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Small and Medium sized Enterprises (SMEs) Development Plan 2011-2015

I. Introduction

1.1 Role and importance of Small and Medium Sized Enterprises (SMEs)

Small and medium sized enterprises play a significant role for the socio-economic development, especially in the sectors of the production of commercial goods, the trade and services, and contribute to the employment creation, the generation of incomes, the raising of living standards of people and as well as the foundations of industrialisation and modernisation of the country, contributing to the sustainability of the economic. The development of SMEs not only requires low investment capital but also emphasizes on the use of local resources. In addition, SMEs can adapt themselves quickly under the ever changing environment, particularly the economic and financial crises.

Most countries in the world recognize the importance of the small and medium sized enterprises and have therefore focused on the promotion and development of these enterprises through the definition of policies, strategies and development plans specific to their promotion, and also through the establishment of mechanisms and the assignment of units which will be responsible to the SME promotion and development. The role and importance of the small and medium sized enterprises are clearly stated. Examples: in Japan, the small and medium sized enterprises represent 99,7% of the total number of enterprises, 70,2% of the labor force in the business sector, and 51,1% of the GDP within the country; In China, the small and medium sized enterprises represent 99% of the total number of enterprises and 75% of the labor force in the business sector.

In Lao PDR, based on the first national economic census done in 2006, the country counts a total of 126.913 enterprises, including 126.717 SMEs or equal to 99,8%. There are 196 large enterprises or equal to 0,2%. The number of labor force is totaling 345.138 people, including 286.575 people working for SMEs, or equal to 83,0%. The large enterprises are totaling 58.563 people, or equal to 17,0%. If a sector-based repartition is done, we will see that most of the SMEs belong to the business sector (including wholesale and retail trade and repair of motorcycles), which represents about 64,5%. Next is the industrial sector, representing 19%. The small and medium sized enterprises are mainly dispatched in the big cities. Most of them are located in Vientiane Capital (22,7%), Savannakhet province and Vientiane province, representing respectively 11,4% and 10,0%.

1.2 Promotion and development of small and medium sized enterprises in Lao PDR

After the Government has issued on 20 April 2004 the Prime Minister's Decree No.42/PM on the Promotion and Development of SMEs, the Small and Medium sized Enterprises' Promotion and Development Committee (SMEPDC) has then been established . It is chaired by the Minister of Industry and Handicrafts and became operational by the issuance of the Prime Minister's Decision No23/PM, 8 March 2005. In addition to SMEPDC, the SME Decree also provided for the establishment of the National Small and Medium sized Enterprises' Promotion and Development Office (SMECDO) which acts as the secretariat of SMEPDC, and

became operational by the virtue of the Minister of industry and handicrafts's Decision NO 374/MIH, 17 July 2005. The inaugural meeting has been held on 7 April 2006.

After going through some governmental reforms at the middle of 2006, particularly with the merge of some duties belonging to the Ministry of Industry and Handicrafts, and duties belonging to the Ministry of Commerce to form the Ministry of Industry and Commerce, the Government has therefore issued a Decree No. 66/PM, 5 February 2007 to establish the SMEs Promotion and Development Committee and National Productivity Council (SMEPDC) which is chaired by the Minister of Industry and Commerce, and is the result of the merge of the National Productivity Council which was established under the Decree No.268/PM, dated 27 July 2005, with SMEPDC, established itself under the Prime Minister's Decision No.23/PM, dated 8 March 2005.

The Prime Minister Decree No 42/PM, dated April 20 2004 has pointed 6 policy areas or directions to serve as references for the development of a strategy and action plan for the promotion and development of small and medium sized enterprises, as mentioned below:

- (1) Creating an enabling regulatory and administrative environment ;
- (2) Enhancing competitiveness ;
- (3) Expanding domestic and international markets ;
- (4) Improving access to finance ;
- (5) Encouraging and creating favorable conditions for establishing business organizations ;
- (6) Enhancing entrepreneurial attitude and characteristics within the society

In order to expand and apply the Government policies and realize its targets, the SME Promotion and Development Office (SMEPDO), has collaborated with all the stakeholders to create a strategy for the development of SMEs for the years 2006-2010, which comprises of 35 measures (big tasks) and 140 projects or activities. This strategy was then approved and became effective under the Decree NO. 157/PM, dated 9 September 2008.

II. Summary on the implementation of the SMEs' Development Strategy for 2006-2010

Under the directions of the Small and Medium sized Enterprises and National Productivity Committee (SMEPC) and directions given by the Ministry of Industry and Commerce, SMEPDO has performed its duties as a coordinator for all the tasks related to the SMEs' promotion and development especially to raise funds and provide technical support for the implementation of the SMEs' Development strategy for 2006-2010 and the monitoring and evaluation of its implementation.

