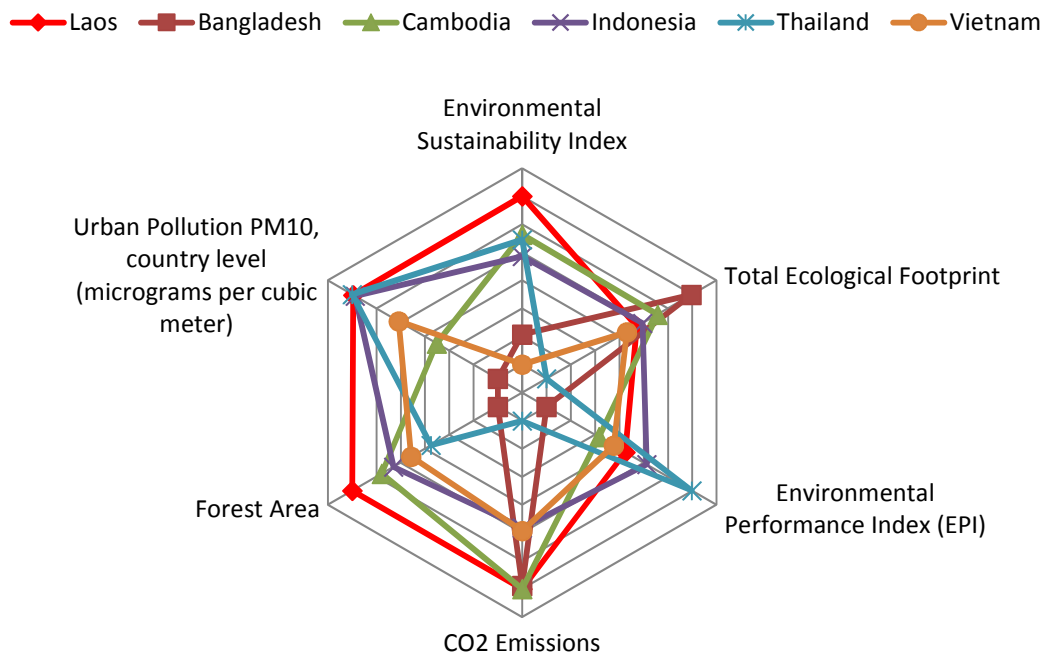
¹⁷³ Human Rights Watch, 2011.

Key Indicators

Ratification of Human Rights Conventions	As of December 2014	
<p>It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.</p> <p>Source: United Nations Treaty Collection (UNTC), Multilateral Treaties Deposited with the Secretary General.</p>	<p>Lao PDR</p> <p>Bangladesh</p> <p>Cambodia</p> <p>Indonesia</p> <p>Thailand</p> <p>Vietnam</p>	<p>9</p> <p>8</p> <p>9</p> <p>8</p> <p>8</p> <p>8</p> <p>Number of Conventions ratified out of 9.</p>
Ratification of fundamental ILO Conventions	As of December 2014	
<p>It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).</p> <p>Source: ILO.</p>	<p>Lao PDR</p> <p>Bangladesh</p> <p>Cambodia</p> <p>Indonesia</p> <p>Thailand</p> <p>Vietnam</p>	<p>5</p> <p>7</p> <p>8</p> <p>8</p> <p>5</p> <p>5</p> <p>Number of Conventions ratified out of 8.</p>

5. Environmental elements

Indicators assessing environmental elements of an enabling environment for sustainable enterprises*



