

Study on Generating Employment through Micro and
Small Enterprise and Cooperative Development
in Lao PDR

by

Enterprise Development Consultants Co., Ltd.



International Labour Office
ILO Bangkok Area Office and East Asia Multidisciplinary
Advisory Team (ILO/BAO-EASMAT)

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Enterprise Development Consultants Co. Ltd.
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Foreword

Over the last several years the International Labour Organization (ILO) has given increasing attention to the role that small enterprises can play in alleviating poverty, building the foundations of an expanding private sector and creating decent work for greater numbers of people. In 1998, the International Labour Conference adopted a Recommendation on *General conditions for the promotion of job creation through small and medium-sized enterprises*. The key report by the ILO's Director-General, Juan Somavia, on the theme of *Decent Work* (ILO, 1999) similarly places high priority on the development of the small-scale enterprise sector as an important means for creating new employment opportunities. A renewed ILO internal programme was created on Boosting Employment through Small Enterprise Development (SEED) and this report is part of the range of the SEED Programme's global activities with special focus on the Asian region.

The ILO commissioned the present study of micro/small enterprises and cooperative enterprises in the Lao People's Democratic Republic so that key stakeholder agencies and groups could better understand this crucial sector, the constraints it still faces, and how best to promote its quantitative and qualitative development. The report reviews, compiles, and wherever possible, updates earlier available research and literature on the micro/small enterprise sector. It was conceived to give an initial broad overview and preliminary recommendations on how to help this sector generate increased employment.

The study was carried out for the ILO by Enterprise Development Consultants Co. Ltd., a local Lao firm with considerable research and training experience in the small enterprise sector. It was prepared with the support and technical supervision of ILO staff in Bangkok: the Senior Enterprise Development Specialist, Mr Max Iacono, with assistance from Ms Debra Perry, the Senior Specialist in Vocational Rehabilitation.

By placing this report in the hands of concerned stakeholders ILO hopes to create a useful springboard for future initiatives.

Ian Chambers
Director
ILO Area Office and
The East Asia Multidisciplinary Advisory Team
Bangkok

August 2002

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Towards the end of 2001 an ILO fact finding mission to Laos proposed to Enterprise Development Consultants (EDC) this study on generating employment through micro/ small enterprises and cooperatives.

The EDC team of consultants who carried out the study were:

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The team would like to express its sincere thanks to the following:

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Ms Souzie Albone, Education and Training Consultant

Mr Max Iacono would like to thank Mr Gerry Finnegan, ILO Gender Specialist for his comments and Mr Tim Dyce, ILO consultant for final editing of the report.

Abbreviations

ACAP Association of Cooperation for Persons with Disabilities Asia Pacific
ADB Asian Development Bank
APB Agricultural Promotion Bank
BAFIS Basic and Further Training for Target Group from Informal Sector
CCSP Credit Cooperative for Promotion of Small Producers
CFD Caisse Française du Développement
EU European Commission
FPA Family Planning Australia
GAA German Agro Action
GTZ Deutsche Gesellschaft für Technische Zusammenarbeit Gmb
HI Handicap International
IEP Integrated Education Programme (From 2000: Inclusive Education Programme)
JICA Japan International Cooperation Agency
JOVC Japanese Overseas Volunteer Cooperation
IFAD International Fund for Agricultural Development
ILO International Labour Organization
Lao PDR Lao People's Democratic Republic
LDPA Lao Disabled People's Association
LHWCA Lao Handicapped Women and Children's Association
LWU Lao Women's Union
MIH Ministry of Industry and Handicraft
MLSW Ministry of Labour and Social Welfare
MoH Ministry of Health
NCCI National Chamber of Commerce and Industry
NCHP National Committee for Handicapped Persons
NCMR National Centre for Medical Rehabilitation
NSC National Statistical Centre
SEDP (Lao-German) Small Enterprise Development Project
SEED Small Enterprise Development
Sida Swedish International Development Assistance
UNCDF United Nations Capital Development Fund
UNDP United Nations Development Programme
UNESCAP United Nations Economic and Social Commission for Asia and the Pacific
UNIDO United Nations International Development Organization.
VRF Village Revolving Funds

Notes:

- A few acronyms are not included here. These tend to be NGOs appearing only once in a composite list within the report.
- The Lao People's Democratic Republic or Lao PDR is the official name of the Lao State. For ease of reading it is referred to throughout the report as Laos.

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EXECUTIVE SUMMARY

THIS STUDY

Since the introduction of a market-oriented economy in the Lao People's Democratic Republic in 1986, the private sector in Laos has made significant strides in the generation of employment and increase in household income.

In the near and medium future it is through the micro/small enterprise sector that poverty alleviation and employment generation will be possible for the bulk of the Lao population.

Despite the limited research data available, it is now thought timely to learn from the work already done by the Lao Government and by local and international agencies, and to plan the interventions needed to strengthen the micro/small enterprise sector.

CHARACTERISTICS OF LAO MICRO/SMALL ENTERPRISES

The 1996 national survey showed that there were 146,000 micro/small enterprises employing the equivalent of 259,000 full time workers and accounting for 6 per cent to 9 per cent of GDP. This is over ten times the 22,000 that were employed by larger enterprises. The micro/small enterprise sector accounted for 86 per cent of rural and 13 per cent of urban employment.

From 1991 to 1995 new micro/small enterprises were born at an annual rate of 25 per cent. A "death rate" of 15 per cent meant average annual growth rate was 10 per cent and that 26,000 new jobs were created each year. At the same time existing businesses expanded at an annual rate of 5 per cent, accounting for 13,000 new jobs a year.

90 per cent of these are family businesses which tend to be multiple businesses. However they mainly provide supplementary rather than principal household income.

63 per cent are female-owned and account for 56 per cent of total employment in this sector. These however tended to be smaller and less mobile businesses than those that are male-owned.

As a result of recent economic changes there are now large numbers of first generation entrepreneurs. Many of today's entrepreneurs worked formerly for the government or for agriculture related enterprises owned by their families.

Specific ethnic groups have tended to dominate the micro/small enterprise sector. The Lao Sung predominate in rural areas, the Vietnamese and Chinese in urban areas and the Lao Lum and Lao Teung are strong in both urban and rural areas

OPPORTUNITIES AND CONSTRAINTS

Education and skills training

Education and skills development are insufficiently linked to market demand and there is a lack of integration of technical and business training. There are also ongoing problems with the basic quality and capacity building of teachers and trainers.

Access to credit

Credit through formal channels is not readily available for most micro and small entrepreneurs, mainly because limited funds are allocated by the banking system. There is therefore heavy reliance on informal credit channels with their onerous interest rates. Small scale credit and revolving fund schemes are the most promising means to overcome traditional shame around debt, especially for women and minority entrepreneurs, but many of these schemes are currently not sustainable.

Infrastructure and mobility

Rural enterprises are significantly disadvantaged in access to infrastructure, roads and electrical power. Only 16 per cent of roads are in good condition. Taxes and bureaucratic obstacles also impede the movement of goods within the country.

Government policy and legal framework.

The existing legal and policy framework favours large enterprises. To redress this balance a comprehensive legal framework, or a dedicated agency, are needed to support micro/small enterprise development and promotion. There is also no legal recognition or policy framework for cooperative or group enterprises. Poor access by all forms of small enterprise to finance, equipment, raw materials and business knowledge impedes their competitiveness, and a comprehensive response to these problems will be needed.

Gender-based inequalities

Traditional values must be respected but the application of those values in ways that prevent women from accessing skills training, credit and business development services, impedes the development of greater family income.

Obstacles to economic participation by people with disabilities

Some 362,420 people, 6.8 per cent of the population, have disabilities and are the ones most affected by limited education and skills training. Most support for them is focused on physical or medical rehabilitation, some on technical skills, but hardly anything on developing employment through micro/small enterprises. Inclusive Education Programmes and Community-Based Rehabilitation are successful, but time will be needed to achieve their sustainability and wider outreach.

SECTOR DEVELOPMENT PROGRAMS

Government Objectives

The Lao Government aims to reduce poverty through agriculture-related businesses and to target rural entrepreneurs, minorities, and family businesses. To assist this it is devolving responsibility for policy and implementation to local authorities.

The government is also emphasizing the promotion of cooperatives alongside the state economy. However, as already noted, there is no national policy or agency dedicated to development of micro/small enterprises or cooperatives as means of generating employment or improving living conditions.

National Agencies

The Lao Women's Union and the Lao Disabled Person's Association are the only national agencies supporting the participation of women and disabled persons in economic development.

International Agencies

Technical skill inputs, community-based projects and credit schemes are being provided by many international agencies, but these need coordination, sustainability and enhancement. The minimal business development services that exist are confined to certain target groups, sectors, locations or types of services.

SUGGESTED IMMEDIATE STEPS

Data

Either another comprehensive and expanded survey of the private sector, such as that of 1996, or else a co-ordinated programme of research into specific sub-sectors and micro/small enterprise issues should be conducted. There should also be coordination of the evaluations of future policies and programme interventions.

Inequalities

Gender-based inequalities need to be addressed in education and skills training. Barriers to participation by women entrepreneurs, including those based on traditional roles, values and customs, need to be sensitively examined.

The particular constraints faced by rural entrepreneurs need to be addressed, including access to skills and credit, and the obstacles to the movement of goods, people and information that are created by both bureaucratic barriers and poor infrastructure

Lack of support for the income-earning activities of women and men with disabilities and their families, needs to be addressed, including in the areas of skills training, physical access and social attitudes.

Cooperative Enterprises

New forms of cooperative enterprise should be encouraged to build on the Lao tradition of family businesses and respect for harmonious working relationships.

There is a need for consultation to develop a Lao cooperative model together with a clear definition of cooperatives in Laos and appropriate legislation and policy.

Policy and Regulation

A mechanism such as a national committee is needed to develop a policy and regulatory environment that is conducive for micro/small enterprises and cooperatives.

There is a related need to build capacity and awareness among all relevant government agencies about the implications of adopting a poverty focus and, in particular, of the relevance of micro/small enterprises in alleviating poverty.

Support Interventions

The existing approaches and mechanisms used by government and other agencies should be made more sensitive to gender, ethnicity, disability and rural disadvantage.

Initiatives to develop micro/small enterprises should have effective follow-up and monitoring systems and learn from both achievements and mistakes.

Local and international organizations should improve the delivery of Business Development Services (BDS).

The establishment of a BDS Centre could be considered and BDS outreach, using appropriate media and channels of communication, should be made available to micro/small enterprises unable to access a business development centre.

A business skills training programme suitable for micro/small enterprises such as the ILO SIYB Programme should be introduced.

The formation of business associations is another important means to help the sector take responsibility for its own development and to advocate for the needs of its members.

A comprehensive programme is needed to improve credit provision through the better mobilization of domestic funds through formal channels and better co-ordination and outreach through community-based channels.

SECTION ONE

INTRODUCTION

1. Background

In 1986 the Government of the Lao People's Democratic Republic adopted an open door market-oriented approach to the Lao economy. Since then there has been significant growth in the private sector and in particular among micro/small enterprises. These now dominate handicrafts, small-scale agricultural processing, timber production, textiles manufacturing, and trading.

A national Small and Medium Enterprises Survey published by the Ministry of Industry and Handicraft (MIH) and the German Development agency (GTZ) in 1996 estimated there were 146,000 micro/small enterprises, of which about 50 per cent were no larger than one person and only 7 per cent had paid employees.

These micro and small enterprises together with cooperative and group enterprises have the capacity to generate significant levels of employment. This is important because it has been difficult for Laos to attract investment for larger level enterprises, mainly as a result of the country's lack of trained personnel, the extent of bureaucratic red tape, and the fact that Laos is landlocked and so without direct access to seaports.

The 1996 MIH-GTZ survey estimated that approximately 55 per cent of micro/small enterprises close within four years. Specific impediments to growth include an unsupportive regulatory environment and the lack of access to credit, and to technical, and business skills. Local and international agencies working in this field continue to express concern at these obstacles¹ which are even more severe for sections of the population that are vulnerable to various kinds of inequalities, such as women entrepreneurs, marginalized rural groups, and women and men with disabilities.

Objectives

Specifically, the report:

- Brings together available data on the Lao micro/small enterprise sector to give an overview of the current status of the sector;
- Builds on the last comprehensive study, the 1996 MIH-GTZ survey, and reviews smaller studies and available literature on the sector with regard to size, geographical distribution, main economic sectors and sub-sectors, varieties of organization, and other factors such as gender, disability and rural location;
- Identifies the opportunities and constraints in developing micro/small enterprises and cooperatives, both in general terms and also with specific reference to minorities, gender, and disability;

¹ Expressed most recently by an ILO fact-finding mission to Laos, November 2001.

- Examines the plans and activities for micro/small enterprise development on the part of government, local and international agencies and identifies their strengths, weaknesses, and areas for further development;
- Recommends measures to develop micro/small and cooperative enterprises, as means for creating employment and generating income and in ways that are inclusive of groups that are in danger of being marginalized.

Methodology

There is very limited data available in fields relevant to this study. Nor did the study have the resources necessary to create a fresh database through comprehensive primary research.

Its basic statistical data is therefore drawn from the national survey of Small and Medium Enterprises in Lao PDR carried out in 1995 and published in 1996 by MIH-GTZ, which is referred to throughout as the 1996 MIH-GTZ survey. The data from more recent issue-specific studies has been added and final updates were provided through in-depth interviews with a range of concerned persons and organizations.

However it is strongly recommended that further primary research is undertaken, perhaps as part of initiatives that emerge from discussion of this paper. Such initiatives could include pilot projects and recommendations for new government policy and regulations.

Structure of the Paper

This report is divided into six sections:

1. *Introduction:* the report's background, purpose, and methodology.
2. *Micro and Small Enterprises:* the characteristics of Lao micro/small enterprises; their size, role and contribution to employment generation, household income and the national economy; the diversity of micro/small enterprises and factors such as rural context, female ownership, and disability.
3. *Cooperatives:* the current state of cooperatives in Laos.
4. *Opportunities and Constraints:* the sector's potential growth areas and limitations.
5. *Sector Development Programmes:* the activities, priorities and plans of government, and of international and local organizations.
6. *Conclusions and Recommendations:* a summary of the report's key findings together with recommendations to promote micro and small enterprises and ensure integration of the rural, disability, and gender dimensions of the sector.

SECTION TWO

MICRO AND SMALL ENTERPRISES

This section defines micro/small enterprises and reviews their general characteristics including size and sectoral composition. It reviews the contribution of micro/small enterprises to employment creation, household income, and the national economy. It then looks at rural entrepreneurs, women entrepreneurs and entrepreneurs with disabilities.

2.1 Definitions

Proper targeting of development programmes requires a clear and accepted set of definitions. However definitions of micro/small enterprises can change from one place to another and one time to another, according to the different socio-economic conditions that apply or to the different purposes for which the definition is designed.

A distinction is made between qualitative and quantitative definitions of small enterprises.² Quantitative definitions use the criteria of number of workers or volume of sales, or a combination of both. These simple measures are commonly used by developing countries and are useful for programmes that focus on employment creation.³ However they can be inaccurate, because of the seasonal nature of small enterprise employment and the extensive use of part-time workers and unpaid family labour.

Qualitative definitions are more flexible and relate to how enterprises differ in aspects of business development -- such as financial development, and technical or managerial capacity. For example, if an enterprise has one to two persons responsible for managerial decisions it will usually be defined as small-scale. Qualitative definitions distinguish between different kinds of business and are more widely used in industrialised countries.⁴

There is no agreed definition in Laos for different sizes of enterprises in different sectors.

1. The Ministry of Industry and Handicraft (MIH) uses a quantitative definition: i.e. the number of people employed. The definitions used in 1996 by MIH and in the MIH-GTZ survey of that year were: *Small*: between 1 and 9 workers; *Medium*: between 10 and 29 workers; and *Large*: 30 or more workers.
2. In 2000 the Ministry of Industry and Handicraft changed its definition when it gave definitions for factories in the processing industry.⁵ These were: *Small*: 10 to 50 workers, or 10 to 50 horsepower, *Medium*: 51 to 200 workers, or 51 to 200 horsepower, *Large*: more than 200 workers, or 200 horsepower.
3. Also in 2000 the National Statistical Centre noted a new definition by the Ministry of Industry and Handicraft which has become the one most commonly used by practitioners and academics working with micro/small enterprises in Laos: *Small*

² Harper, M., *Small Business in the Third World: guidelines for practical assistance*, 1984.