As this is a national strategy which covers the agenda of many sectors working on the promotion and development of SMEs (vertical and horizontal line), the implementation of the diverse measures and projects mentioned in this strategy is then different from each other. Some of the measures and projects have been implemented through the technical assistance obtained under the frame of the SMEs' Development strategy, but most of the measures and projects are implemented by the relevant sectors which perform their duties and use the budget allocated to each sector. However, the implementation of all the measures and projects

mentioned in the SMEs' development strategy contribute directly and indirectly to the promotion and the development of SMEs, which global progress can be summarized as follows:

2.1 Achievements regarding the implementation of the SMEs' Development Strategy based on the 6 policy areas

2.1.1 Creating an enabling regulatory and administrative environment

In order to create an enabling environment for the establishment and operation of businesses, a focus has been made these past 3 years on studying, researching and improving 3 main points as defined below:

(1) Improvement of the business registration system

The Ministry of Industry and Commerce and its stakeholders have improved the business registration system based on the new Law on enterprises, which also includes the creation of a list of controlled businesses. The Government had issued a Decree No. 68/PM, dated April 28 2008 regarding the approval of the list of controlled businesses. In parallel, the Enterprise Registration Offices have been subject to a number of improvements, like the provision of necessary office equipment for the offices located at the central level and in 9 provinces, as follows: Vientiane Capital, Houaphanh, Xiengkhouang, Luang Prabang, Vientiane, Bolikhamxay, Khammouane, Savannakhet and Champassak. For some of these provinces, an internet connection has also been provided to facilitate the transfer of information regarding the business license registration into the comprehensive data base located at the central level.

(2) Improvement of the system for issuing the business licenses

A survey has been done regarding the enterprise registration procedures and direct and indirect business compliance costs borne by the business units for requesting various permissions to run a business conformly to the Law. In addition, the costs borne by the Government for the enforcement of the related regulations and legislations have also been studied. The information gathered from this study will be used for the research and creation of norms and mechanisms to use for the review of the positive and negative impacts of the current system for issuing authorization documents and the creation of a new system to make the regulations and the procedure be more focused, concise, expedient and faster, focusing on the reduction of negative impacts, impeding to the business units' operations.

(3) Creation and development of a consultation platform between the Government and the business sector at the provincial level

Complementary to the Public and Private sectors' consultation platform existing at the central level and under the framework of the Lao business forum, some more initiatives in creating and developing consultation platforms between the public and business sectors have been taken at the provincial level, in 4 pilot provinces. In addition, a number of manuals have also been created to serve as reference for the implementation.

2.1.2 Enhancing the competitiveness

In order to have small and medium sized enterprises make some self improvements and be capable of competing in the domestic, regional and international markets, the related departments have provided some support to these enterprises through many different ways,

such as by creating and enhancing the capacities in managing businesses for the entrepreneurs belonging to different sectors, by promoting the increase of productivity and services. In addition, the units, organizations, centres, institutes, consulting companies, business associations and various organizations providing business development service (Business Development Service or BDS) have seen their capacities strengthened in many different ways, such as: the provision of information, the organization of training sessions, counselling services (accounting, finance, law, marketing, design, technology and others) , the reinforcement of labor skills, the organization of study tours within the country and abroad, distance learning by satellite and others. Up to now, 200 training sessions have been organized, counting 3.000 participants, 200 trainers have also been formed, business analyses have been done for 30 business units, 6 productivity model companies/factories have been created, 6 productivity promotion experts have been trained , and an IT room with internet access has been set up for the Small and Medium sized enterprise promotion and development office and is now ready to provide services to the SMEs, the translation and printing of documents and technical handbooks on the productivity improvement, such as: flyers, the “5 s” handbooks and others, totaling more than 2.500 units have also been done.

In parallel, some technical methods have been used for the promotion of the competitiveness for the small and medium sized enterprises: the promotion of the business groups formation for the wood processing businesses, the jewelry and accessory business groups, the utilization of the value chain approach for the promotion of the agricultural processing industry, such as: teck, organic coffee, mulberry paper, bamboo and others.

2.1.3 Expanding the domestic and international markets

To promote the products and services produced by the SMEs, more business information has been disseminated to the SMEs, like the compilation and provision of information regarding the policies, the business supporting services, the business license registration system and the Government regulations. In parallel, some research and promotion of the “One District One Product” procedure have also been done, and support provided for the creation of conditions for the SMEs to be able to provide procurement services to the Government, the large enterprises and foreign investment projects.

2.1.4 Improving the access to finance

In order to create favorable conditions for the small and medium sized enterprises to access to various sources of funding, the Government has studied many existing forms of financial services and developed a regulatory framework to enable the provision of more credits to the SMEs, which the following concrete actions: the transformation the Lao Development Bank into a bank focusing on providing credits to SMEs, followed by the improvement and issuance of a number of laws related to the economic sector and focusing on the small and medium sized enterprises, such as: the Law on secured transactions, the Law on commercial banks and others. In parallel, some conditions have been developed regarding the loans approval which doesn't rely on a guarantee by assets, particularly by improving the Decree on financial leasing dated 1999, to provide leasing services for the purchase of machinery, transportation, production equipment and others.