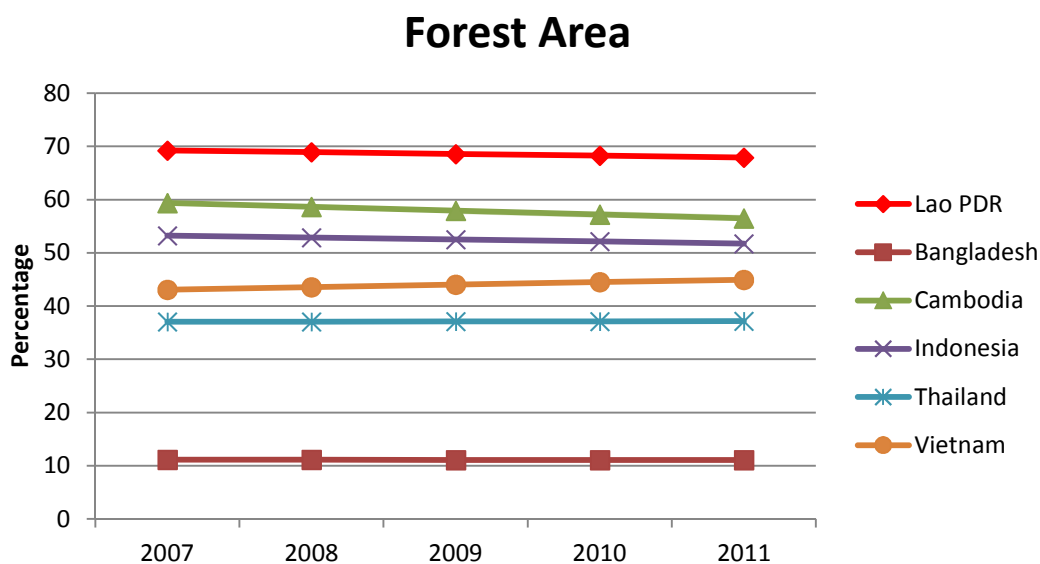
* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Lao PDR has a wealth of natural resources and is one of the most biodiversity-rich countries in the region. Natural resources have catalysed past economic growth throughout the country, playing a significant role in supporting rural livelihoods and contributing towards the national economy. However, unsustainable natural resource management practices are causing significant environmental damage, and have begun to reverse this favourable situation. Hydropower and mining development inevitably have environmental implications. Deforestation is a pressing environmental concern.
- Overall, the country still performs relatively well in the area of environmental stewardship in comparison with other East-Asian countries. The Government is also engaged in developing and implementing comprehensive legal frameworks and governance structures to support sustainable use of the nation's natural resources. However, the capacity of the various institutions to implement and enforce environmental regulations is weak.

5.1. Responsible stewardship of the environment

In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. The development of sustainable enterprises and the protection of the environment require sustainable production and consumption patterns. Lao PDR has a wealth of natural resources: forest cover that is substantially higher than in surrounding countries; the largest per capita volume of (internal) renewable water resources in the region; and considerable mineral resources, such as gold, lignite and copper. Lao PDR is also one of the most biodiversity-rich countries in the region. These natural resources have catalysed past economic growth throughout the country, playing a significant role in supporting rural livelihoods and contributing towards the national economy. However, unsustainable natural resource management practices are causing significant environmental damage, and have begun to reverse this favourable situation.¹⁷⁴

A number of threats undermine the responsible stewardship of the environment. For example, deforestation is a pressing environmental concern, as forest cover has dramatically declined over the last 50 years. Just within the period between 2007-2010, the “Forest Area” as a percentage of land area in Lao PDR declined from 69.3 per cent to 67.9 per cent. Although Lao law prohibits timber trade, flourishing trade in illegal timber between Vietnam and Laos continues unabated. Illegal logging threatens forest cover as well as the livelihood of 4.2 million of the Lao rural population who depend on the forests. Even the rich biodiversity of the country is under threat. Agricultural land is also compromised due to the large areas of land rendered unusable by the presence of cluster munitions and unexploded ordnance. Other challenges result from insufficient managing of waste and chemicals from plants, leading to problems for both the people situated around the plants as well as reduction in fish stocks.¹⁷⁵ Furthermore, rapid urbanization, increasing industrial pollution and highway construction are imposing stresses on the urban environment.¹⁷⁶



Source: World Bank, World Development Indicators.