³ *ibid.*

⁴ *ibid.*

⁵ Ministry of Industry and Handicraft, *Law for Processing Industry*, 2000.

between 1 and 9 workers; *Medium*: between 10 and 99 workers and *Large*: more than 99 workers.⁶

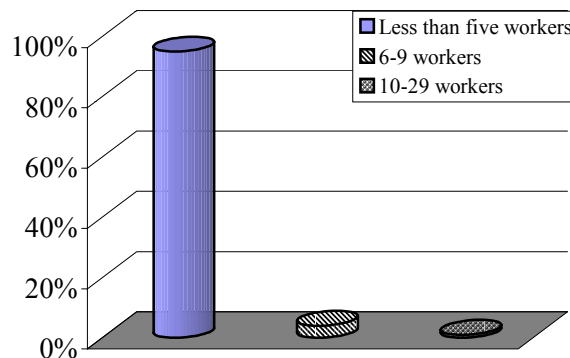
4. With its focus on micro/small enterprises, this study adapted the definitions used by the MIH-GTZ 1996 survey⁷ so that *Micro* would describe enterprises between 1 and 9 workers; and *Small* those between 10 and 29 workers. While this enables the report to draw on the 1996 survey data -- the only comprehensive data available -- it should be noted that enterprises as large as 5 to 9 workers would not normally be regarded as micro-enterprises. However the bulk of the Lao enterprises described as *Micro* do seem to fit within international quantitative definitions of *Micro*.

2.2 General Characteristics

2.2.1 Size and Composition of Micro/Small Enterprise Sectors

The 1996 MIH-GTZ survey conducted under the SEDP project⁸ records 146,000 micro/small enterprises in Laos, the vast majority of which are very small. Nearly 50 per cent consist of just one person, the owner, and 95 per cent have fewer than five workers. Small-sized enterprises, those with 10 to 29 workers, account for less than 1 per cent of the total.

Figure 1. Percentage of micro/small enterprises with different numbers of workers



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

The survey classifies micro/small enterprises, according to the International Industrial Standard Classification (ISIC), into six main sectors: Commerce, Manufacturing, Services, which includes Repairs, Transport, Construction, and Rental space.

The commerce sector is the largest, accounting for 54 per cent of all micro/small enterprises and generating 52 per cent of micro/small enterprise-based employment. The biggest proportion of this sector and indeed of all micro/small enterprises, 49.2 per cent of the total, is retailing.

⁶ National Statistical Centre, Basic Statistics of the Lao PDR (1975-2000).

⁷ Nicholas M., Small and Medium Enterprises in Lao PDR: The Results of a National Survey, MIH-GTZ 1996.

⁸ SEDP – The Lao-German Small Enterprise Development Project is a collaborative effort-between the German Agency for Technical Cooperation (GTZ), and the Ministry of Industry and Handicrafts of the Lao People’s Democratic Republic.

The most typical retail businesses are general trading, food retailing, and hardware sales. This sub-sector has been the largest since the introduction of market liberalization. Previously to that, durable goods for household consumption and raw material inputs were mainly imported.

By contrast, the hotel and restaurant sub-sector accounts for a relatively small percentage, 0.9 per cent, of micro/small enterprises. In more recent years, the hotel and restaurant sub-sectors have increased in number along with the growing tourist industry, particularly in the country's major towns.

The manufacturing sector employs 35 per cent of the total number of workers. It is dominated, with 15.5 per cent of the total by the textile sub-sector, comprising weaving and spinning-related products, and 12 per cent by the food processing sub-sector, largely rice milling. Furniture making and metal working are also important activities.

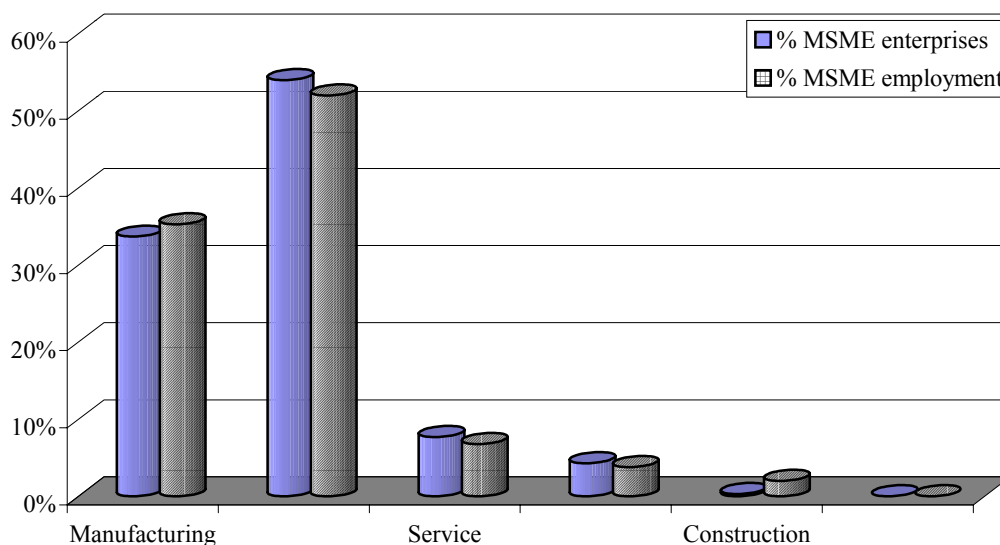
Micro/small enterprises in manufacturing tend to utilize local resources, employ traditional skills such as weaving and furniture making, and appear to respond to the basic needs of society such as with milling rice.

The service sector which includes repairs, transport, rental space, and construction, comprises 7.6 per cent of micro/small enterprises and 6.3 per cent of micro/small enterprise-based employment. This translates to 11,000 micro/small service enterprises employing 16,000 workers. Repairing bicycles is the largest single kind of business in this sector, representing 1.8 per cent of all micro/small enterprises.

Transport represents only 4 per cent of micro/small enterprises and 3.8 per cent of micro/small enterprise-based employment. This includes owners of taxis, buses and *tuk-tuks*.

For other sub-sectors, such as construction and rentals, the number of enterprises was very small in 1996. However, it is thought that these categories have increased significantly as the number of expatriates and town development activities in urban areas have grown.

Figure 2: Distribution of enterprises and employment by sub-sector



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

2.2.2 Contribution to Employment Creation

Micro/small enterprises have played a very important role in providing employment opportunities during the process of economic transition. A total of 146,000 micro/small enterprises identified in the 1996 MIH-GTZ survey, employ the equivalent of 259,000 full-time workers. This contribution is ten times greater than that of large enterprises, which employ 22,000 people. It is estimated that micro/small enterprises account for 43 per cent of the active non-agricultural labour force.

The average number of workers, including the owners of the enterprises, is only 1.9, although this varies across regions. The workforce in this sector is mainly enterprise owners and unpaid family members: 53.8 per cent are the owners themselves, 36.5 per cent are unpaid family members and 8.9 per cent are paid employees. Characteristically in Laos most micro/small enterprises, about 90 per cent, are some type of family business (refer section 2.6.1). Part-time workers are less common in Lao micro/small enterprises. Only 24 per cent of enterprises employ part-time workers, which represents 18 per cent of the total workforce.

2.2.3 Contribution to Household Income

The 1996 MIH-GTZ survey indicated that income per worker is 324,000 Kip per year, which is higher than the minimum wage for unskilled labour, 260,000 Kip per year. However, more than 50 per cent of micro/small enterprises generated earnings per worker that are less than the minimum wage, though about 15 per cent of micro/small enterprise workers in the country earn more than twice the minimum wage. The highest earnings per worker are found in the transport sector while the lowest are in manufacturing. This tends to contradict the assumption that manufacturing is the most productive and remunerative sector. Of the sub-sectors, the wholesale sub-sector generates the highest earnings, followed by the hotel/restaurant sub-sector.

As to earnings per household, 19 per cent of micro/small enterprises contribute the entire family income, 25 per cent contribute more than half, and 25 per cent about half.⁹ About one third of the enterprises surveyed contribute less than half of overall household earnings.

The contribution of enterprises to household income varies significantly with the size of the enterprise, the larger ones generally contributing more. The average micro/small enterprise is actually below the average income line. Among households with micro/small enterprises, the average income is about 980,000 Kip per year or approximately 75 per cent of the average income for all Lao households, 1,300,000 Kip per year.¹⁰ Among the poorest third of households operating micro/small enterprises -- those with incomes of less than 520,000 Kip per year -- two thirds are in retail, vending, or textiles and 54 per cent are one-person firms.

If such patterns of income earning among micro/small enterprises have been maintained since 1996, one could assume that they are still only a supplementary source and not yet a secure main source of income particularly for the smallest enterprises.

⁹ The income generated by the owner to household: calculated by multiplying the wage per worker by the number of owners and unpaid family workers in the enterprise.

¹⁰ It is based on the 1992-93 Expenditure and Consumption Survey (ECS) combined with the change in the consumer index in 1995 prior to the SEDP-SME survey.

2.2.4 Contribution to the National Economy

The micro/small enterprise sector provides goods, services and jobs. At the national level it has sales of 386 billion Kip per year (US\$406 million).¹¹ The sector contributes between 74 and 116 billion Kip (US\$78 and \$US122 million) per year to Gross Domestic Product. This is probably between 6 per cent and 9 per cent of GDP. More than 50 per cent of all micro/small enterprises fall within the range of 100,000 to 500,000 Kip (US\$105 to US\$525) per year in value added. Only 19 per cent have a value addition of more than one million Kip (US\$1050) which represents two thirds of total value added by micro/small enterprises.

The results of the 1996 national survey also show that close to half of all micro/small enterprises have annual sales between 1 and 5 million Kip (US\$1050 and US\$5250). Over 90 per cent of these enterprises have annual sales of less than 5 million Kip. However sales do not necessarily indicate the 'size' of an enterprise, as traders may have high revenues but low margins.

In terms of the value of fixed assets, the average among micro/small enterprises is relatively high, 2.6 million Kip (US\$2,735). However, 60 per cent of micro/small enterprises have assets worth less than one million Kip (US\$1050). Probably a small number of quite large enterprises pull the average upward and therefore this figure is not likely to represent a typical enterprise.

2.2.5 Growth Prospects of Micro/Small Enterprises

The largest number of micro/small enterprise owners, 39 per cent, started their working lives as farmers: 30 per cent had been government employees and only 14 per cent were already in family businesses. This indicates the extent of career changes forced as a result of the recent economic restructuring in Laos that has produced a large number of first generation entrepreneurs.

The 1996 MIH-GTZ survey found that between 1994 and 1995 the annual "birth rate" of micro/small enterprises was 29 per cent. In the period 1991 to 1995 it was 25 per cent while the "death rate" was 15 per cent, resulting in a 10 per cent average annual growth rate. Assuming this pattern has remained constant, the total number of small enterprises would have increased from 146,000 in 1996 to approximately 235,000 in early 2002. However there are always risks in starting small enterprises and almost 25 per cent of all new micro/small enterprises close within two years, while about 55 per cent close within four years.

The growth rate estimated by the 1996 MIH-GTZ survey was more positive than that estimated by the National Statistical Centre (NSC). In 1996, the NSC recorded an average growth rate for small industries comprising 1 to 9 workers of 11 per cent, and for medium industries comprising 10 to 99 workers, of 6 per cent.

The average growth rate across all small and medium enterprises is 8.5 per cent. This is slightly lower than the rate in the 1996 MIH-GTZ survey and is not applied in estimating the total number of micro/small enterprises for the current year. However the NSC rate was derived from statistics drawn only from manufacturing producers within the industrial sector, and only from manufacturing enterprises registered with

¹¹The exchange rate at the time of the survey was 950 Kip per US Dollar.

the Ministry of Industry and Handicraft -- with which most micro/small enterprises are not registered at all.

On the positive side, a growing number of micro/small enterprises are expanding. In the 1996 MIH-GTZ survey 37 per cent of micro/small enterprises had increased in size over their lifetime. This corresponded to a 5 per cent annual growth and generated 13,000 jobs per year.

Overall, the micro/small enterprise sector may have been creating jobs at a rate of about 39,000 per year, two thirds coming from growth in the total number of enterprises and one-third from the expansion of existing enterprises.

Making the -- not fully justified -- assumption that these growth rates have been consistent over time, the current number of employees in the sector could be in the region of 454,000.

2.3 Rural Entrepreneurs

According to the National Demographic Census, almost 85 per cent of the country's population resides in rural areas where the main occupation is farming. The rural micro/small enterprise sector is therefore of great importance in employment creation.

2.3.1 Rural and Urban Micro/Small Enterprises

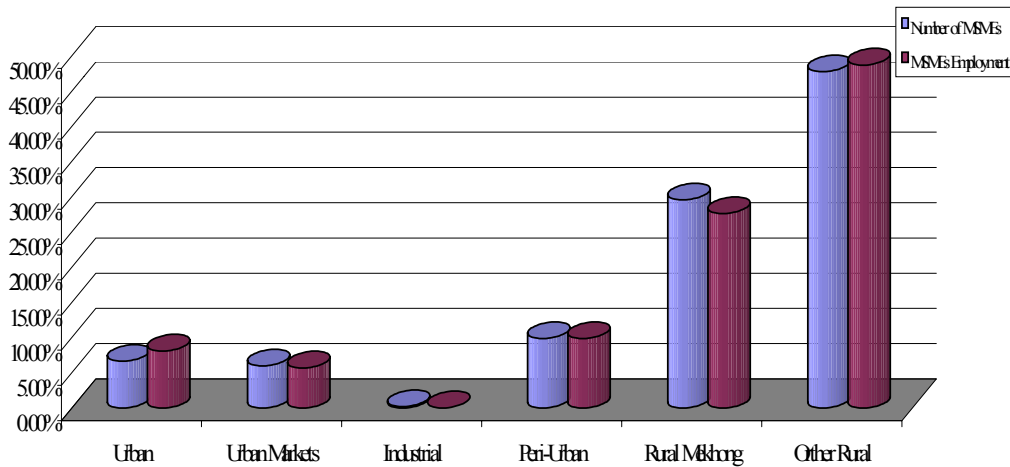
The 1996 MIH-GTZ survey divided micro/small enterprises into six categories:

1. Other Rural (located in mountainous and less accessible areas than those in the Rural Mekong category), the largest category with 47.75 per cent
2. Rural Mekong (located in rural districts bordering the Mekong River and integrated in the national economy as a result of river and road connections), the second largest with 27.68 per cent
3. Peri-urban, the third largest with 9.68 per cent
4. Urban
5. Urban Market
6. Urban Industrial.

The three groups of urban micro/small enterprises make up only 12.84 per cent of all micro/small enterprises. Urban Industrial accounts for the smallest proportion, 0.2 per cent.

The contribution of each category towards employment is as follows: among rural micro/small enterprises Other Rural accounts for 48.7 per cent of employment followed by Rural Mekong, 27.6 per cent, and Peri-urban, 9.87 per cent. Urban micro/small enterprises account for 14 per cent of the workforce and Urban Industrial is the smallest category, 0.3 per cent.

Figure 3. Rural versus urban micro/small enterprises and employment



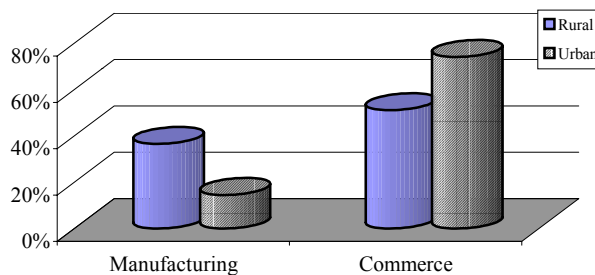
(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ 1996)

Average income among micro/small enterprises-owning households in urban areas is twice the average income in rural areas: 1,790,000 Kip to 866,000 Kip (\$1,885 to \$912). Of the poorest third of micro/small enterprise-owning households, with annual incomes less than 520,000 Kip (\$550), 95 per cent are in rural areas, and 54 per cent are one-person firms.