In parallel to the studies made on the different forms of credits provided to the SMEs, some other studies have also been done to find new technical assistance routes for these enterprises with the management of loans, the creation of business plans, the reinforcement of

accounting and financial reporting skills through training and seminars. Moreover, some studies and preparation work have also been undertaken for the establishment of the SMEs promotion and development fund, *and the draft of the Prime Minister's Decree on the SMEs Promotion and Development Fund is now completed*, the initial funding sources have been identified as well as the future action plan for the establishment of these funds and now ready to implement them quickly. In addition, some micro finance institutions have been established, and village development funds or village banks have been set up in the whole country to support SMEs in rural areas to access to more finance.

2.1.5 Encouragement and creation of favorable conditions for the establishment of business organizations

The capacities of business organizations have been strengthened to make them capable of representing their rights and profits with quality, providing services and support to their members and also playing a coordination role between the Government and the business sector efficiently. A Prime Minister's Decree on the establishment and operations of the business organizations has been drafted in order to get a mutual agreement on the establishment and operations of those organizations nationwide. Now, the establishment of the provincial Chambers of commerce and industry in the 14 provinces has been achieved, the training manuals for the establishment and management of the business organizations have been completed, and some training sessions have been conducted for these associations at the local level.

2.1.6 Enhancement of the entrepreneurial attitude and characteristics within the Society

In order to build an appropriate business culture within the society, the Ministry of Education has made some researches which resulted in the development of a number of business books that will be included into the common education curriculum. Now the tests made on the teaching material in some elementary schools have been completed and included into the education system of these elementary schools already. In addition, the dissemination of the meaning and importance of the business sector for the national economy has also been done in order to build an appropriate vision of the Government sector towards the business sector, by considering the business sector as a development partner, by recognizing that business activities (and business in general) are also honorable jobs in the society and that the business sector should comprises of quality and professional entrepreneurs showing honesty with the customers and authorities and being creative and accountable to the society and the environment. In parallel, a business plan contest has also been organized for the youth, the graduated students and almost graduated students in order to stimulate the new generation to see the importance of owning a business, and change their mind from "learning to be an employee" attitude to the "learning to create an independent business" attitude.

A number of teaching manuals have been developed and translated into Lao to use for the training of entrepreneurs and for other activities related to SMEs, such as: the manual for the new entrepreneurs (Start Your Business or SYB), 1,500 samples of "Get ahead for the women entrepreneurs" manual (Get Ahead), 300 samples of "The formation of business

groups” manual, “the Management of Small Business Associations” manual : 1.400 sets, as well manuals for trainers: 250 samples and “Village bank” Manual: 1.000 samples.

2.1.7 Enhancement of the SMEs’ promotion and development at the central and local levels

In addition to the expansion and implementation of the 6 policy areas mentioned above, some additional measures have also been implemented focusing on strengthening the government’s work related to the facilitation and regulation of businesses, thus by enhancing the capacities of the Government officials in charge of the SME promotion and development work in each relevant sector, and create an understanding about the methods to promote the business sector in a market economy perspective and how to use the lessons learned and good practice from abroad.

A SMEs’ promotion and development network has been established at the central and local levels. At the central level, the relevant sectors have assigned a technical coordinator to support the work of the high ranking officers, members of the Committee for promoting and developing SMEs and the national productivity. At the provincial level, each Department of Industry and Commerce has assigned staff or a team to act as a coordinator for all the SMEs’ related activities. In parallel, to facilitate the implementation of these tasks, some computers have been provided to the provincial departments of Industry and Commerce, 1 set for each of the 17 provinces.

2.2 Raising cooperation from friendship countries and international organizations

The Decree No 42/PM, dated April 20, 2004, has been issued to raise up the assistance from the other friendship countries and international organizations, as the Government has defined a clear policy regarding the promotion of small and medium sized enterprises, i.e. the private business sector. In parallel, having a strategy for the development of small and medium sized enterprises made the fundraising and the raising of technical assistance be more focused and this strategy can be used for all the activities related to the promotion and development of small and medium sized enterprises in a systematic and continuous manner, whether it is through a direct promotion of the small and medium sized enterprises through training, counselling and others, or indirect promotion as well through the improvement of the business environment, the creation of more concised, easier and faster regulations and procedures for the management and monitoring of the Government focusing on the reduction of the production costs and the services to the enterprises. The successful collaborations with other countries and international organizations in the past period were as follows:

2.2.1 United Nations Industrial Development Organization (UNIDO)

UNIDO, which received some financial support from the Government of South Korea, has provided 200.000 Dollars to support the creation of the policy (Decree No 42/PM) on the SMEs’ promotion and development and the reinforcement of the capacities of the SMEs promotion and development office. In addition, UNIDO has also provided 150.000 Dollars for the collaboration with the Government of India in implementing the project for promoting the creation of new enterprises and development of entrepreneurs.