¹⁷⁴ World Bank, n.d.

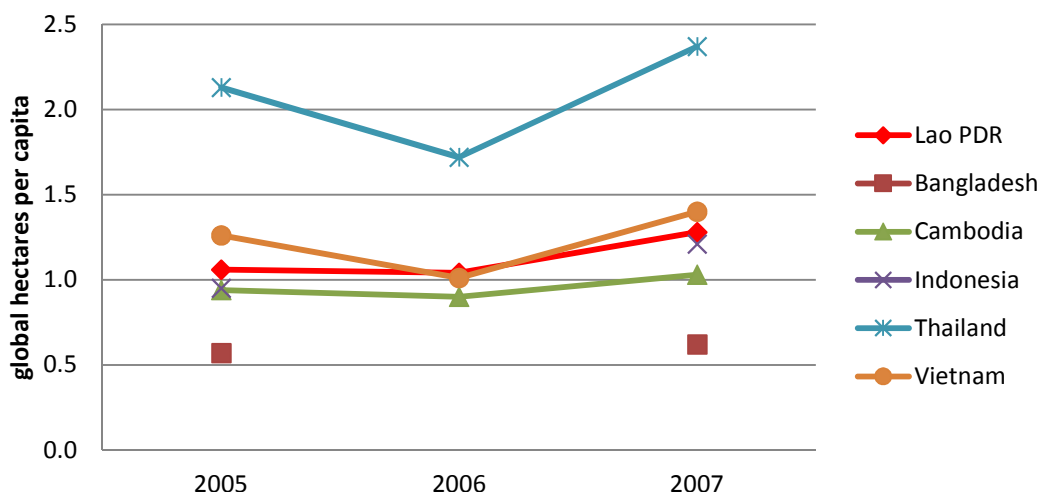
¹⁷⁵ Mukherjee, 2013.

¹⁷⁶ World Bank, n.d.

Hydropower and mining are expected to contribute more than 25 per cent of GDP by 2020, and the combined revenues from those two sectors should grow by more than 20 per cent by that time.¹⁷⁷ However, their development inevitably have environmental implications at the local level. Some effects occur only during the construction phase, whereas others continue for the duration of the project. These negative effects also extend downstream, as in the case of: the reduced variation in the amount of water between the wet and the dry seasons; the reduced sedimentation load downstream; the risk that water becomes more polluted by the mine tailings; and the impact on fish composition and abundance and fish migration routes. Despite the mentioned threats, mining and hydropower projects can also create opportunities for environmental conservation.¹⁷⁸ Only in Lao PDR, there are nine proposed dams along the Mekong river. As the rural population rely on the wild fish stocks and small subsistence farming, concerns that the hydropower projects would impact the food security of the communities living in the area as well as create negative environmental impacts are emerging.¹⁷⁹

Overall, secondary data shows that Lao PDR compares relatively well in the area of environmental stewardship. The “Environmental Performance Index” is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. The higher the score, the better positioned is a country to maintain favourable environmental conditions into the future. Lao PDR records a score of 40.4 in 2012, which is higher than those registered by Bangladesh, Cambodia and Vietnam. However, Indonesia and Thailand record better values in the same year, respectively 44.4 and 52.8. Considering the “Total Ecological Footprint”, where lower values indicate better performance, Lao PDR’s economic development comes at the cost of environmental sustainability, moving from 1.1 to 1.3 between 2005 and 2007. Of the compared countries, Thailand and Vietnam recorded higher scores and thus, worse conditions than those in Lao PDR. Contrarily, Bangladesh, Cambodia and Indonesia registered lower values, hence a better performance. In terms of air pollution, Lao PDR has the lowest level of “CO2 Emissions” per capita among the countries compared (together with Cambodia), while the amount of “Urban Pollution PM10” is consistently the second-best after Thailand over the period 2007-2011.