2.3.2 Composition of Rural Micro/Small Enterprise Sectors

Commerce and manufacturing account for 51.1 per cent and 36.5 per cent of rural micro/small enterprises. Retail, textiles, and food processing are the largest proportion within the two sectors: 46.7 per cent, 17.2 per cent, and 12.9 per cent respectively. Urban micro/small enterprises have more enterprises in commerce, 74.1 per cent, and less in manufacturing, 14.5 per cent.

Figure 4. Composition of the two main sectors in rural and urban micro/small enterprises

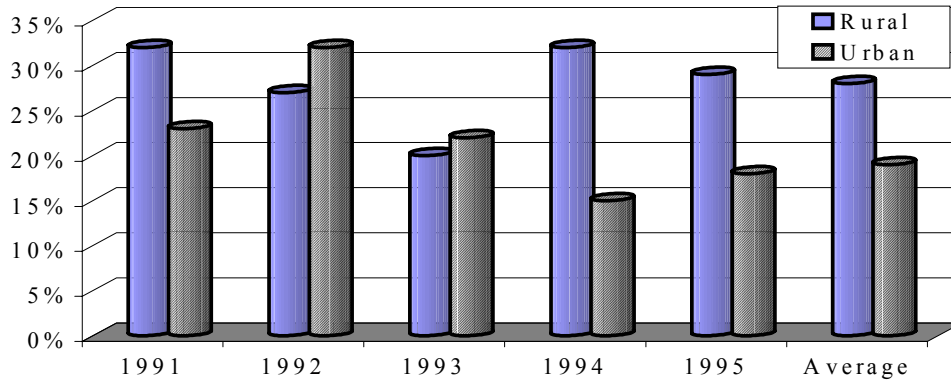


(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

For the four years for which records are available the start-up rate for rural micro/small enterprises was higher than that in urban areas. In 1991, it was 32 per cent to 23 per cent; in 1992, 27 per cent to 23 per cent; in 1994, 32 per cent to 15 per cent and in 1995, 29 per cent to 18 per cent. In 1993, the start up rate of rural micro/small enterprises was 20 per cent, which is only slightly lower than the 22 per cent for urban

micro/small enterprises. Between 1991 and 1995 the start-up of micro/small enterprises in rural areas was higher than in urban areas, 28 per cent to 19 per cent.

Figure 5. Start-up rates of rural and urban micro/small enterprises



(Source: The results of a National Survey, SMEs in Lao PDR MIH-GTZ 1996)

2.3.3 Characteristics of Rural Micro/Small Entrepreneurs

Following market liberalization, 87 per cent of all enterprises in rural areas were non-agricultural. However, 42 per cent of the enterprise owners came from farming backgrounds. The majority of owners of rural micro/small enterprises are women (61.8 per cent).

The average **age of rural micro/small entrepreneurs** is 38.1 years, and their average number of years in business is 4.5. This is not significantly different in urban micro/small enterprises.

As expected, rural entrepreneurs are likely to have grown up in an agricultural household, (42.8 per cent), rather than in households where most persons have worked for government, (29.4 per cent).

An urban entrepreneur is much more likely to have grown up in a non-agricultural family. However a very small percentage of rural entrepreneurs have experience in trading, working for others, or running a business. This means that because most entrepreneurs are first generation entrepreneurs they probably had quite limited experience in doing business when they started.

Figure 6. Previous activities of rural and urban entrepreneurs

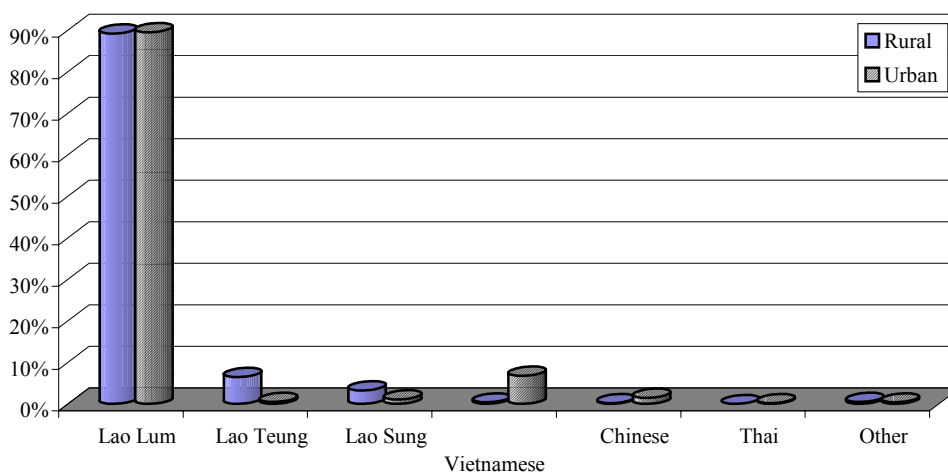


(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

With respect to the **ethnic characteristics of micro/small entrepreneurs**, Figure 7 shows that the Lao Lum ethnic group accounts for the largest percentage of micro/small enterprises in both rural and urban areas. However, in rural areas there are substantially more from the Lao Teung and Lao Sung ethnic groups than in urban areas: 6.5 per cent and 3.3 per cent compared with 0.5 per cent and 1.1 per cent respectively.

Vietnamese and Chinese entrepreneurs form a relatively large number of micro/small enterprises in urban areas, but less in rural areas when compared with Lao ethnic groups.

Figure 7. Characteristics of rural micro/small enterprises: ethnicity



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

2.4 Women Entrepreneurs

Laos has a near equal percentage of males and females, 49 per cent and 51 per cent respectively, in the total population. However the 196 MIH-GTZ survey found a significantly higher percentage of female ownership of micro/small enterprises, 63.3 per cent versus 34.6 per cent. 91,980 female-owned enterprises account for 57 per cent share of the total workforce.

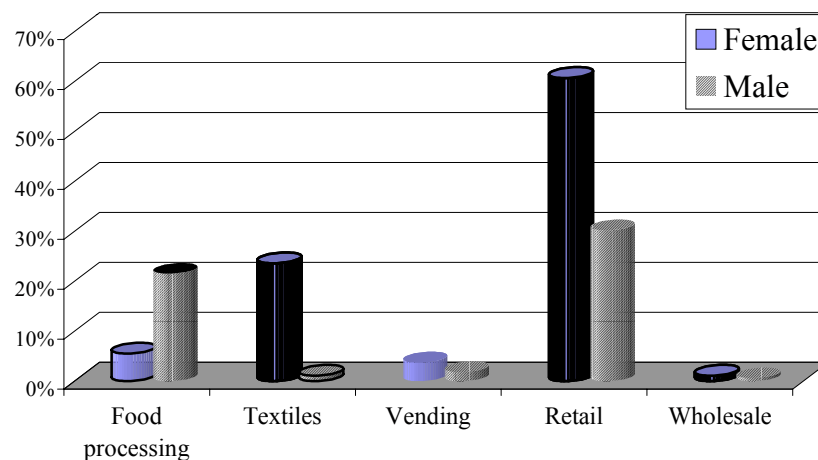
2.4.1 Characteristics of Female-Owned Micro/Small Enterprises

Female entrepreneurs start businesses at an earlier age than males, 36 compared to 41, had more years in business operations, 5.2 compared to 4.6, and predominantly own commercial micro/small enterprises, 66.1 per cent compared to 33.6 per cent for males.

The most common sub-sectors for women's commercial micro/small enterprises are retail, vending, and guesthouse/restaurants. The men's are mostly in wholesaling. In the manufacturing sector, textiles appear to be the exclusive domain of women, 23.6 per cent to only 1.1 per cent for men.

Women are dominant in all value-adding steps in the production of hand-woven textiles: raising silkworms, spinning yarn, dyeing, weaving, designing semi-finished and finished products, tailoring and selling.¹² The opposite is true for food processing: 5.5 per cent of micro/small enterprises are owned by women, as against 21.5 per cent owned by men.

Figure 8. Composition by sub-sector of female and male-owned micro/small enterprises

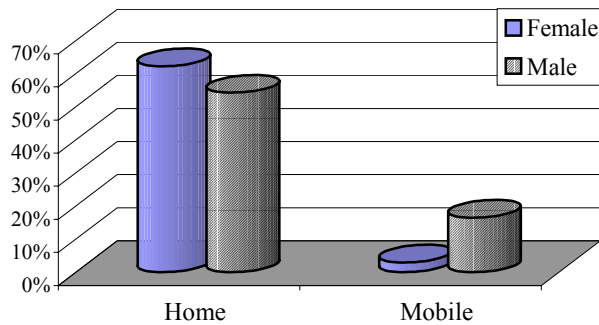


(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

Women's businesses tend to be mainly home-based (62.2 per cent). Only a small percentage engage in mobile/outside-of-home business practices (2.9 per cent to 16.4 per cent for males). Women in Lao society are generally expected to work around the house. When mechanical tools are required, women are less likely to be owners or have an operational role: 95 per cent of women-owned businesses use only hand tools, whereas 48 per cent of men's use power tools.

¹² Strategic Planning Workshop on Women's Economic Empowerment in the Lao Handicraft Textile Sector, UNIFEM and Lao Handicraft Group, May 2002, Vientiane.

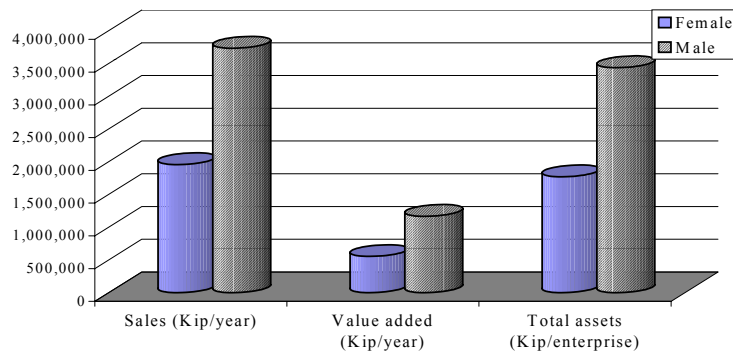
Figure 9. Characteristics of female and male-owned micro/small enterprises



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ 1996)

Average sales and value added to products/services (sales minus input costs) micro/small enterprises owned by women were significantly lower than those of owned by men: 1,954,752 Kip per year and 552,211 Kip per year, respectively. The asset value of the female-owned enterprises was not nearly as large as for male-owned, 1,768,346 Kip compared to 3,433,277 Kip per enterprise. Female businesses are mainly in low-end commerce and so require, and own, less capital.

Figure 10. Financial characteristics of female-owned micro/small enterprises



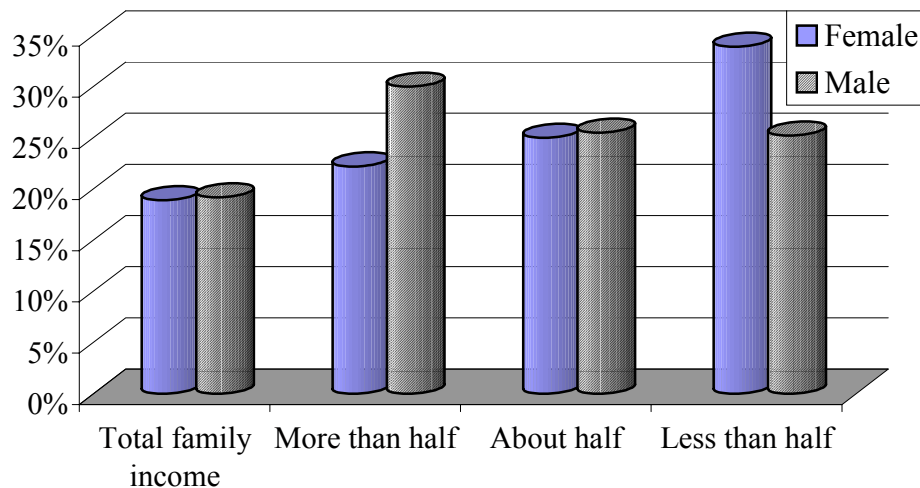
(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

2.4.2 Contribution to Household Income

Approximately 19 per cent of female-owned micro/small enterprises generate the total of the family's income, 22 per cent generate more than half, and 25 per cent generate about half, while 40 per cent generate less than half.

Female-owned enterprises contribute significantly less in economic terms than male-owned enterprises. This suggests the need to boost the economic role of women in households by improving related business practices and providing a more supportive socio-cultural environment.

Figure 11. Contribution to household income of female-owned enterprises



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

2.4.3 Social and Cultural Conditions

Lao traditional values tend to create clear, if stereotypical, roles for males and females particularly in rural areas where women tend to be less educated than men. The male is the leader of the household, decision-maker, bread winner, and he liaises with outsiders. The female tends to be the passive follower, money-saver, and household care-provider.

Such traditional norms usually influence the way family businesses operate. The woman is more often the accountant taking care of financial matters, while the man is more likely to be the general manager looking after the overall business.

In some cases, this pattern has been adapted as a result of current socio-economic changes: e.g. a wife may run a small business to supplement the inadequate salary of her civil servant husband. The wife then becomes a 'bread winner' as well as being the 'money saver.' However, most major decisions including those relating to the business are still made by the husband.

In the case of a business partnership both wife and husband may share decision-making responsibilities. The wife could be the financial manager, while the husband is the general manager. When the couple has two different businesses such as a construction company and a brick factory, then both husband and wife may be managers.¹³

In a matrilineal and matri-focal society such as Laos, women may inherit family property including the parents' business. But when a couple marries, the husband typically moves to the wife's house and assumes the leading role within the family.

A matrilineal social organization supports women's relatively autonomous position, but in business affairs decision-making power remains with the men who will also assume the leading role in taking care of parents, which will usually include continuing the parents' business.¹⁴

¹³ Reichenbach, Luangkhout, and Phengkhai, Gender Approach to Small Enterprise Development in the Lao PDR.

¹⁴ Sandbergen and Khamphoui, Women in Rice Fields and Offices: Irrigation in Laos, Vol. 13. 1995.

2.5 Entrepreneurs with Disabilities

People with disabilities live in a state of high vulnerability. Their employment rates and income levels tend to be a fraction of those of people without disabilities; and physical, social and attitudinal barriers restrict their access to even the most basic services. In general, they face disempowerment and exclusion.¹⁵

There are several local and international organizations that work with disabled persons in Laos but their focus has tended to be on physical rehabilitation rather than on entrepreneurship or vocational rehabilitation.

2.5.1 Extent and Characteristics of People with Disabilities

Definition

Disability figures vary depending on the definitions used. Some surveys focus on severe disabilities, or impairments, such as total blindness or profound deafness. Others use a broader definition such as mobility or sight difficulties or even wearing glasses.¹⁶

A 1976 survey done by Dr. Einar Helander found that 10 per cent, about 458,000, of Lao people had some form of disability¹⁷ including reversible disabilities such as those caused by malnutrition.

In 1999, Dr. Helander estimated that between 0.2 per cent and 21 per cent of the Lao people had some type of disability. In less developed regions, the estimated rate for moderate and severe disabilities was 4.5 per cent.¹⁸ This did not include short-term curable diseases, reversible conditions, or terminal disabilities.

Handicap International (HI) defines a disability as a condition where part of the body is so affected that the person cannot carry out normal functions such as hearing, walking, using hands, seeing etc. HI and the National Centre for Medical Rehabilitation (NCMR) surveyed disabled people and adults in four districts in Vientiane Prefecture and three in Vientiane Province and found that 0.8 per cent had a moderate to severe disability. This would mean there was a disabled population figure of around 3,370 in 370 villages.

¹⁵ Asian Development Bank Report of the Workshop on Disability and Development 13-14 October Manila 1996 p 6.

¹⁶ United Nations, Manual for the Development of Statistical Information for Disability Programmes and Policies, New York, 1996, p.4.