2.2.2 The German Technical Cooperation (GTZ)

Under the framework of the Lao-German cooperation plan for the human resources development for the market economy (HRD-ME), phase 1 (2004-2007), GTZ has provided a grant for the SMEs' development of the amount of 1,25 million Euros, to implement the different tasks as listed here: the establishment and reinforcement of SMEPDO and related offices, the business survey done each two years to study and analyze the constraints encountered by SMEs, the evaluation of the impacts of the Government policies and measures effective at each period for the business sector and others.

For the second phase of the project (2008-2011), GTZ has provided assistance for the amount of 1 million Euros to support the implementation of the strategy for the SMEs' development in different fields: enhancing the capacities of the organizations responsible for the promotion and development of SMEs, enhancing the competitiveness, the creation and promotion of business organizations, promoting the roles and entrepreneurial attitudes of entrepreneurs within the society, monitoring and evaluating the implementation of the SMEs' development strategy and other activities.

2.2.3 International Labour Office (ILO)

Under the framework of ILO-ISED project (which is a regional project involving Laos, Vietnam and Cambodia, and of a value of 1,2 million US Dollars), ILO has supported Lao PDR in creating manuals to train entrepreneurs and organize training sessions about how to set up a new business. The ILO-Women's Entrepreneurship Development and Gender Equality (WEDGE) project above, which is now at its second phase, has also provided support in creating and printing training material for the entrepreneurs and the business associations and has also supported in the organization of Training Of Trainers as well.

2.2.4 Asian Development Bank (ADB)

The Asian Development Bank (ADB) has provided technical support for the amount of 700.000 US Dollars for the preparation of the private sector and SMEs' development plan, which was initially a macro modifiable loan action plan of a value of 10 million US Dollars to support the Government regular budget. Now, this plan has been subject to modifications and has been switched from a loan to a grant and has seen its amount increased, from 10 to 20 million US Dollars, which were divided into 2 quarters, the first quarter with the amount of 5 million US Dollars, has been transferred to the Government of Lao PDR at the beginning of 2008, and the second quarter, 15 million US Dollars, have been transferred to the Government of Lao PDR at the end of 2009.

In order to support the Government in the implementation of those conditions defined in the action plan above, ADB has also provided a technical grant for the amount of 550.000 US Dollars to implement the following tasks: the improvement of the business registration system, the analysis of the costs related to the issuance of licenses, as well as the improvement of the license issuance system for the future licenses, the enhancement of activities related to the foreign trade policies and the improvement of the work related to the import and export activities to facilitate trade.

2.2.5 European Union (EU)

In order to support the Government of Lao PDR implement the conditions defined for the private sector and SMEs' development which the Government has created in partnership with the Asian Development Bank (ADB), the European Union (EU) has provided some technical experts (amounting 3 million Euros for a period of 3 years : 2008-2010) to support the implementation of the different activities, such as: the improvement of the business registration, the dissemination and monitoring of the implementation of the Law on enterprises, the enhancement of the accounting and financial reporting skills to ensure the implementation of the Accounting Law, the improvement of the credit information data base, the enhancement of the capacities of SMEPDO and others.

2.2.6 SNV Netherlands Development Organization

The development organization of the Netherlands (SNV) is an organization which provided support to the development of small and medium sized enterprises at the local level. It has provided national and international experts to support the local organizations in Luang Prabang and Savannakhet provinces (2 experts per province), and plans to expand its assistance to Houaphanh and other provinces, to support the provincial departments of industry and commerce in elaborating plans for the promotion of commercial goods production, such as: the promotion of cotton and fabrics, the production of mulberry paper, bamboo processing and others.

2.2.7 IFC-MPDF

The IFC-MPDF has provided some support by creating a list of the types of businesses to be controlled, to serve as a basis for the registration of businesses based on the law on the new enterprises, this in order to create favorable conditions for the registration of businesses.

2.2.8 CIM Organisation

CIM organization is an organization which provides experts to German international cooperation projects. It has already provided volunteer experts as multi-sector consultants in order to assist in promoting and developing SMEs, such as to establish a monitoring and evaluating system for the implementation of the development strategy of the SMEs 2006-2010, to create a BDS Providers' Network and others.