Titolo Total Ecological Footprint



Source: Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC).

¹⁷⁷ USAID, 2013.

¹⁷⁸ World Bank, 2010.

¹⁷⁹ Mukherjee, 2013.

The Government is well along in its race to develop and implement comprehensive legal frameworks and governance structures to support sustainable use of the nation's natural resources. However, significant gaps remain, especially at local levels where implementation of pro-community provisions and programs depends on the capacity of local officials.¹⁸⁰ A number of institutions, from the national to the district level, are responsible for environmental management in Lao PDR. A wide array of regulations for environmental conservation and protection exist, and the Environmental Protection Law (1999), supported by its Implementing Decree (2002), is the country's principal environmental legislation. However, the capacity of the various institutions to implement and enforce environmental regulations is weak. Capacity constraints at the local level, a lack of practical implementation guidelines, overlapping responsibilities, and insufficient or non-existent budgets contribute to poor implementation of existing rules and regulations. This process is also undermined by low awareness of the need for environmental protection among the general public.¹⁸¹

Key Indicators						
Environmental Performance Index (EPI) The 2014 Environmental Performance Index (EPI) is constructed through the calculation and aggregation of 20 indicators reflecting national-level environmental data. These indicators are combined into nine issue categories, each of which fit under one of two overarching objectives. The two objectives that provide the overarching structure of the 2014 EPI are Environmental Health and Ecosystem Vitality. Environmental Health measures the protection of human health from environmental harm. Ecosystem Vitality measures ecosystem protection and resource management. Source: Yale University's Yale Center for Environmental Law and Policy (YCELP) and Columbia University's Center for International Earth Science Information Network (CIESIN) .		2008	2009	2010	2011	2012
	Lao PDR	40.9	40.8	41.0	41.0	40.4
	Bangladesh	25.2	25.2	25.3	25.5	25.6
	Cambodia	35.0	35.3	35.6	35.6	35.4
	Indonesia	44.7	44.5	44.4	44.4	44.4
	Thailand	53.3	52.8	53.2	52.9	52.8
	Vietnam	36.6	36.8	37.5	38.0	38.2
Performance score from 0 to 100. The higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.						
Total Ecological Footprint (EFP) (global hectares per capita) The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and sea area an individual, a region, all of humanity, or a human activity requires to produce the resources it consumes and absorb the waste it generates, and compares this measurement to how much land and sea area is available. Source: Global Footprint Network , based on international data (UNSD, FAO, IEA, IPCC).		2005	2006	2007		
	Lao PDR	1.1	1.0	1.3		
	Bangladesh	0.6	-	0.6		
	Cambodia	0.9	0.9	1.0		
	Indonesia	1.0	-	1.2		
	Thailand	2.1	1.7	2.4		
	Vietnam	1.3	1.0	1.4		
Lower value=better performance.						
Other Useful Indicators						
CO2 Emissions (metric tonnes per capita) Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement.		2006	2007	2008	2009	2010
	Lao PDR	0.3	0.3	0.3	0.3	0.3
	Bangladesh	0.3	0.3	0.3	0.4	0.4

¹⁸⁰ USAID, 2013.

¹⁸¹ World Bank, n.d.