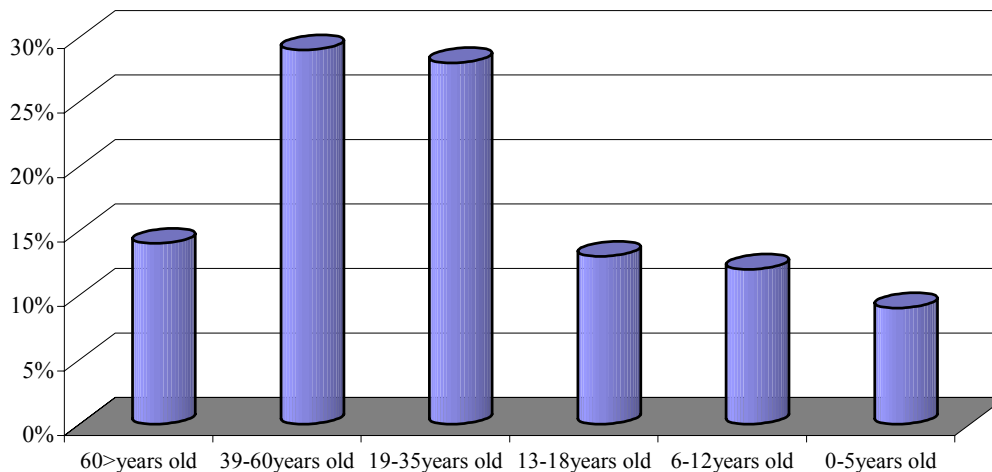
¹⁷ Einar Helander Prejudice and Dignity – An introduction to Community Based Rehabilitation, UNDP New York NY USA 1999 p 20-22 quoted in Handicap International and the National Centre for Medical Rehabilitation, Bridging the Gap: Survey of Disabled Children & Adults 1999, p 29.

¹⁸ Einar Helander, A28/INF DOC/3, WHO, Geneva, Switzerland, 1976, quoted in Handicap International & the National Centre for Medical Rehabilitation, Bridging the Gap: Survey of Disabled Children & Adults, 1999, p. 28.

Age

Approximately 14 per cent of the people with disabilities in the survey were over 60, 29 per cent between 36 and 60; 28 per cent between 19 and 35; 13 per cent between 13 and 18; 12 per cent between 6 and 12; and the remaining 4 per cent under 5.

Figure 12. Age of individuals with disabilities



(Source: Handicap International & the National Centre for Medical Rehabilitation, 1999)

The 2002 report by the National Committee for Handicapped Persons (NCHP), found that the total estimate of people with disabilities across the country -- 16 provinces, one municipality, and one special zone -- was 362,420 persons.¹⁹ This amounted to 6.8 per cent of the total population.

In Northern Laos, Xieng Khouang Province had the highest number 5,298. Another province Louang Prabang Province had 1,581. In Southern Laos, Savannakhet Province and Champasak Province had the highest numbers, 1,868 and 1,484, and also the highest incidence of unexploded ordinance.

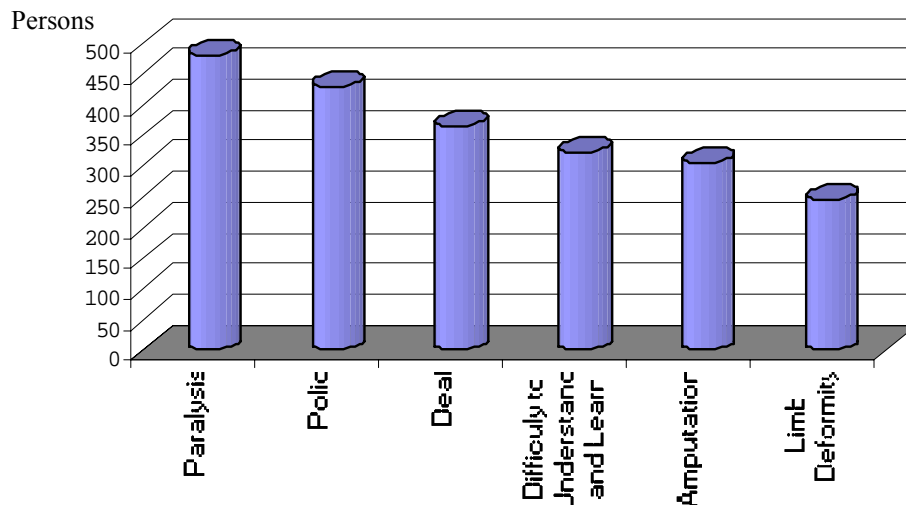
Types of Disability

In their 1999 survey of disabled children and adults, HI and NCMR found that there are 16 disability types, of which the largest groupings are:

- Paralysis, (481 persons),
- Polio (428),
- Deafness (366),
- Difficulties in Learning and Understanding (322),
- Amputation (305),
- Limb Deformity (246).

¹⁹ Report on the performance of the National Committee for Handicapped Persons from 1995-2002, Ministry of Labour and Social Welfare.

Figure 13. Types of disabilities



(Source: Handicap International & the National Centre for Medical Rehabilitation, 1999)

This survey, along with the NCHP report, categorized six sources of disability. These were: Accident, At Birth, Disease/Sickness, Unexploded Ordnance (UXO), War, and Other. The majority of people who had Polio, (395 out of 428), and Paralysis, (323 out of 481), were in the 'Disease/Sickness' category. The majority who had Difficulty in Understanding and Learning, (284 out of 322), or were Deaf, (252 out of 366), were in the 'At Birth' category. 160 of 305 people with amputations were in the 'War' category.

Barriers for persons with disabilities

People with disabilities face considerable physical, social, and attitudinal barriers. These are discussed more fully in Section 4 (pages 35-38) but are summarized here.

Children with disabilities lack mobility aids to reach schools which usually lack the facilities necessary for them. This means that most children do not go to school.

There is a similar lack of vocational training. Many who had the potential for tertiary education could not attend because the training was inaccessible or the rules forbade it, for example stipulating that only people with good health are qualified to study.²⁰

The situation is even worse for people with leprosy. Often completely excluded from society they may even have to leave their village and live in the forest creating a major burden on family members who then have to organize food and other basic necessities.²¹

Women with disabilities often become the victims of physical and mental abuse, being beaten, raped, confined, or just made to feel guilty. Persons with disabilities, as well as their parents, tend to have very low self-esteem, not daring to share their ideas and problems with others. Parents often feel they cannot send their disabled children to school.

²⁰ Sivila, C., Board of Director, Lao Disabled People's Association, Vientiane Municipality, 2002.

²¹ Handicap International & the National Centre for Medical Rehabilitation, Bridging the Gap: Survey of Disabled Children & Adults, Lao PDR, 1999.

The barriers that people with disabilities face in Lao society are particularly high in remote areas where social awareness is low and help from external organizations is difficult to access. This marginalization reduces their opportunity to contribute to the household or community, and vastly increases their risk of falling into abject poverty.²²

2.5.2 Self-employment and Micro/Small Enterprises among People with Disabilities

The occupations in which persons with disabilities can engage are limited. The NCMR 1999 report set out the main categories and numbers of people in their survey who fell into those categories.

Table 1. Occupations of people with disabilities

Occupations	Number
Fish Raising	49 persons
Government Staff	66 persons
Growing Fruit	96 persons (5 per cent)
Hair Dressing	14 persons
Military	16 persons
Motorecycle Repair	16 persons
Private Staff	66 persons
Radio Repair	9 persons
Rice Farming	430 persons (22 per cent)
Selling/Buying	83 persons
Sewing	41 persons
Unable to Work	21 persons
Vegetable Gardening	171 persons (9 per cent)
Weaving	46 persons
Domestic Chores	752 persons (38 per cent)
Other	81 persons
Total	1975 persons

(Source: Handicap International & the National Centre for Medical Rehabilitation, 1999)

A disabled person often needs more than one type of job. One commented: “We have different disabilities; we also have different hopes. Some of us can study and some of us can attend vocational training classes. But many disabled persons simply hope for some money. With money, life would be much easier”²³.

It is not common for people with disabilities to establish their own enterprises. Organizations working with disabled persons tend to pay greater attention to physical rehabilitation and basic social services than to income-generating activities. The Lao Disabled People’s Association (LDPA) provides skills training in sewing, Lao traditional massage, wood crafting, handicraft and making paper from banana and galanga leaf. The hope is that the trainees will then be able to generate income. Approximately 120 people participated in these courses but most did not have the

²² Elwan, Ann. Poverty and Disability: A survey of the literature, background paper for WDR 2000/2001, 1999, p. v.

²³ Handicap International & National Centre for Medical Rehabilitation, Bridging the Gap: Survey of Disabled Children & Adults, Lao PDR, 1999, p.50.

funds to start businesses. Often the products were not marketable because of lack of quality or because they had the image of being “produced by handicapped people.”²⁴

In May 2002, the LDPA, with support from the Lao Government and the Association of cooperation for Persons with Disabilities Asia Pacific (ACAP), established the Lao Disabled Women’s Development Centre. It provides skills for marginalized disabled women with courses in dress-making, weaving, making stationery products and decorations from banana paper, and computer skills for high school graduates. The courses last a year with a maximum intake of 32. But there are few resource people and the Centre sees that to make the products saleable, it has to concentrate on their quality.

A Community-Based Rehabilitation (CBR) project in Salavan Province run by World Concern with the NCMR assists persons with disabilities in generating their own income. Project activities are mainly agriculture-related such as animal husbandry and vegetable growing. The target groups receive loans, technical assistance, and some physical support from family members who have no physical disabilities. An official from the project reported satisfactory achievement.²⁵

For as long as micro/small enterprise development remains a secondary focus for assistance projects, they will lack adequate resources and will create unfulfilled expectations. An official of the CBR project in Salavan stated: “We also hope in future to see the income generation activities of our target groups grow in the form of enterprises.”²⁶

There are of course many examples of entrepreneurs with disabilities who operate successful micro/small enterprises. 10 per cent of the total membership of the LHPA (400) own their own businesses and a number of these have potential for growth, as the following case studies illustrate. However despite these success stories, the capabilities of persons with disabilities are for the most part greatly under-utilized.

Case Study of Mr Xenchan Kopya

Mr Xenchao contracted polio when he was 5 years old. He is now in his 40s. In 1998 he started to learn woodcraft with the Lao Handicapped Persons Association. In 2001, he and his friend who is also disabled started to sell their woodcraft products. He can now earn up to 100,000 Kip per month. Even though it is only a small amount of money he can live on this without burdening his family. He dreams of having a proper shop to replace his small stall and of expanding his business. He thinks that disabled persons should work together to make dreams of having their own enterprises a reality.

Case Study of Ms. Chanhpheng Sivila

Ms. Chanhpheng is a mobility impaired woman aged about 40, who was invited in 1997 by the Association of Cooperation for Persons with Disabilities Asia-Pacific (ACAP) to visit Japan. She was surprised to see there what disabled people could produce in areas such as bakery, ceramics, garments, and handicrafts. After her return from Japan she opened a business making clothes, bags and items such as postcards, envelopes, and name cards made from banana tree paper. She had learnt dress making when she was young and in Japan she learned about making paper from banana trees. Using an ordinary fruit blender Ms. Chanpheng found she could make banana tree

²⁴ Sivila, C., Board of Directors, Lao Disabled People’s Association, Vientiane Municipality, 2002.

²⁵ Phonelamoung, V, Project Coordinator, Community-Based Rehabilitation Project, Salavan, 2002.

²⁶ *ibid.*

paper of the same quality as her Japanese friends did. She expanded her production as the raw material was locally available, the technology was simple and the financial requirements were reasonable.

Her aim is to help other disabled people. She strongly believes that “*the only way to help disabled persons to be self-reliant is to give them a skill. Without a skill, they will be left behind or considered a shame for the family and a burden for society*”. In 5 years the business has expanded from 2 to 10 sewing machines and from 5 to 12 workers. Her investment has increased from 10 to 30 million Kip. She had planned further expansion but the Government does not provide taxation or credit assistance for entrepreneurs with disabilities. She said disabled people were not well enough organized to be listened to by the Government. Ms. Chanpheng has had the usual range of problems: high inventory levels, lack of working capital, inadequate marketing and poor quality control but she has overcome these to become successful. She sees this as an investment also in the skills of other disabled women. Some of her senior workers for example now teach dress-making while others have their own shops.

By mid 2002, Ms. Chanpheng had ceased her own business in order to become Director of the Lao Disabled Women Development Center (LDWDC). In this way she hopes to give more opportunities to Lao disabled women to learn new skills, and to prove to society that they can be just as useful as able-bodied persons.

2.6 Family and Multi-Business Enterprises

To understand the employment potential of micro/small enterprises in Laos we need to understand their characteristics, of which the principal are that most are family businesses and many are also multi-businesses.

2.6.1 Family Enterprises

A family business is defined as a business owned and managed by one or more family members.²⁷ There has been no separate study undertaken of family businesses in Laos, but with Lao culture emphasizing the values of collective action, family-operated businesses often account for a large proportion of micro/small enterprises. In the 1996 MIH-GTZ survey, enterprise-owners and unpaid workers represented more than 90 per cent of the micro/small enterprise sector workforce.²⁸ From this it can be assumed that more than 90 per cent of micro/small enterprises in Laos are family businesses.

The 1999 qualitative study on “*Small Family Business in Lao PDR*” by Steffen G.C. Ulrich was based on 10 case studies. Usually, a single entrepreneur started the family enterprise, but as it grew he/she would bring in brothers, sisters, sons, daughters and other relatives, offering them part-time jobs, then supervisory tasks, and eventually, management responsibilities.

Minority shares in the original business or majority shares of a son’s or daughter’s business might be distributed to family members based on their loyalty, family

²⁷ Hollander, B.S., Elman, N.S. (1988), “Family-Owned Business: An Emerging Field of Inquiry”. *Family Business Review*, 1 (2).

²⁸ Small and Medium Enterprises Survey in Lao PDR conducted by Lao-German Small Enterprise Development Project (SEDP), February, 1996; p.18.

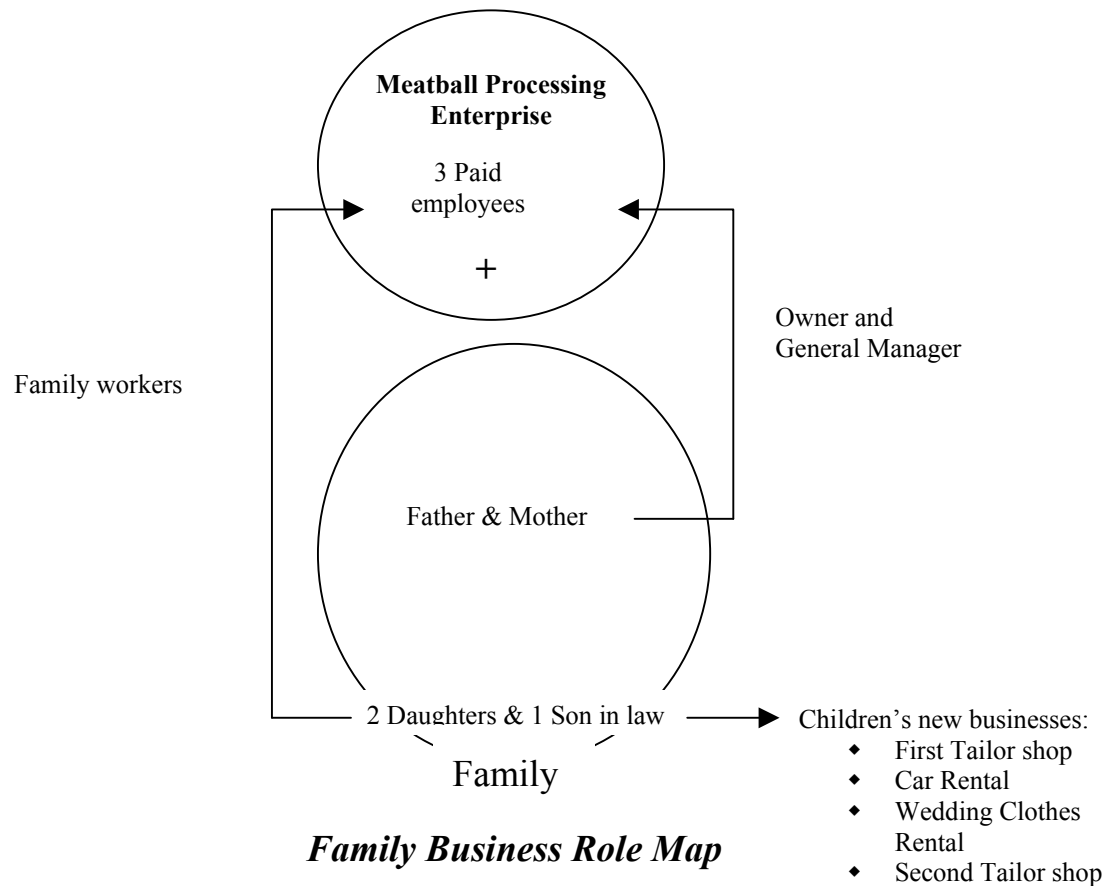
relationships, and seniority. An example of a family business model in Laos is illustrated in the case study and the “family role map” below.²⁹

Case Study of a Lao Family-Business

A fifty one- year old lady operates a home-based business producing meatballs, located in Ban Nongduang, Chanthabouly district of Vientiane Municipality. The owner and her spouse started the business 30 years ago and two daughters and one son-in-law are now employed. On average the business generates 1,800,000 Kip of sales, and contributes about 30 per cent of the family’s total income. The female owner is the key decision maker in the business.