2.2.9 The Asian Productivity Organisation (APO)

In order to be able to be a member of APO, Lao PDR has many commitments to stick to such as to pay for the membership fees (3,000 dollars in 2003, 5,000 dollars per year from 2004-2008 and 10,000 dollars per year since 2009), the charges for the organisation of international meetings, seminars and trainings in Lao PDR, and needs to be host country at least once a year. However, Lao PDR benefits a lot from those cooperations, in the public sector as well as in the private sector. The main benefits can be seen in the form of human resource development, the transfer of knowledge, new techniques and technologies through trainings, seminars, local and international study tours with more than 100 participants each time, the implementation of technical projects, such as the establishment of model companies and factories in terms of productivity and high productivity, but also other projects over 10 thousand dollars per year. Moreover, as a new member, Lao PDR benefits from projects for new members and can get the assistance from APO and other foundations too..

2.3 Some indicators on the preliminary benefits

The development of some directions or governmental policies regarding the promotion and the development of SMEs as mentioned in the decree number 42/PM, dated April 20th, 2004, especially by implementing the different measures and projects that are listed in the five-year SMEs' development strategy 2006-2010. Many improvements and changes have been done in many sectors that impact the business sector, even though some improvements or changes may be the fruits of other factors.

The improvements and changes that show preliminary benefits can be seen through the surveys conducted every two years among the different business units, as follow:

1. Business has improved from 49% in 2005 to 59% in 2007;
2. Starting business has become easier: In 2005 10 different documents were needed which represents 31%, as in 2007, only 10% remained;
3. Technical staff of the companies that have gone through trainings have improved from 36% in 2005 to 44% in 2007;
4. Management staff of the companies have gone through training from 62% in 2005 to 79% in 2007;
5. Governmental staff from central to local level have increased their knowledge, their understanding and their skills in promoting SMEs such as trainings under different subjects, business analysis, business surveys and others;
6. Staff have gradually change their way of thinking from supervision and control to facilitator and have seen the important role of the business sector, which enable mutual understanding between public and private sector for the good development of the country;
7. Governmental agencies, staff and the local population gradually start to use local products.

2.4 Obstacles and challenges during the implementation of the SME development strategy 2006-2010 and solutions

2.4.1 Obstacles and challenges

(1) Human resources

The limits of staff, whether it is quantitative or qualitative, is slowing and making difficult the extension and the implementation of governmental policies regarding the promotion and the development of SMEs, and thus cannot respond to the demand and the context at different time. New staff that are enrolled in the office for the promotion and the development of SMEs are shared by the allocated quota for the Ministry of Industry and

Commerce each year. Nonetheless, human resources are still limited, the new staff are young and freshly graduated and even though they have new knowledge, they still lack sufficient experience on the field, which need time, several long term training before being able to reach the requested criterias.

(2) Capital

The small amount of capital allocated by the Government of Lao PDR each year limits the operations of activities and most of them are relying strongly on external assistance. This has an impact on the strategy and the plan as they are mostly defined by the development partner. Therefore, some measures and projects cannot be operated for this reason. Moreover, the lack of financial independence leads to a confused implementation, especially for urgent matters.

(3) Coordination mechanism and cooperation from relevant sectors

SMEs promotion and development mechanisms, especially at the level of SMEPDC, are not completely working at a full scale. Committee boards are not able to join meetings or provide continuous directives. Relevant sectors and local authorities are lacking sufficient experience to be able to implement methodology and measures that are listed in the SMEs development plan strategy. Vertical coordination with local authorities will be mainly done by the Provincial departments of Industry and Commerce, even though the number of staff which have knowledge on SMEs is still limited.

2.4.2 Solutions

First of all, we will base our document on the decree on the promotion and the development of SMEs number 42/PM, dated April 20th, 2004 as a reference for the implementation and as a legal document, as it is the case in many countries such as: China, Japan, Thailand, and others. In addition, the Ministry of Industry and Commerce has requested the government to agree on the official use of this decree and develop it into a law by 2010. Here are the proposed changes and improvements as follows:

(1) Human resources

The government shall provide sufficient quantity of human resources that is needed in the SMEPDO as it is a newly created office but requests that are sent to the office are numerous. Therefore, the government shall consider increasing quotas of civil servants for the office without taking them into account in the quotas of the Ministry of Industry and Commerce. In addition, strengthening the knowledge and the skills of the staff working in the SMEs promotion and development office and other relevant parties in order to be able to accompany and assist new SMEs in an efficient way.

(2) Capital

A fund dedicated to the promotion and the development of SMEs is urgently needed in order to ensure a stable and continuous funding, accordingly to the policies and the directions to follow by the government, enabling the financing of the projects and other activities promoting and developing SMEs in all kind of forms. In addition, the government should provide sufficient budget on a continuous basis, together with low interest rate loans and/or grants from international organisations in order to create a context of independence to the SMEs promotion and development office, in managing budget and by preparing a budget plan for its own activities.

(3) Coordination mechanisms and cooperation from relevant sectors

There is a need to increase coordination and encourage all relevant parties at central and local level to cooperate in the implementation of the SMEs development plan, aiming at creating a friendly context to facilitate businesses, but also to increase the capacity of Lao SMEs to compete in a challenging free-zone market. In the future, great efforts should be put in expanding a network of SMEs to local areas, by creating a center or a regional/provincial office for the promotion and the development of SMEs. In addition, the dissemination of information on the methodology and the measures taken for the support of SMEs, so that the society understands and acts as an impulsion to development.