<p>They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.</p> <p>Source: Carbon Dioxide Information Analysis Center, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States (World Development Indicators Online).</p>	<table border="1"> <tr><td>Cambodia</td><td>0.2</td><td>0.3</td><td>0.3</td><td>0.3</td><td>0.3</td></tr> <tr><td>Indonesia</td><td>1.5</td><td>1.6</td><td>1.8</td><td>1.9</td><td>1.8</td></tr> <tr><td>Thailand</td><td>4.0</td><td>4.0</td><td>4.0</td><td>4.2</td><td>4.4</td></tr> <tr><td>Vietnam</td><td>1.2</td><td>1.3</td><td>1.5</td><td>1.6</td><td>1.7</td></tr> </table>	Cambodia	0.2	0.3	0.3	0.3	0.3	Indonesia	1.5	1.6	1.8	1.9	1.8	Thailand	4.0	4.0	4.0	4.2	4.4	Vietnam	1.2	1.3	1.5	1.6	1.7																		
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<p>Urban Pollution PM10, country level (micrograms per cubic meter)</p> <p>Particulate matter concentrations refer to fine suspended particulates less than 10 microns in diameter (PM10) that are capable of penetrating deep into the respiratory tract and causing significant health damage. Data for countries and aggregates for regions and income groups are urban-population weighted PM10 levels in residential areas of cities with more than 100,000 residents. The estimates represent the average annual exposure level of the average urban resident to outdoor particulate matter. The state of a country's technology and pollution controls is an important determinant of particulate matter concentrations.</p> <p>Source: World Bank Indicators online (World Development Indicators Online).</p>	<p>Metric tonnes of CO2 emitted per capita.</p> <table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> </tr> </thead> <tbody> <tr><td>Lao PDR</td><td>47.8</td><td>47.7</td><td>46.4</td><td>46.0</td><td>45.6</td></tr> <tr><td>Bangladesh</td><td>118.6</td><td>120.5</td><td>117.9</td><td>126.7</td><td>120.6</td></tr> <tr><td>Cambodia</td><td>71.5</td><td>72.6</td><td>72.4</td><td>86.9</td><td>89.0</td></tr> <tr><td>Indonesia</td><td>55.0</td><td>52.2</td><td>50.1</td><td>49.3</td><td>46.7</td></tr> <tr><td>Thailand</td><td>47.6</td><td>44.8</td><td>44.8</td><td>43.8</td><td>45.2</td></tr> <tr><td>Vietnam</td><td>72.7</td><td>72.4</td><td>69.7</td><td>68.6</td><td>69.3</td></tr> </tbody> </table> <p>Micrograms per cubic meter.</p>		2007	2008	2009	2010	2011	Lao PDR	47.8	47.7	46.4	46.0	45.6	Bangladesh	118.6	120.5	117.9	126.7	120.6	Cambodia	71.5	72.6	72.4	86.9	89.0	Indonesia	55.0	52.2	50.1	49.3	46.7	Thailand	47.6	44.8	44.8	43.8	45.2	Vietnam	72.7	72.4	69.7	68.6	69.3
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<p>Forest Area (% of land area)</p> <p>Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.</p> <p>Source: World Bank Indicators online (World Development Indicators Online).</p>	<table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> </tr> </thead> <tbody> <tr><td>Lao PDR</td><td>69.3</td><td>68.9</td><td>68.6</td><td>68.2</td><td>67.9</td></tr> <tr><td>Bangladesh</td><td>11.1</td><td>11.1</td><td>11.1</td><td>11.1</td><td>11.1</td></tr> <tr><td>Cambodia</td><td>59.3</td><td>58.6</td><td>57.9</td><td>57.2</td><td>56.5</td></tr> <tr><td>Indonesia</td><td>53.3</td><td>52.9</td><td>52.5</td><td>52.1</td><td>51.7</td></tr> <tr><td>Thailand</td><td>37.0</td><td>37.1</td><td>37.1</td><td>37.1</td><td>37.2</td></tr> <tr><td>Vietnam</td><td>43.1</td><td>43.6</td><td>44.0</td><td>44.5</td><td>45.0</td></tr> </tbody> </table> <p>% of total land area.</p>		2007	2008	2009	2010	2011	Lao PDR	69.3	68.9	68.6	68.2	67.9	Bangladesh	11.1	11.1	11.1	11.1	11.1	Cambodia	59.3	58.6	57.9	57.2	56.5	Indonesia	53.3	52.9	52.5	52.1	51.7	Thailand	37.0	37.1	37.1	37.1	37.2	Vietnam	43.1	43.6	44.0	44.5	45.0
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