In addition to the meatball business, the family runs four other businesses: two tailor shops, a car rental business and a wedding clothes rental business. The owners’ children run all four businesses. The owner says her business has some “first-mover” advantages being one of the first businesses of this kind in the town. They see their business success being based on their hygiene and processing skills. Their recipe for processing meatballs is kept secret from outsiders, so they don’t see any need to upgrade non-family workers’ skills.

²⁹ Steffen G.C. Ulrich, Case study prepared for “Small Family Business in Lao PDR”, 1999.



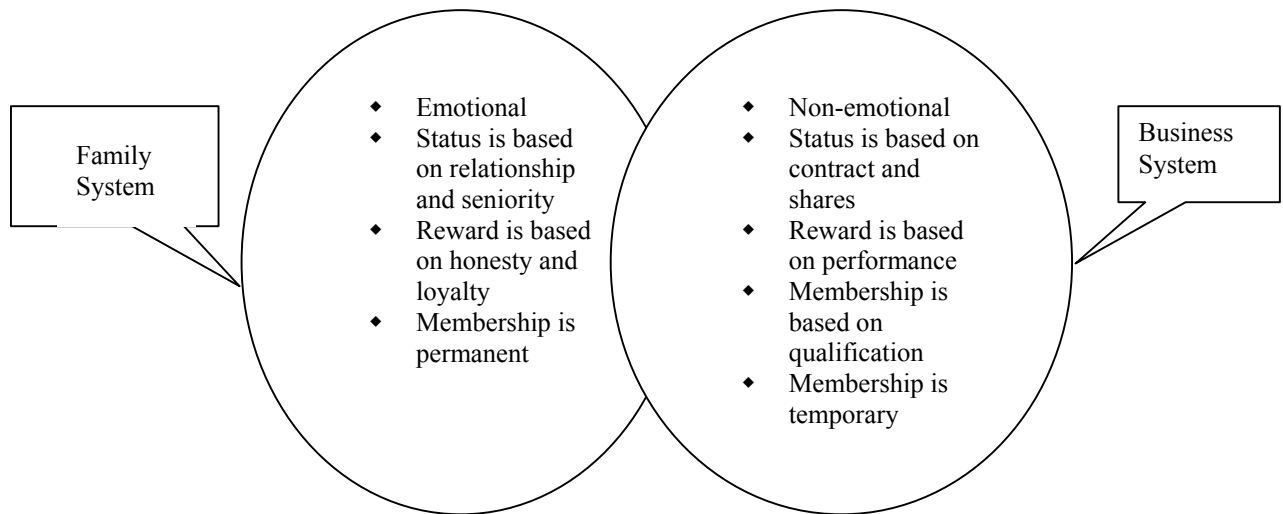
Against the background of Lao's collectivist culture, family businesses are seen as a product of "the marriage" of two different social systems: those of family, and business.

Family system decision-making is influenced by 'emotional judgements'. A person's status is determined by seniority and family relationships. Her/his rewards are determined by her/his honesty and loyalty. Being a member of the family means, of course, that she/he is a member of the business for life.

Business system decision-making on the other hand tends to exclude emotional bias and the employee's status is determined by a particular kind of contract or by shares held in the business, both of which may well be temporary.

A person's rewards are based on performance and before they become a member of the business, their qualifications must first be assessed.

The differences between the two systems are depicted as follows:



Problems within family micro/small enterprises often stem from:

- an inability to distinguish between the two different systems,
- unclear job descriptions for family members,
- miscommunication and conflicts among family members.

One common problem is the fear about succession within the business. This may touch on the parent's ability to convince a son or daughter to succeed her/him in the ownership and leadership of the business.

2.6.2 Multiple Business Enterprises

It is a characteristic of Lao entrepreneurs that they may own several businesses at once. There is however very limited information on the length of time that each business has been in operation. The 1997 Lao-German SEDP study examined the practice of managing several businesses at once.³⁰ It focused on 25 entrepreneurs participating in entrepreneurship training in Savannakhet province.³¹

In total, the 25 entrepreneurs had started 65 enterprises. Each participant, with the exception of those in the youngest group of entrepreneurs, had already started two or three businesses and had closed at least one or two of them. Of the 25 entrepreneurs, three had started and managed seven businesses. Only three of the 25 had terminated one enterprise before starting another. The remaining 22 participants had managed several businesses at the one time.

The types of businesses varied widely, but most of the entrepreneurs had started their businesses without first studying their potential viability. They tended to copy from other entrepreneurs whose businesses seemed to be doing well.

³⁰ Ed Canela analysed multiple businesses in Laos based on 25 participants who attended one of the first two training courses conducted by Lao-German SEDP, 1997.

³¹ Savannakhet is one of five major provinces with good prospects for economic development.

The businesses generally did little value-adding, had high labour intensity, and required very little management know-how. As a result, they did not last long. Of 16 businesses, 11 closed down in the same year they started. Of 15 second businesses that were started, only 8 survived.

Over time, the number of start-ups declined. The first enterprises lasted on average for seven years. However the second enterprises had shorter life spans: an average of 1.8 years, while the third set of enterprises had an average of 4.8 years. The average life span for all such enterprises was about 3 years.

The main reasons cited for business closures in the 1996 MIH-GTZ survey were insufficient customers and a shortage of funds.

The SEDP SME survey also found that most enterprises did not expand internally.³² Only 37 per cent of small and medium enterprises increased in size over their lifetime. About 62 per cent of enterprises kept the same number of workers. This may suggest that:

- small fragmented markets limit the potential for business expansion,
- low economies of scale mean there is a low level of business diversification.

It would be useful therefore to develop improved diversification strategies for micro/small enterprises in Laos and to understand better this important aspect of Lao business life.

³² The expansion of existing enterprises was measured by the number of people employed.

SECTION THREE

COOPERATIVE ENTERPRISES

The development of modern cooperatives in Laos is in its early stages. Their legal status is not defined, nor are there any empirical studies on Lao cooperatives, so there is very limited data available. It is important however to direct stakeholder attention to the potential of this form of business activity.

3.1 Current International Status of Cooperatives

For many years cooperatives were recognized worldwide as an important means of promoting economic and social development and entitled to a special place in national legal systems and policy, and in the agendas of international development agencies.

The negative side of this was a tendency towards state control and business inefficiency. This caused cooperatives to lose credibility particularly as the market economy approach was being embraced worldwide. More recently however their role has been re-appraised, in particular by the ILO. There has been a return to the original concept of a cooperative as a self-help group building economic capital out of the strengths of its social capital. Business efficiency is also demanded by the globalized market place, something made even more necessary by the removal of the state subsidies of earlier years. Besides operating as commercial entities, cooperatives are designed to meet the wider social and cultural needs of their members and of their communities. [Refer ILO Promotion of Cooperatives Recommendation 2002].

The International Cooperative Principles, which reflect international best practice, define membership as voluntary and open to all who are eligible, thus differentiating them from State-run compulsory “cooperatives”. They have a role in fostering economic fairness by facilitating access to both markets and services for groups of people who would be denied access if they operated on their own. They have considerable potential for countries such as Laos, which prize social cohesion over individual advancement. While needing to be free from State control, they however do require a favourable regulatory and financing framework that only the State can facilitate.

3.2 Definitions

There are a number of possible definitions:

- 1) The ILO has adopted the definition of the International Cooperative Alliance (ICA), the body representing cooperatives globally as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”.
- 2) Individual countries tend to define a cooperative, usually in their relevant legislation, in ways that reflect the national contribution they see the cooperative model of organization making. In Vietnam, for example, a cooperative is defined as: “A self-controlled economic entity established by working persons who have common needs and interests, and who contribute voluntary capital or labour in accordance with the provisions of the law to promote the strength of the collective and of each member...for the purpose of assisting one another to more effectively carry out

manufacturing, business, and service activities, ...and for improving living standards and contributing to the socio-economic development of the country.”³³

3.3 Current Status of Cooperatives in Laos

In Laos cooperatives have no formal legal status, and the term has tended to be used in relation to the ‘People’s cooperative economy’ where it is considered “a form of production based on the voluntary work of people who want to co-operate and invest in order to conduct and expand their businesses and protect their common interest.”³⁴

The cooperatives that did exist in Laos were an integral part of the previous communist political system in Laos and suffered from the defects of a State controlled business system. They were seen as a means of centralizing land use, employing agricultural labour, and distributing consumer goods.³⁵ In common with other former communist countries these Lao cooperatives did not survive the major economic reforms of the last decade that have established the market-oriented economy.

At present, active cooperatives in Laos tend to be credit cooperatives or small income-generating groups. The two main credit cooperatives are the Credit Cooperative for Promotion of Small Producers (CCSP) and the Sihom Credit Union. The Phonetong Cooperative operates in Huaphan province and consists of a group of handicraft producers. Other self-help groups involved in small income generation are known to exist but there is no data available about them.

Because they are not legally recognized they have no specific supervisory or regulatory body. Large cooperatives are registered with the relevant sectoral Ministry, with the Ministry of Commerce, or with the Customs Department.

The CCSP is a private cooperative that operates under the same regulations and rules as the Bank of Lao PDR and the Bank’s officials inspect the cooperative every month. While the CCSP is registered with the Bank of Lao PDR, it obtains its operating permit from the Ministry of Commerce and reports to the Customs Department on tax issues. The reason CCSP was set up was explained by its Administrator, Dr. Sisaliao Svengsuksa:

“Most small entrepreneurs do not have access to credit from banks. When they need money to invest or expand their businesses they have to turn to moneylenders if their relatives cannot help. Moneylenders charge interest at a very high rate. Therefore our cooperative established itself to help small entrepreneurs by providing them loans with a slightly higher rate of interest than banks, but much lower than that of moneylenders.”

CCSP also promotes job creation, especially for women. It has nine branches in seven provinces and will only lend to its members, usually small producers and farmers form themselves into new small cooperatives as Dr. Sisaliao Svengsuksa explained.

³³ COOPREFORM-Database of Cooperative Law-Vietnam-Employment Sector. Page 1, Retrieved November 20, 2001 from the World Wide Web:

<http://www.ilo.org/public/english/employment/ent/coop/laws/viet.html>

³⁴ Vientiane Times, Party Congress Special: Report to the Seventh Party Congress, Vol. 8, No. 21, p. 11, March 16-19, 2001.

³⁵ International Labour Conference 89th session 2001, Report V (1), “Promotion of Cooperatives”.

“To borrow money from the cooperative, a person must be a member of a cooperative. To become a member, the person must first buy shares, which will give him the right to vote and take part in the cooperative’s activities as a member or a shareholder. Second, the member must open a savings account with the cooperative. Third, the person must form a group of between five to ten persons. The benefit of this group is that group members can help one another in case one of the members has problems paying back money or paying interest on time. Members can also exchange technical and managerial know-how within their group. Before the approval of credit is given to the requesting person, it is also required that the individual prepare and present a satisfactory business plan to the cooperative.”

A number of so-called “cooperative programmes” also exist usually in the development projects of international agencies and NGOs. They promote group-based income-generating activities, such as weaving, producing quilts and raising livestock, and provide forms of microfinance for rural villagers.

3.4 Future of Cooperatives in Laos

The credit cooperatives examined for this report appeared to play a considerable role in fostering employment within their own organizations and through their networks. A more comprehensive review of the potential for cooperatives is needed.

Laos is a Buddhist nation and it has a strong commitment to group harmony over individual competition. This may explain the perception of congruence between Lao culture and a socialist form of government during earlier decades. This congruence between cultural values and economic organization could perhaps also take the form of cooperative models of business.

Sound research and consultation should be undertaken however to establish which economic activities could be carried out by cooperative enterprises. It would be useful for an early pilot project to be established.

A consultative process is also recommended to develop appropriate cooperative legislation and policy, consistent with international best practice but building on and identifying with Lao cultural values and aspirations.

SECTION FOUR

OPPORTUNITIES AND CONSTRAINTS

It can be argued that business success depends on two sets of factors: the owner's entrepreneurial skills, and a supportive business environment. This section looks at the different opportunities and constraints faced by micro/small enterprises: education, skills training, access to credit, quality and quantity of infrastructure, and government policy and regulatory framework. It also looks at the particular opportunities or constraints on female and male entrepreneurs and on entrepreneurs with disabilities.

4.1 Education and Skills Training

Education does not seem to be a significant factor in the ownership of a business: 24 per cent of small business owners have some secondary education. The figure for the total population is 23 per cent. However it does seem significant in business quality and expansion. About 80 per cent of owners with post-secondary education achieve some degree of expansion in their business compared to 37 per cent on average. Growth is also more likely when the enterprises are owned by older entrepreneurs rather than younger.

Most small business owners receive informal training from family members or friends. Indeed only about 5 per cent have formal vocational training. The majority of training however is technical rather than managerial and specific to certain kinds of enterprise. The most common skills acquired through training are in textiles, 25.5 per cent. Entrepreneurs also want skills in management, repair, and retail trading. More advanced entrepreneurs want to learn operational and marketing skills.

Skilled labour is scarce, and the labour market itself is small and not well diversified, and in some provinces, virtually non-existent. This impedes improvement in both the quantity and the quality of micro/small enterprise employment and self-employment.

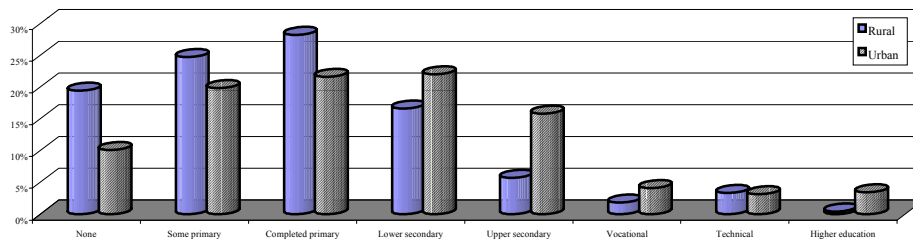
In recent years the provision of adequate education has become a high priority. In its 2000 report 'Education Strategic Vision' the Government indicated the need to enforce compulsory primary education. It also set out a number of aims for the years 2000 to 2005: to increase net enrolment from 77 per cent to 85 per cent; to expand primary schools in ethnic minority and remote areas through multi-grade teaching and school clusters; to increase the literacy rate for the population aged 15-40 from 80 per cent to 85 per cent, and for the population aged 15 and below from 74 per cent to 80 per cent; and to increase lower secondary and upper secondary gross enrolments from 45 per cent to 52 per cent and 22 per cent to 24 per cent, respectively.

But there are serious concerns about the capacity of teachers, and both the formal and informal training systems, to match technical training to regional investment and labour markets.³⁶ Some technical and vocational schools have made improvements through the donor-assisted programmes: 'Motivation for Achievement' and 'Entrepreneurship Development' which add to the curriculum components dealing with self-employment and business start-ups. However, right across the board, skills' training faces funding and capacity limitations, as well as ethnic, cultural and linguistic challenges.

³⁶ Ministry of Education, the Education Strategic Vision (2000-2005), 2000.

Minority and gender aspects of education and skills training. Rural entrepreneurs have fewer educational opportunities than those in urban areas. Less than 28 per cent of rural entrepreneurs have any secondary education compared to 48 per cent of urban entrepreneurs. More rural entrepreneurs than urban have no education, 19 per cent to 10 per cent. They also have fewer opportunities for vocational training, 1.8 per cent to 4.2 per cent.