III. SMEs development plan 2011-2015

In order to continue the expansion of the roles of SMEs, which are part of the development of the country, employment pole, and an activity generating income for the population of all ethnic groups, but also the expansion of the directions and the socio-economic development of the Government of Lao PDR, the promotion of private sector, and to achieve 8 of the Millenium Development Goals, especially poverty eradication, and based on the lessons learnt from the implementation of the SMEs strategy development plan 2006-2010, the new plan for years 2011-2015 will continue to expand 6 directions and policy areas adopted by the government of Lao PDR, as listed in the decree number 42/PM, dated April 20th, 2004 but have been prioritized in order to fit the current situation at its best, especially to facilitate good conditions for Lao SMEs to enter competition with other regional and international companies like ASEAN in 2015. Therefore, this plan will focus on measures and projects that directly impact SMEs.

3.1 Vision, objectives and goals to reach

3.1.1 Vision

SMEs are essential parts of the development of a country, and can be included in the production and the exchange of goods at local and international markets, running business in a friendly context and an efficient support mechanism.

3.1.2 Objectives

The objectives are to create a friendly context and situation to run businesses and create good conditions for the improvement of SMEs to enable them to enter competition and be stable under a newly opened market.

3.1.3 Goals to reach

- The expansion rate of productivity of SMEs should be on average 15% per year;
- The expansion rate of SMEs business units should increase by 13% per year;
- The employment rate shall increase by 10% per year.
- The employment rate in SMEs shall comprise more than 85% of all business sector included.

3.2 Problems that may be obstacles to the SMEs development

Even if the Government has put a lot of efforts in solving problems that are obstacles to businesses in the past few years, many problems are still remaining and it might take time before all the problems can be solved, or improved. Several surveys and studies have shown that some problems and obstacles are still awaiting responses such as:

- (1) Limits in the feasibility of entering competition for many reasons: low technology level, lack of skilled staff, skills and competencies in management. Moreover, high charges in running a business and the risks that are linked to an unfriendly context are constraints that need to be solved;
- (2) Lack of unit and feasibility in providing assistance and business development services such as market information, standards and choices in technology, market opportunities, trainings, counselling and other services;
- (3) Limits in developing strong and various financial management and credit services such as long term credit for SMEs;
- (4) Limited knowledge on laws and regulations;
- (5) The continuity between business and production chain has not been developed and improved yet;
- (6) An unfriendly context that does not attract investors and businesses;
- (7) Lack of a good understanding of what is the definition of an economic market.

3.3 Methods and measures (directions and specific roles) for the development of SMEs 2011-2015

In order to reach the objectives of the SMEs development goals, especially by focusing on solving problems and obstacles that SMEs are facing as mentioned above, a focal plan has been prepared in order to develop SMEs in 2011-2015, as follow:

3.3.1 The improvement of the context of regulations and supervision of the government in business

- (1) The improvement of business registration;
- (2) The improvement of the licence issue;
- (3) The improvement of discussions between public and private sectors.

3.3.2 Improvement of the funding of SMEs

- (1) To increase the validity of the implementation of the economic laws;
- (2) To strengthen banks and financial institutions including microfinance
- (3) To increase variety of financial products and services for SMEs;
- (4) To increase the skills of entrepreneurs in designing feasible business plan, accounting, financial and activities report;
- (5) To provide sources of funding to banks in order to create good conditions for credit network and stabilize banks situation;
- (6) To strengthen promoting and development fund for SMEs.

3.3.3 Building new entrepreneurs

- (1) To continue creating new entrepreneurs and incorporate this in common education system, vocational education and high level education;
- (2) To encourage younger generation and students to interest themselves in working in business through various projects and activities;
- (3) To establish a business center in order to have a pool of expertise in business management and the use of technology before entering the competition market;
- (4) To train people whoever are interested in starting a new business;
- (5) To encourage more women to start business;
- (6) To promote franchising businesses.

3.3.4 Increase assistance and business development service

- (1) To strengthen organisations that have the role of assisting and providing business development service to public and private sectors;
- (2) To develop tools and new techniques in order to promote SMEs;
- (3) To create a database on organisations and experts that are specialized in various fields in order to provide assistance and technical services.

3.3.5 Increase business cooperation between large enterprise and SMEs

- (1) To create a database on business opportunities that may occur with the investment of large companies for SMEs;
- (2) To create mechanisms in order to facilitate cooperation between large companies and SMEs;
- (3) To research, define incentives for large companies to use local products and services of SMEs.

3.3.6 Promoting the increase of productivity in order to upgrade quality and standards of products and the services of SMEs

- (1) To design a national plan in order to increase productivity within governmental affairs and business sector;
- (2) To increase the collaboration with APO in order to learn lessons and get funding for the promotion of productivity;
- (3) To use scientific tools in order to improve and increase the productivity in the management of the organisation, in public and private sector;
- (4) To establish a system and a unit in charge of certifying quality and standards.

3.3.7 Promoting access to market and extend market for SMEs

- (1) To create a database and provide information on business opportunities and market;

- (2) To research and define the different sectors, products and services of SMEs of Lao PDR that has superior and better capacity;
- (3) To support SMEs in participating to trade fairs and exhibitions in Lao PDR and abroad.;
- (4) To implement the facilitated implementation of commerce and export;
- (5) To promote value chain.

IV. Budget and sources of funding

4.1 Budget needs forecast

In order to successfully achieve the different measures and projects that are defined in the SMEs development strategy 2011-2015, a total of 464.705.000 US dollars are needed, with local funding reaching 6.115.000 US dollars and international funding 458.590.000 US dollars. The needed forecast budget is including the fund for financial institutes in order to get specific loans for SMEs in addition to the regular credits provided. This fund will serve as a promotion and develop fund for SMEs, but also as a guarantee. Moreover, this will be added to the governmental fund provided by the relevant sectors and parties in order to promote and develop SMEs according to the system already implemented (See details in the annex).

4.2 Sources of funding

Sources of funding are generally from Official development Assistance (ODA) from development partners in the form of grant or technical assistance etc, low interest rate loans. As for the regular budget allocated by the Government of Lao PDR, it is added in combination to the assistance of development partners in implementing SMEs promotion and development plan and some other measures and projects that are mentioned in the above-mentioned development plan for 2011-2015, which is usually not included in the strategies or assistance plans of the partner.

At the same time, fundraising from other businesses in the private sector or other SMEs in the form of “Let’s share our expenses” such as participating to trainings, study tours, attendance to exhibitions and trade fairs, etc. In some cases, funds can be obtained in large companies and financial institutes to finance activities such as: annual business plans contests, best entrepreneurs awards of the year, etc.

V. Measures on the implementation, monitoring, control and evaluation

In order to successfully implement the development plan of SMEs 2011-2015, the following measures have been defined:

5.1 Rules on the dissemination and implementation

5.1.1 Increase coordination

An efficient coordination is an important condition to successfully achieve the implementation of the SMEs development plan, as the promotion and the development of SMEs are directly linked to different sectors. Therefore, all relevant parties should cooperate in the implementation and mutually provide information on the progress achieved by using coordination mechanisms and act accordingly with the roles and responsibilities of each relevant parties as defined below. All this is done in order to work with focal points and prevent

from having some overlap and responsibility leakage while implementing the development plan.

5.1.2 Definition of sources of funding and funding repartition

Fund is the most important factor to decide whether the different measures and defined projects can be undertaken or not. Therefore, one must define the source of funding, fundraising, and fund distribution, which should include both external fundraising and governmental fund in order to achieve the goals of the implementation.

5.1.3 Use of the current structural organigram

During the implementation of SMEs development plan, one can use the original organigram without establishing a new one or a new mechanism, but one should upgrade the roles and responsibilities of each relevant party, either at central level or local level.

5.1.4 Increase of the participation of private sector and relevant parties

The implementation of SMEs development plan will be successful as long as it receives support and participation of business sector and other representatives of the business sector, as it will receive the impact directly from the governmental policy. Therefore, small and medium entrepreneurs and women are encouraged to participate to the establishment, the implementation, the monitoring and the evaluation of the development plan.

5.1.5 Integration of planning and other governmental plans

This plan has been established in order to achieve an objective and the ultimate goal of the country, which is why the government is closely linked in the strategy, the program and the overall planning. Therefore, a close cooperation is needed between private and public sector in order to implement the government's strategy, program and overall planning.

5.1.6 Clear repartition of responsibilities

A clear repartition of responsibilities and an efficient coordination are essential to the sole achievement of the SMEs development plan. All relevant parties shall understand each other regarding the vision and the methodology used for the future promotion and development of the SMEs.

5.1.7 Improvement for appropriateness

This plan has been designed as an overall preliminary direction to follow for SMEs from 2011-2015. Therefore, during the implementation, some improvement shall be made to be adapted to the situation and the readiness at each step, based on discussions with the relevant governmental units, business sector and other partners.

5.2 Coordination mechanisms and implementation

In order to expand and implement the SMEs development strategy plan, as mentioned in the decree number 42/PM, dated April 20th, 2004, and especially the SMEs development plan, all parties shall highly work according to their respective roles in terms of promotion and development of SMEs.

5.2.1 Governmental offices

The government cabinet has an essential role in compiling information on the implementation progress, report and provide directions to follow from the governmental committee in order to monitor the continuous implementation and monitoring.