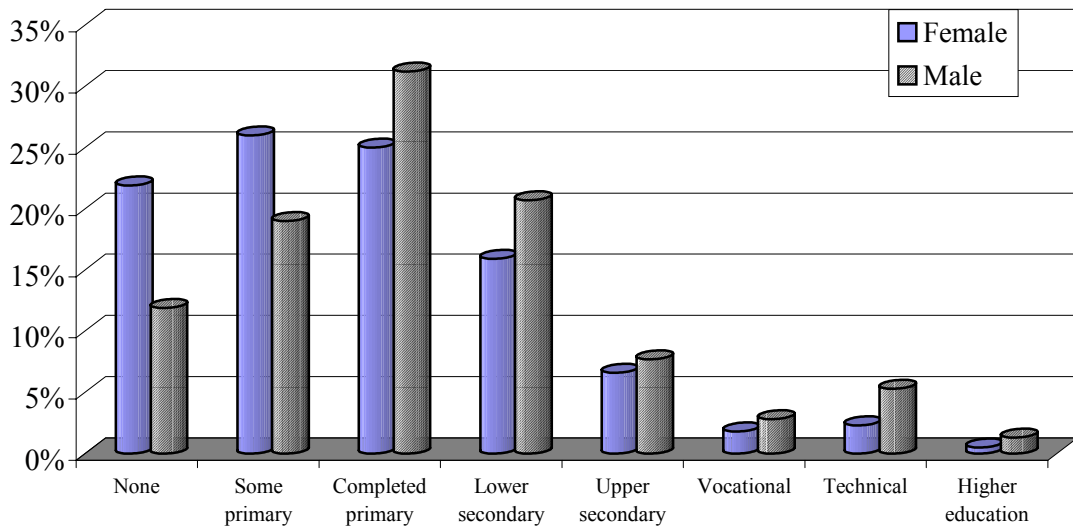
Figure 14. Educational characteristics of micro/small enterprises: rural versus urban+



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ 1996)

Females have less educational opportunities than males. In the MIH-GTZ 1996 survey 22 per cent of female entrepreneurs have received no education, 25 per cent have primary and 16 per cent lower education, 2 per cent have technical training, and 0.5 per cent have received higher education. The corresponding education levels for males are 12 per cent, 31 per cent, 21 per cent, 5 per cent, and 1.3 per cent.

Figure 15. Educational background of female versus male micro/small enterprise owners



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

Traditional gender values have a profound effect on the economic potential of women. In most remote areas girls are discouraged from going to school and the educational attainment of women is seen as secondary to their household work. The literacy level of females has lagged significantly behind that of males until very recent years. In the National Census of 1995 the adult literacy rate for females was 44 per cent compared

to 66 per cent for males.³⁷ This trend was reversed in 1998 when the female literacy rate apparently rose to 70 per cent.³⁸ Such increases may reflect the ongoing campaign for women's education by the Lao Women's Union which has continually emphasized that 'the level of women's education is an important factor and a key indicator of the overall quality of people's participation in economic development.'³⁹

Disability in relation to Education and Skills Training. Education and skills training opportunities for persons with disabilities have been extremely limited. The baseline 2001 study by Handicap International of 478 persons with disabilities found that of 99 children with disabilities, about 64 per cent had not gone to school. Overall, only 33 per cent of disabled school-aged children attended school regularly. Of these only one child attended an Integrated Education Programme (IEP) school. A 1999 survey of disabled children and adults indicated that 66 per cent of interviewees did not have access to any school, while 15 per cent were not allowed to attend school by their families.

Lack of access to schools was due to two main factors:

- Lack of facilities and teaching aids for such students in most schools and the difficulty of designing facilities suitable to a range of different disabilities.
- Lack of mobility aids for students with disabilities to reach schools on their own. Even the IEP School is not yet easily accessible.

The survey found that only 5.8 per cent of adults with disabilities had attended some kind of vocational training. All interviewees expressed the need and wish for further education, particularly for some kind of useful vocational training that would suit their particular kinds of disabilities. They expressed the hope of starting their own businesses and generating income through the new skills.

A number of local and international organizations assist persons with disabilities by providing skills training and by creating different kinds of income generation (refer Section Five). The Lao Disabled Person's Association offer lessons in sewing, traditional Lao massage, banana and galanga-leaf paper manufacture, woodcraft, and handicraft. However the majority of participants cannot put this training into practice because they lack the start-up capital for a business.

Another problem is that the products often are not of sufficient quality to meet market demand. That they are 'produced by handicapped people' is an insufficiently high value image to compensate for the lack of quality -- or may even appear to reduce it further.⁴⁰

The National Centre for Medical Rehabilitation (NCMR) promotes rehabilitation training and vocational training for persons with disabilities. It has a special school for children who are visually or hearing impaired, and a Community-Based Rehabilitation

³⁷ Statistical Profiles of Least Developed Countries, UN Conference on Trade and Development, 2001.

³⁸ UNTAD, Statistical Profiles of the LDCs, 2001; UNDP, HRD Report, 2000.

³⁹ Lao Women's Union, 1996, p.7.

⁴⁰ Sivila, C., Board of Director, Lao Disabled People's Association, Vientiane Municipality, 2002.

Unit. Four centres of this unit have also been established in the provinces of Xieng Khouang, Louang Prabang, Sekong, and Champasack.⁴¹

The organization, World Concern has initiated a Community-Based Rehabilitation Project in Salavan Province. This project focusses on both physical rehabilitation and income generation for persons with disabilities and their families. Persons with disabilities, who are able to work with some assistance from their families, are given loans to start animal husbandry activities. However some communication difficulties have arisen. There was an expectation on the part of some providers that results would be quicker and the loans repaid sooner than they were, while some recipients did not understand the nature of loans and treated them as gifts.

The Vocational Training Center in Ban Sikert offers a variety of training courses in Computers and Accounting, English Language Training, Agriculture, Animal Husbandry, Tailoring and Handicrafts, and Electronics. It started operating in 2000 and presently has 102 students with disabilities.

The Lao Handicapped Women and Children Association (LHWCA) seeks funds, support, and training from donors and in turn, provides training for women and children with disabilities. The main objective is to encourage self-sufficiency and reduce the 'burden on the party, the government, parents, and society.'⁴²

A number of vocational, literacy and training projects have been launched in the poorer areas of Laos to increase educational opportunities and develop the skills of persons with disabilities. These projects use a variety of special approaches to target people between the ages of 15 and 40 who have dropped out of school or have no access to education. One of these, the Community-Based Rehabilitation Project has facilitated the active participation of a large number of communities thus ensuring the long-term sustainability of activities. However they continue to have problems such as the absence of qualified personnel to carry out the vocational skills training, and the lack of linkage between technical training and actually starting a micro-enterprise.⁴³

4.2 Access to Credit

Access to credit in Laos is generally quite poor and only a few micro/small enterprises manage to obtain some form of formal or informal credit. According to the 1996 MIH-GTZ survey, only one enterprise in five has ever received a loan. Less than 2 per cent of all micro/small enterprises have ever received a bank loan. 11 per cent of micro/small enterprises, which is about half of those receiving any kind of credit, obtain their loans from family members. There seem to be two factors at play here:

- (1) The underlying lack of funds for loans to micro/small enterprises, and
- (2) An unwillingness to take loans at the market rate, even if they are available.

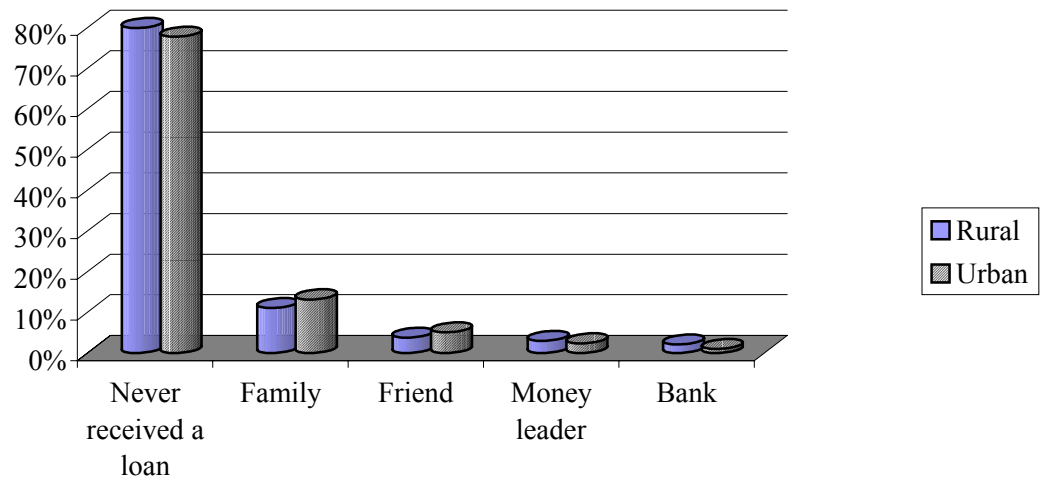
⁴¹ Douangngot, B. Head Secretariat, National Committee for Handicapped Persons, 2001.

⁴² Handicap International & National Center for Medical Rehabilitation, Bridging the Gap: Survey of Disabled Children & Adults, June 1999.

⁴³ *ibid.*

Minority and Gender Aspects of Credit. The pattern for both rural and urban micro/small enterprises in accessing credit is similar. Up to 79.9 per cent of rural entrepreneurs have never received a loan. Family members were the most common source of loans (11.1 per cent), followed by friends (3 per cent). Only 2.1 per cent of micro/small enterprises have received a bank loan.

Figure 16. Credit sources of rural and urban micro/small enterprises



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ)

The survey also showed that while 22 per cent of female entrepreneurs managed to obtain credit, compared to only 7 per cent for male entrepreneurs, the average loan for a woman was substantially smaller than that for a man: 500,000 Kip compared to 4,700,000 Kip. This indicates a need for adequate small-scale credit for female-owned businesses. It may also suggest that women have better skills in negotiating with lending sources, a role that is considered quite acceptable in Lao society. In general, however, women do not like to approach banks⁴⁴ perhaps due to the traditional belief that it is shameful to borrow money and in particular to be in debt to a bank. Most women feel a bank is a place that is foreign to them and feel uncomfortable and diffident in filling out bank forms.

Rural women often lack legally recognized assets as collateral for the bank.⁴⁵ Women also prefer to obtain loans quickly and directly and with as little paperwork as possible. This is most easily done through informal moneylenders or informal savings and credit groups, despite the fact that the interest rates charged can be as much as 20 per cent a month.⁴⁶

⁴⁴ Reichenbach, Luangkhote, and Phengkhai, Gender Approach to Small Enterprise Development in the Lao PDR, 1996.

⁴⁵ Country Report on Women in the Economic Development of the Lao PDR, Lao Women's Union, 1996; Gender Approach to Small Enterprise Development in the Lao PDR, 1996.

⁴⁶ Reichenbach, Luangkhote, and Phengkhai, Gender Approach to Small Enterprise Development in the Lao PDR, 1996.

Credit Access for Persons with Disabilities

Access to formal loans is virtually non-existent for people with disabilities. The baseline study showed that 96 per cent of such persons did not know what a loan was.⁴⁷ These persons tend to have lower incomes than the general population: 30 per cent of persons with disabilities, or of families with a disabled member (income for individuals in Laos is not usually separated from that of their family), earn less than 50,000 Kip per year. Only 17 per cent earn between 50,000 to 100,000 Kip per year, while 38 per cent have no income at all. About 40 per cent own animals and 43 per cent own land. Cash savings are almost non-existent with 98 per cent reporting they have no cash savings.

The most common problem identified by skilled or semi-skilled adults with disabilities who want to start an income generation activity is lack of funds. However the concept of credit is not always well understood, especially if the money is seen to come from international development agencies.

Conditions in the Financial Sector

Despite the importance of credit, most micro/small entrepreneurs starting businesses find access to it very difficult, which stems in part from the way the formal and informal credit sectors operate in Laos.⁴⁸

The Formal Sector

This comprises the three state-owned commercial banks: the Agricultural Promotion Bank, three joint-venture banks and the seven branches of foreign banks, together with one representative office.

The state-owned banks account for 71 per cent of the formal banking sector's total assets. The Bank of Lao PDR is the country's central bank and is also the bank of last resort, responsible for control of the money supply, managing reserves, and supervision of commercial banks. The formal banking system is concentrated in Vientiane and the other larger cities. An exception is the Agricultural Promotion Bank which has a branch network through all provinces.

According to an Asian Development Bank estimate, 90 per cent of the population does not have access to formal banking services. The lack of sufficient financial intermediaries and the weakness of the banking system as a whole make it difficult to mobilize domestic resources and so reduce dependence on foreign aid as the primary source of financing. According to the UNDP's microfinance survey, the Bank of Lao PDR and donor credit lines make up 64.6 per cent of total liabilities and capital for state-owned commercial banks. For the Agricultural Promotion Bank (APB) these two sources account for 92.4 per cent of liabilities and capital.

The low level of deposit mobilization can be explained by cultural habits, a general mistrust of financial institutions, and the high transaction costs and low interest rates available on savings and loans.⁴⁹

⁴⁷ Handicap International & National Center for Medical Rehabilitation, *Bridging the Gap: Survey of Disabled Children & Adults, Lao PDR, 1999.*

⁴⁸ *Micro-Finance and Sustainable Livelihoods in Lao PDR, June 1997.*

The interest rate that the Agricultural Promotion Bank pays on its deposits is higher than the interest rate it charges on its loans. This means that apparently the Bank does not cover the costs of payments to its depositing customers from the income it earns from its borrowing customers and must subsidize it from other sources. Furthermore, the APB's interest rates are fixed by government policy rather than by the market. According to a GTZ/BAFIS survey on microfinance, lending interest rates of the State commercial banks vary, depending on the loan's duration and the economic sub sector. The rate can be as low as 7 per cent or as high as 27 per cent.⁵⁰

The Informal Sector

There appears to be a greater chance of finding finance from the informal sector, particularly for female-owned and rural micro/small enterprises.

- Village Revolving Funds (VRF). There are various credit schemes including revolving funds that operate at the village level and have both social and economic objectives. According to a UNDP/UNCDF microfinance survey, the number of VRFs in 1997 was approximately 1,650, reaching 15 per cent of all rural villages. In 1997 the total outstanding credit provided to villagers through VRFs was close to US\$5,000,000.

Most VRFs have been established by international donor agencies and NGOs which provide grants to the Lao Government for credit funds at the provincial level. Because of its experience and its extensive network, the Lao Women's Union has been a key intermediary for these agencies.

Although VRFs have made a significant contribution to community development they have not been an effective financial intermediary for domestic resource mobilization. Also, because they charge below-inflation interest rates and generally lack management skills most VRFs are not financially sustainable. Agencies are now giving this aspect high priority.

The other main forms of informal finance are:⁵¹

- Rice Banks: to ensure rice sufficiency for villagers throughout the production season. Most have been established with financial assistance from the World Food Programme.
- Buffalo Banks: to ensure sufficient livestock for agricultural capacity.
- Rotating Fund Groups (or Houay). These are more common in urban than in rural areas and are the main source of informal financing for traders operating in the public markets of major cities. Members of a *Houay* contribute a fixed amount of money into a common pool. This money is then loaned out to the highest bidder, who makes regular fixed amount repayments of principal and interest. Nominal interest in a *Houay* can reach up to 60 per cent a year.

⁴⁹ UNDP/CDF, Micro Finance in Rural Lao PDR, June, 1997

⁵⁰ GTZ/BAFIS, Micro-Finance Survey on Lao PDR, 2001.

⁵¹ UNDP/CDF, Micro finance in Rural Lao PDR, June 1997.

- Household-to-Household loans. This is the dominant form of financing for village households. In the UNDP/UNCDF survey they accounted for more than 50 per cent of all household debt with an estimated value of US\$ 29,000,000.
- Moneylenders. Moneylenders are more an urban than a rural phenomenon. The UNDP/UNCDF survey found that only 1 per cent of respondents reported borrowing from moneylenders who usually provide short-term Thai Baht denominated loans at high interest rates. Monthly interest rate can reach 5 per cent.
- Credit from Suppliers. Suppliers are not a major source of financing in rural Laos though foreign suppliers seem to play an important role in some short-term trade financing. Long-term credit for fixed asset purchases from local as well as foreign suppliers is almost non-existent.

Better provision of micro and small-scale finance on its own will probably have only limited impact on small-scale business success. Complementary inputs, such as training, and skills in financial reporting and marketing will also be needed.⁵²

4.3 Infrastructure

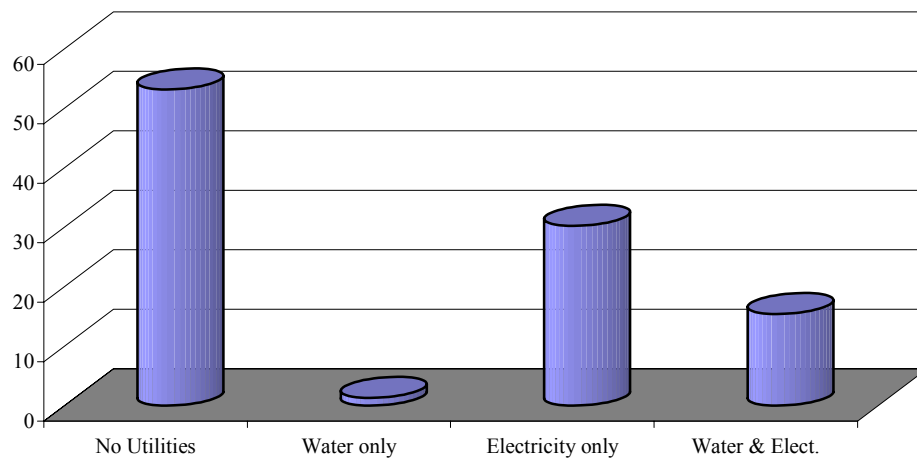
Basic infrastructure such as power and transportation are important for the access of micro/small enterprises to internal and external markets, and for business operators to travel to gain information, contacts and ideas.

Roads are the dominant mode of transport in Laos and their development and maintenance are critical to the overall socio-economic development of the country. During 1990-1995 the government allocated more than half of its public investment budget to the transport sector. As a result about 2,000 kilometers out of a total of 21,627 kilometers of roadways were reconstructed or improved. Some transport infrastructure is still under-utilized because of its poor linkages both domestic and international. Despite heavy investment in the transport sector, the road network is still relatively underdeveloped. Only 16 per cent of national roads are in good condition. Most provincial and district roads are impassable in the rainy season, leaving many villages with no seasonal access to markets.

In the 1996 national survey, 53.1 per cent of micro/small enterprises had no utilities, 30.2 per cent had electricity only, and only 15.48 per cent had access to both water and electricity.

⁵² Handicap International & National Centre for Medical Rehabilitation, *Bridging the Gap: Survey of Disabled Children & Adults*, 1999.

Figure 17. Utility access conditions of micro/small enterprises



(Source: The results of a National Survey, SMEs in Lao PDR, MIH-GTZ, 1996)

4.4 Government Policy and Regulatory Framework

The Government recognizes the importance of an appropriate legal and regulatory framework in order to facilitate business development and economic growth. Recent laws have included: Property Law, Tax Law, Business Law, Foreign Direct Investment Law, Labour Law, Secured Transaction Law and Bankruptcy Law.

However the country's legal system remains incomplete in many key respects. For several years following the introduction of the market-oriented approach, the state wanted to maintain controls over private business investment and growth. This did not permit the development of a transparent and consistent framework to give private sector businesses their necessary freedom of operation. In the light of globalization, business competition, and the development approaches of international agencies such as JICA, ADB and UNIDO, the State decided to review its policies. As a result a more enabling regulatory framework has been introduced.⁵³ In May 2002, for example: the government announced new business registration regulations which reduced the time needed to get a business license from several days to one.⁵⁴

Despite this progress, small businesses in Laos still find themselves operating in an economic and business environment that is generally unfavourable. This is seen in a number of ways:

- Because policies tend to be biased towards larger businesses, export-oriented sectors such as garments, timber and energy and a few large enterprises have been granted preferential rights for doing business in certain sectors. Most strategic sectors are dominated by a small number of large players, making the small entrepreneur's access to finance, equipment, raw materials and other

⁵³ JICA's workshop on "Macro Economic Sector support", March 2002; Asian Development Bank's workshop on "Private Sector Development"; March 2002; and UNIDO's workshop on "International Experiences on Support SMEs Development", May 2002.

⁵⁴ Vientiane Times "Firms enjoy fast permission to register", May 28-30, 2002, Vol. 9, No. 42, p.1-2.

inputs costly and difficult, and the state still maintains significant control over key sectors through a quota system or through its own enterprises.

- Micro and small business owners have limited knowledge of business law and taxation. Most small businesses have to pay their taxes in a lump sum. This is usually unrelated to their revenues or profits and is determined as a result of negotiations between taxpayer and tax collector. Micro and small businesses do not enjoy the tax incentives of some large businesses.
- Start-up and transaction costs for doing business are high due to complex administrative procedures and often to the corrupt practices of some government officials. The uncertainty and lengthy procedures for obtaining import licenses and permits have contributed to price increases for raw materials and so higher costs for the finished product.
- Micro/small enterprises have difficulty in distributing their products nationally. Goods and raw materials moving from one province to another often undergo several customs checks and tax processes, all of which add to the final cost of the products.

SECTION FIVE

DEVELOPMENT PROGRAMMES

This section discusses government and international and local agency activities in business development and financing, development of a policy and regulatory framework, and equitable participation by female entrepreneurs and entrepreneurs with disabilities.

In 2001 it was estimated that 39 per cent of Lao people lived in poverty, 53 per cent in rural and 24 per cent in urban areas. With its limited infrastructure, narrow human capital base, and relatively new economic and social institutions, Laos is at an early stage of socio-economic development. More than 80 per cent of the population live in rural areas and 90 per cent of income comes from subsistence agriculture. Per capita income in 2000 was US\$350.

5.1 Government Objectives

The Seventh Party Congress in March 2001 committed itself to removing the country from the list of least developed nations by 2020. To do so the Government developed an eight point National Socio-Economic Priority Programme: (1) food production, (2) commodity production, (3) stabilization of shifting cultivation, (4) rural development, (5) infrastructure development, (6) expansion of external economic relations and cooperation, (7) human resource development, and (8) services development.⁵⁵

Economic Development objectives of the Party show a role for micro/small enterprises:

- “Explore and exploit those sectors endowed with potential in order to promote production;
- Set forward a policy that looks for funds and distributes investment appropriately;
- Shift from a nature-based economy to a production economy by focusing on integrated agricultural development;
- Concentrate on the interaction between farming production and distribution, and the application of new techniques;
- Ensure the promotion and expansion of the family business sector;
- Link agricultural expansion with rural development by stimulating production, and encourage family businesses;
- Put family and village plans into practice, organise development funds, and establish village service cooperatives;

⁵⁵ Interim Poverty Reduction Strategy Paper/Joint IDA-IMF Staff Assessment of the Interim Poverty Reduction Strategy Paper, 2001.

- Extend support in terms of budget, techniques and technical skills to ethnic groups in mountainous areas and encourage their participation in society.”⁵⁶

Socio-cultural Development objectives also show the relevance of micro/small enterprises:

- *Development of the national education system* including eradication of illiteracy, moving towards compulsory primary school education, increased educational opportunities at all levels for girls, children of the poor, and ethnic groups, and improvement of vocational and technical skills.
- *Improvement of health and hygiene* including expansion of basic health care at grassroots level through programmes focussing on the mother and child and nutrition, provision of free health services for disadvantaged people and orphans, and training to upgrade medical personnel.

The Congress report indicated that the state economy, the people’s cooperative economy, and other economic sectors, including those with infrastructure development projects, are all key to the country’s economic transformation from a subsistence economy to one of commodity production.⁵⁷ However it emphasised that the state economy is to be the central mechanism.⁵⁸ The report noted the need to promote a people-based “cooperative economy”, particularly in agriculture, handicrafts and services, through policies on finance, credit and marketing.

The report spoke of decentralizing the development process. Provinces, districts, and villages would become “strategic, budgeting, financial, and implementing units.”⁵⁹ This would require them to have the necessary technical and managerial capacity. The Congress noted that international cooperation would be necessary for successful development project (approximately 80 per cent of public investment comes from donor assistance).⁶⁰

The government also restated its commitment to participate in the Association of South-East Asian Nations (ASEAN) free-trade area and join the World Trade Organization. Since April 2001, the Lao government is able to borrow from the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF), while observing a long-term commitment to economic reform.

The five-year national socio-economic development plan, 2000 to 2005 includes ambitious targets: (1) halving the current poverty figure, (2) completely eliminating opium cultivation, and (3) achieving an average GDP growth rate of 7 per cent per year. Individual line ministries and other government agencies have elaborated on these targets in their development plans for each sector.

⁵⁶ Vientiane Times, Party Congress Special: Report to the Seventh Party Congress, Vol. 8, No. 21, p. 10-12, March 16-19, 2001.

⁵⁷ *ibid*, p. 11.

⁵⁸ *ibid*, p. 11.

⁵⁹ Interim Poverty Reduction Strategy Paper and Joint IDA-IMF Staff Assessment of the Interim Poverty Reduction Strategy Paper, 2001.

⁶⁰ Medium-Term Expenditure Framework and the Public Investment Programme, State Planning Committee, 2000.

5.2 Government Activities

As noted there is no national agency involved specifically in micro/small enterprise policy. There are no specific laws and regulations, and no policy for promoting micro/small enterprises or coordinating local and international inputs initiatives for small business development. The one major successful intervention is probably that of NGO 'income generating activities', which provide small amounts of credit.

Government agencies that support the private sector and micro/small enterprises include:

The Ministry of Industry and Handicraft which takes the leading role in the industry and handicraft sectors and includes the departments of Handicraft, Industry, and Geology and Mines. Such enterprises may be in the state sector, the private sector, or in a combination of both. Many matters however require other Ministries to be involved (e.g. regulations for exporting handicrafts means the Department of Handicraft must work with the Ministry of Commerce). The lines of demarcation in relation to micro/small enterprises are not clear and this results both in overlaps of work and in significant gaps.

The Ministry of Labour and Social Welfare which has a direct role in promoting employment, works also with the Ministries of Agriculture and Forestry, Industry and Handicraft, Health and Education, as well as the Youth Union, the Women's Union, and the international organizations that support employment development.

The budgets of these two main responsible Ministries however are very limited and their few services are of poor quality.

5.3 Government Policy and Regulatory Framework

Several major international agencies have been working towards a more favorable environment for private sector development in Laos.

The German Technical Cooperation Agency has cooperated with the National Organization for the Study of Policy and Administration in organizing workshops and in providing advice to middle and high-level government officials to develop a market-oriented economy through effective economic policies at national and provincial levels.

The Asian Development Bank has financed projects to develop potential markets, such as tourism, and helped promote enterprise through improved sub-regional linkages, rural access roads, power generation, and distribution services. The Bank has also helped improve the corporate governance of state-owned commercial banks and reduce administrative barriers to private investment.

The World Bank has assisted in land titling and is working on a social safety net project for retrenched public sector workers, which includes vocational training and small enterprise development.

The United Nations Development Programme (UNDP) and the ***United Nations Capital Development Fund (UNCDF)*** have supported rural microfinance development.

Other major donors such as the governments of **Australia, France, Germany, Japan, and Sweden, and the European Union (EU)** have assisted physical infrastructure development.

In March 2002 the Asian Development Bank, with the Bank of Laos, held a workshop on private sector development for public and private sector participants and international agencies. After the workshop a UNIDO development programme continued consultations in collaboration with Ministry of Industry and Handicraft.

5.4 Business Development Services

Business Development Services (BDS) provide entrepreneurship and skills training, advisory services on market and technology, business opportunities and assist in business linkages and associations. From 1995 to 1999, the Lao-German Small Enterprise Development Project, with the Ministry of Industry and Handicraft, ran the only entrepreneurship development training in Laos. The project was discontinued in 1999, and there has been no replacement.

Other agency programmes are oriented to technical skills:

The German Technical Cooperation Agency provides capacity and quality assistance to formal and informal vocational training centres. It has subcontracted the delivery of entrepreneurship development courses in these centres to Lao Enterprise Development Consultants (the successor of the Lao-German Small Enterprise Development Project).

The Finnish Government has supported the Youth Skills Training Centre in Vientiane to give training in management including computing and foreign languages.

The Mekong Project Development Facility was established in 1999 to provide services to medium and large businesses.

The Chamber of Skilled Crafts of Koblenz (Germany) has worked with the Lao Chamber of Commerce to promote handicrafts, and give training in sector-specific business management, product design in bamboo, rattan, silverwork and pottery, and exporting.

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) works with medium and large businesses in the garment/handicraft sectors to help develop exports. UNESCAP also conducts workshops on quality improvement and export marketing and assists Lao businesses to participate in international trade fairs.

The Japanese Overseas Volunteer Cooperation (JOVC) has provided skills training to villagers in rural Laos, particularly in weaving and natural dying.

5.5 Access to Credit

Many international agencies and NGOs are involved in the development of the finance sector. The Asian Development Bank has helped in the corporate governance of state-owned commercial banks and the restructuring of the banking sector. Seven state commercial banks have now merged into three. These steps have still not generated expected results and the Bank is considering further governance and capacity support.

In addition, there are many international agencies and NGOs engaging in the informal financial sector, principally: the World Bank, the International Fund for Agricultural Development (IFAD), La Caisse Française du Développement (CFD), Swedish International Development Assistance (Sida), the Asian Development Bank (ADB), the European Commission (EU), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Gmb, German Agro Action (GAA), Family Planning Australia (FPA) and the United Nations Development Programme.

These projects are mostly in agricultural and integrated rural development. However, they also cover credit schemes and revolving funds.

The International Fund for Agricultural Development funds the Xieng Khouang Agricultural Development Project, which has two credit components: cattle banks and irrigation loans.

La Caisse Française du Développement supports various projects, such as the Phongsaly Rural Development project and the Boloven Plateau Development Project, which provides loans for animal banks, and mobilizes savings deposits as part of a community development credit and savings scheme.

Swedish International Development Assistance (Sida) supports the Lao-Swedish Forestry Programme that initiated a village-based credit programme. This programme also promotes income-generating activities in agriculture, forestry, or home-based activities, with the aim of encouraging sustainable land use.

The Asian Development Bank has implemented its Tree Plantation Project, which has provided loans for farmers and for farm enterprises through the Agriculture Promotion Bank (APB). ADB also expects to launch a Rural Finance Development project, which will help reform and improve the services of the APB and develop credit unions as an alternative source of rural financial services.

The European Commission, GTZ and the ***UNDP*** also have various rural agricultural projects that provide Village Revolving Funds, rice banks, animal banks and help form credit unions. They also provide loans directly and/or through APB or other NGOs.

The World Food Programme (WFP) provides capital to NGOs, ***CARE International, Adventist Development and Relief Agency (ADRA), ZOA*** who then establish rice banks.

In addition to international agencies, NGOs are also active in the field of microcredit and Village Revolving Funds. ***ADRA, CARE International, Coopération Internationale Pour le Développement et la Solidarité (CIDSE), the Mennonite Central Committee (MCC), Norwegian Church Aid (NCA), Oxfam Solidarity-Belgium, Quaker Service Laos (QSL-American Friends Service Committee), Save the Children-Australia (SCA), World Vision (WV), ZOA-Lao PDR, and German Agro Action (GAA)*** are some of the NGOs that help organize rice banks and animal banks for buffalo, pigs and poultry raising. They also organize revolving funds for activities such as seed purchase, drug purchase, nurseries, planting mulberry trees, feeding silk worms, and weaving.

Other NGOs also provide loans for a range of purposes. ***Community Aid Abroad (CAA)*** gives loans for community and women's development. ***Concern - Lao PDR*** provides loans for repatriation and resettlement. ***CONSORTIUM*** provides income generation loans for repatriation. ***Canadian Volunteer Organization (CUSO)*** offers agriculture, pig rearing and fish culture loans. ***World Concern (WC)*** gives loans for

agriculture, pisci-culture, small animal raising and land clearance. The *Écoles Sans Frontières (ESF)*, *Action Nord SUD (ANS)*, *Pact*, and *SIPSACRES* are involved in cash community credit and savings, credit union, and microfinance activities, respectively.

The *Coopérative des Crédits pour le Soutien aux Petites Unités de Production* is a credit union organized by a private cooperative. It provides loans to groups of small entrepreneurs with an interest rate slightly higher than banks, but much lower than the *Houay*, or the moneylenders.