5.2.2 The SMEs' promotion and development and national productivity Committee (SMEPDC)

Committees for SMEs promotion, development and the national productivity, based on the decree number 42/PM, dated April 20th 2004, serve as direct councillors for the government on the different policies of SMEs. Therefore, it is viewed as appropriate as it will be able to implement, and periodically report of the implementation at each level..

5.2.3 SMEPDO staff

The SMEs promotion and development Office standing Committee is selected by the SMEs promotion and development and National Productivity Council Board Committee, and is in charge of managing and providing directions to the SME promotion and development office. Therefore, it has for duty to provide guidance to SMEPDO in coordinating, monitoring, inspecting, evaluating and reporting the progress of the implementation of this SMEs development plan.

5.2.4 Ministry of Industry and Commerce

The SMEs promotion and development office (SMEPDO) is established based on the decree number 42/PM, dated April 20th, 2004 as an organisation in charge of managing experts, and is equivalent to a department under the supervision of the Ministry and Industry and Commerce. Therefore, even if SMEPDC has, as a role and duty, to promote and develop SMEs, the Ministry of Industry and Commerce has to closely monitor the promotion and the development of SMEs in order to achieve the goals and objective fixed, with the following roles:

- To integrate the SMEs development plan to the overall program and strategy of the Ministry of Industry and Commerce and national strategy plans such as the Socio-economic development plan, the National Growth and Poverty Eradication plan and others;
- To coordinate with other ministries, central level agencies, provincial departments in the participation of the implementation of this development plan;
- To promote fundraising from different sources in order to be able to implement the various measures, projects, and other activities that have been fixed.

5.2.5 SMEs Promotion and Development Office (SMEPDO)

SMEPDO as a Secretariat for the committee board for SMEs promotion and development and national productivity, is acting as an important focal point, with the following duties:

- To broadly disseminate the SMEs development plan to all relevant parties, including high ranking officials from ministries and local administration, business sector, and other development partners so they can get and understand the message;

- To raise funds from different sources in order to implement measures, projects and activities that have been mentioned in this development plan;
- To coordinate and promote the relevant units at central and local level for the implementation of this development plan;
- To monitor, control, evaluate and report the progress achieved during the implementation of the development plan on a regular basis.

5.2.6 Business sector/Business associations

Members of SMEPDC are for most of them part of the business sector, which are representatives of business associations or business groups. Therefore, business sector/business association has important roles to play and has participation to the implementation of the SMEs promotion and development, especially by discussing real issues and the reflection of the impacts on measures and various projects.

5.2.7 Banks and financial institutions

Banks and financial institutions, including microfinance and other development partners, whether it is a governmental agency or a representative from the private sector are important actors especially in providing funds and services to SMEs. Therefore, their duty is to collect all relevant measures to be included in their strategy and plan in order to implement the development plan in a fruitful manner.

5.2.8 Development partners or friendship countries and international organisations

Development partners are also important actors for the funding and the technical knowledge in order to establish new policies, strategies, and other measures in order to promote and develop SMEs in Lao PDR in the past years. The government of Lao PDR has expressed great gratitude for the support that has been provided so far and for the future support that will be given, either it is financial support or technical support. Therefore, all development partners should consider and define a precise area of action for the different measures according to their skills and competencies in future cooperation and should increase coordination, enabling more focused and systemized assistance to SMEs in order to achieve success as forecast.

5.2.9 Ministries, departments and other relevant organisations at central and local levels

Ministries, departments and all other relevant parties at central and local level are responsible for the implementation of the SMEs promotion and development plan accordingly to their roles and duties as both are closely linked. Beside the fact that they should include all measures and projects within their programs, the different sectors shall provide the necessary cooperation for the monitoring and the evaluation of the implementation at every step, so that SMEPDO can do its job as a coordinator and report on the progress to the decisionmakers for any recommendations and directions to follow on a continuous basis.

5.3 Monitoring, control, evaluation and reporting

Effective monitoring, control, evaluation and reporting are warrant of a good implementation of the SMEs development plan as one can follow up on the progress made, understand the strengths and difficulties faced, but also the impacts in order to inform decision makers so they can provide appropriate assistance while needed. Monitoring and evaluation shall be done at

two levels: monitoring and evaluation of the implementation and monitoring and evaluation of the impacts. A monitoring and evaluation system has been developed in order to follow up on the implementation of projects and strategies for 2006-2010, and shall be used with the assistance of relevant actors such as development partners and SMEPDO.

SMEPDO will act as a focal point in compiling and reporting the progress achieved in implementing the SMEs promotion and development plan for 2011-2015 to the committee board and the committee of SMEs promotion and development and national productivity, the government and all other relevant parties on a regular basis. Besides the 3-months, 6-months and annual reports, the office shall make an annual report on “Situation of SMEs in Lao PDR” in order to disseminate information to a larger public.