5.6 Support for Female Entrepreneurs

Aside from the dimensions of international NGO programmes that address gender needs there are two main coordinating agencies that have different degrees of responsibility for the support available to female entrepreneurs.

The Lao Women's Union (LWU)

This is a long established government agency, and acts as the official representative of Lao women, and children, from the various ethnic groups and promotes equal rights, freedom from discrimination, and a better life for Lao women.

While promoting female-owned micro/small enterprises was part of the LWU's 1998-2003 Development Programme, it has had limited resources and a very broad coverage (600,000 LWU members throughout the country). The promotion of women in micro/small enterprises appears to be a relatively unimportant part of the LWU's overall programmes. Of the 19 projects in the LWU's Development Programme only two have links to micro/small enterprises: the 'Income Generation Project for Women and their Families', and 'Vocational and Skills Training for Women.' In these the LWU, in cooperation with international agencies such as UNDP, UNICEF, JICA, and Family Planning Australia, provides training in gender issues, small-scale business, accounting, and weaving. Priority is given to rural women engaged in agriculture-related micro business and inherited weaving.

A project that has been successful was the Small Enterprise Development Project, a joint Lao-German government project that directly promoted micro/small enterprises through intensive training and counseling with specific consideration of gender issues. Unfortunately, it no longer exists.

The National Chamber of Commerce and Industry (NCCI)

The chamber also supports the development of enterprises. It has 350 member companies covering a broad cross-section of the Lao business community in Vientiane and in provincial cities.⁶¹

The NCCI consists of nine business groups, eleven sectors, and one association: the Lao Textile and Garment Industry Group, the Lao Handicrafts Group, the Foodstuff and Consumer Group, the Construction Material Group, the Construction Group, the Hotel Group, the Vehicle and Spare Parts Group, the Medicine Group, the Petroleum

⁶¹ National Chamber of Commerce and Directory, Membership Directory, 2001.

Group, the Association des Exportateurs de Café, the Travel Industry Sector, the Agriculture and Forestry Sector, the Consultancy Sector, the Transportation Sector, the Banking and Insurance Sector, the Mining Sector, the Restaurant Sector, the General Industry Sector, the General Trading Sector, and the Education Sector.

Of these the main group involving women is the Lao Handicrafts Group. Through it, female entrepreneurs receive training in marketing and production, and some involvement in domestic and international trade fairs. However the assistance is very limited and is still not accessible by many female owners of micro/small enterprises in textile and weaving.

5.7 Support for Entrepreneurs with Disabilities

More attention is now being paid to the needs of persons with disabilities. There are four government agencies and several NGOs which work in cooperation with local partners mainly under the umbrella of the Ministry of Health and the National Center for Medical Rehabilitation.

The Ministry of Health (MoH)

This Ministry oversees all development projects for people with disabilities in Laos. The Ministry is also responsible for the prosthetics and orthotics, particularly for civilians that are delivered through the National Center for Medical Rehabilitation, a Department of the MoH.

The National Centre for Medical Rehabilitation (NCRM)

This was set up in 1962 within the MoH. Its 14 sections include medical rehabilitation, orthopedic surgery, production and assembly of orthopaedic prostheses and orthoses, staff training, vocational training for persons with disabilities, and a special school for children who are visually and hearing impaired. The NCRM has also a Community-Based Rehabilitation Unit at the centre itself, and four in the provinces where disability cases are more prevalent: in the North: Xieng Khouang, and Louang Prabang; and in the South: Sekong, and Champasack.

The Ministry of Labour and Social Welfare (MLSW)

This Ministry plays a similar supervisory role to the Ministry of Health for projects related to disabilities. Through a central department of War Veterans and Social Welfare, the MLSW is in charge of supporting disabled people at the grass roots level, including war veterans. Most of the staff has some kind of disability themselves or were soldiers during the war. This department also is responsible for the control, management and funding of the prosthetic centre at Ban Keun in Thoulakhom District, and the Provincial Labour Departments. The Ban Keun centre is relatively large with two buildings for prosthetic operations.

The National Committee for Handicapped Persons (NCHP)

The Committee was established in 1995 following the signing of the Proclamation of the Asian and Pacific Decade of Disabled Persons by the Lao government. Its job is to coordinate efforts to promote full participation of disabled Lao people and to provide a link between the two ministries, of Health, and of Labour and Social Welfare to

coordinate government policy and programmes. The President and Vice President of the Committee are the Minister of MSLW and the Vice-Minister of MoH respectively.

The NCHP Strategic plan for 2000-2003 includes twelve key areas such as improving coordination between the government, and international and local organizations, reviewing legislation that addresses inequalities for people with disabilities, promoting education, and ensuring employment for disabled people.⁶³ It aims to develop support for vocational training in agriculture, handicrafts, electronics, and mechanics, and to promote both enterprise development for people with disabilities⁶⁴ and the capacity development of Lao personnel working with disabled persons.⁶⁵

The Lao Handicapped Women and Children's Association (LHWCA)

This is a volunteer-based mass organization under the overall supervision of the Lao Women's Union. It advocates the common rights of Lao handicapped women and children. The association also seeks funds, support, and training from donors for training disabled women and children in order to encourage self-sufficiency and reduce the 'burden on the party, government, parents and society'.

The Lao Disabled People's Association (LDPA)

This is the only local agency working to support people with disabilities. It was formed in 1990, and became an Association in 1995. In July 2001, it was officially recognized by the government as a non-profit NGO and self-help organization, representing people with all types of disabilities. LDPA's activities include advocacy and representation at local and international levels, workshop organization, and management and leadership development for provincial leaders with disabilities. It offers vocational training to its members and courses such as computer studies, office management, accounting, sewing, and making handicraft products. It has more than 400 members.⁶⁶ The Association has recently established a Disabled Women Development Centre that provides vocational skill training for women with disabilities. It expects to develop 32 skilled persons every year through four different skills training courses: dress-making, stationery products and home deco from banana paper weaving and computer.

Handicap International Organization (HI)

This is a well-known international NGO working in rehabilitation services. In 1997, it conducted a national socio-economic survey in cooperation with UXO Lao. Since then it has provided technical and institutional assistance to UXO Lao, and was also involved in clearance activities in Savannakhet. It assists the physical therapy unit of Mahosot Hospital and three other hospitals in Vientiane. It also provides training programmes for hospital physical therapists. In the future, it plans to provide similar assistance in the provinces.

POWER-COPE

This operated under the NCMR in 1995 with a programme to reconstruct and re-equip the NCMR Prosthetics Department. In 1996, POWER conducted a nation-wide survey

⁶³ Strategy Plan for Disabled People Rehabilitation and Development, 2000-2003, National Committee for Handicapped Persons, Ministry of Labour and Social Welfare, 2000.

⁶⁴ Douangnot, B., Head Secretariat, National Committee for Handicapped Persons, 2001.

⁶⁵ Report on Performance of National Committee for Handicapped Persons from 1995-2002, Ministry of Labour and Social Welfare.

⁶⁶ Sivila, C., Board of Directors, Lao Disabled People's Association, Vientiane Municipality, 2002.

of disabled people focusing on amputation. It estimated there were approximately 4,000 amputees in Laos. In 1997, POWER joined with World Vision, MoH-NCMR, and the Cambodian School of Prosthetics and Orthotics to form the Cooperative Orthotics and Prosthetic Enterprise (COPE), to provide a national service in prosthetics and orthotics free of charge. COPE plans to increase awareness of its services. Accommodation will be constructed in five provincial centres and the patients' subsistence and travelling expenses will be provided. It is estimated approximately 1,200 limbs and 4,000 orthotic devices are needed each year.

The Leprosy Mission International (TLMI)

This agency is assisting the National Center for Dermatology and Venereology (NCD) to rehabilitate people with Hansenite's disease. TLMI aims to improve people's standard of living via community-based interventions and its work covers prevention, health, education, referral for treatment and surgery, and footwear production. It plans to have the rehabilitation team travel to the field, see people in hospitals, trace people who were driven from their villages into the forests, and eventually assess the rehabilitation needs of each individual.

World Concern

This agency initiated a Community-Based Rehabilitation Project in Salavan Province in 1992. It promotes physical rehabilitation and income generation for persons with disabilities. This project however, as noted earlier, reported misunderstandings about the concept of credit, resulting in poor loan repayment.

Save the Children Fund UK

This agency working with the Ministry of Education and the Ministry of Health, particularly the NRMC, and with support from UNESCO, piloted the first Inclusive Education Project in the academic year 1993-1994 in one primary school in Vientiane Municipality. In the academic year 2000-2001, the project was expanded to all provinces, and covered 41 districts out of the total of 141. 636 children with mental and physical disabilities attended the 162 schools that are under the project. They comprise 49 kindergartens, 104 primary, and 9 lower secondary schools. The SCF-UK aims to expand the project to all 141 districts by 2005, and to include 441 more schools under the Inclusive Education Programme. These will be: 134 kindergartens, 279 primary, and 28 lower secondary schools.⁶⁷

Sisters of St. Paul de Charters of Thailand

This agency contributed funds for the building of a vocational training centre for students with disability in Ban Sikert, 14 kilometers outside Vientiane, according to a plan proposed by the NCMR. The centre started operating in 2000 and now offers six courses in secretarial skills, accounting, computing, English language, tailoring and electronic appliance repair.

⁶⁷ Save the Children UK, Inclusive Education Annual Conference: Report on Inclusive Education 1993-2001, and Inclusive Education 5-year Plan, 2001-2005, Vientiane, 2001.

SECTION SIX

CONCLUSIONS AND RECOMMENDATIONS

This section draws conclusions from the study and offers preliminary recommendations on how best to promote the development of micro/small enterprises and cooperatives in Laos. The recommendations also consider how to target rural micro/small enterprises, women, and persons with disabilities.

6.1 Conclusions

6.1.1 Micro/Small Enterprises and Cooperatives in Laos

1. Micro/small enterprises are contributing significantly to the economy at both household and national levels. They create considerable employment, accounting for approximately 259,000 full-time workers, or 10 times the employment created by large enterprises. Micro/small enterprises are important for generating the needed volume of local employment partly because larger enterprises in Laos are often unable to meet the standards required by international investors, for example in workforce skill. Micro/small enterprises can also help mobilize the country's resources with less external dependency.

2. In rural areas micro/small enterprises are often a necessary supplementary source of income. They are also a source of collective entrepreneurial activity, utilizing family cohesion and resources to operate single or multiple enterprises.

3. Evidence from the 1996 MIH-GTZ survey showed that women-owned and rural micro/small enterprises contribute significantly to employment. Women own 63 per cent of all micro/small enterprises, which in turn employ 57 per cent of the workforce while 88 per cent of micro/small enterprises are rural and these businesses employ 87 per cent of the workforce. Traditional social and cultural attitudes however still affect business practices through gender-based stereotyped division of economic roles.

4. Of micro/small enterprise owners, 43 per cent are former farmers and 30 per cent are former government employees. These are primarily first generation entrepreneurs engaged in the commerce and manufacturing sectors. Some 55 per cent of businesses terminate in the first four years and many entrepreneurs will start secondary micro-enterprises rather than expand their primary business. This may suggest that for small entrepreneurs the traditional approach of copying others is not a sufficient means of strengthening entrepreneurial competencies or choosing viable business opportunities.

5. An estimate of the proportion of the population that has disabilities varies between 0.2 per cent and 10 per cent depending on the data and definitions used. A recent study by the NCHP estimated 6.8 per cent or 362,420 were persons with disabilities. A higher number is found in provinces that have severe incidence of unexploded ordnance, including Xieng Khoung in the North and Savannakhet in the South. Persons with disabilities tend to belong to the poorest socio-economic level and face numerous physical, social, and cultural obstacles to their participation in

society and in the economy. In particular they have limited access to transport and social services.

6. Assistance provided to disabled target groups by government agencies and international donors has focussed primarily on physical rehabilitation, and only more recently and to a very limited degree on income generation. Even though many persons with disabilities are talented and inherently capable, their talents are not being developed. Training courses tend to be technical in nature, usually in agriculture, carpentry and electronics and in traditional crafts such as weaving, crafting, and banana leaf paper-making. They have virtually no business training and few persons with disabilities own micro/small enterprises.

7. After the introduction of a market economy, older style state-dominated cooperatives were phased out. Contemporary cooperatives exist predominantly in the field of credit provision but there are other self-help groups with cooperative features working in the agricultural sector. The government supports a ‘cooperative economy’ but the legal status of cooperatives is unclear.

6.1.2 Opportunities and Constraints Faced by Micro/Small Enterprises Education and Skills Training

1. Education and skills training are necessary for a successful micro/small enterprise sector, but in Laos, ordinary schooling is limited and technical and enterprise training is minimal. Successful entrepreneurs generally have had more school education than the national average but receive their business training informally through friends and family members. Access to all forms of formal training is severely restricted for many entrepreneurs, particularly those rurally-based and those women affected by traditional attitudes to women’s education and economic roles.

2. People with disabilities are seriously affected by limited access to education and training. Some Inclusive Education Programmes exist which bring children with disabilities into a normal school environment, and there are a number of organizations that provide health care, rehabilitation services, and loans for income generation. Community-Based Rehabilitation (CBR) focuses on community involvement in providing these support services. It must be expected, as well, that a period of time will be needed for most persons with disabilities to become accustomed to the idea of engaging in income-generating activities

3. For all target groups in the micro/small enterprise sector existing technical skills training systems need to be examined for their quality, accessibility and appropriateness for market demand. Specialized business training is going to be needed for people with no prior business background.

Access to Credit

4. Despite the fact that finance is widely recognized as critical at both business start-up and expansion stages, it is generally not accessible and this remains a serious problem for the development of micro/small enterprises. Borrowing from informal sources of loans, such as friends or informal savings and credit groups, continues to be the normal practice for business ventures but with interest rates much higher than loans through formal channels. Women prefer not to go to banks, as it is traditionally believed to be shameful to let others know that one has debts. Bank procedures are also more difficult for people with limited time and understanding, compared to the costly but familiar practices of the informal credit sources.

5. People with disabilities have an even harder time. It is difficult enough for them to achieve a level of technical skill but with a poor understanding of how credit works, access to start-up finance is complex and confusing.

6. The formal banking sector with its strict collateral requirements usually provides loans to selected clients and large industries rather than to micro/small enterprises. The Agriculture Promotion Bank, owned by the state, is the only bank with branches in all provinces that provides small-scale loans. But it has limited funds, relies mainly on foreign aid, and has relatively low internal savings.

7. In the informal finance sector, credits, savings, and revolving fund schemes are the most familiar forms that assist income generation activities. This is sometimes done in coordination with the APB, which targets the same beneficiaries. Through these efforts beneficiaries become more familiar with the formal banking system and begin to overcome their fear of debt. Many of these schemes operate successfully, generally achieving their social and economic objectives for the target areas. The primary concerns are to help both beneficiaries and providers better understand how these schemes work and manage them in more sustainable ways.

Infrastructure

8. Only 16per cent of the nation's roads are in good condition. This severely limits the movement of goods and also the development of networks between entrepreneurs. These problems are even more severe in remote provinces.

Government Policy and Regulatory Framework

9. A legal framework to support micro/small enterprise and cooperative development is still at an embryonic stage, led by donors and a few concerned government bodies. Policy distortions favor large-scale enterprises and create unfair competition for micro/small enterprises in accessing financing, equipment, and raw materials. In the past, micro/small enterprises also faced complicated and lengthy administrative procedures and corrupt practices by officials. All these combined to make micro/small enterprise products less competitive in terms of price, quality, and distribution. Micro/small enterprise owners often have limited knowledge of business law and taxation. It is true that faster business registration procedures have been recently introduced, but this is only a beginning. A supportive framework must be built including the removal of barriers to full participation by entrepreneurs who are

rurally based, those held back by gender-based inequalities, and those with disabilities. Once in place such a framework must also include a mechanism for frequent assessment of its effectiveness.

10. The Lao Women's Union is the only mass organization that promotes 'women's participation in economic development.' It carries out a number of projects for rural and urban women. The National Committee for Handicapped Persons has put forward a similar strategy to help people with disabilities to become more self-reliant.

6.1.3 Development Programmes

Overall Government Strategic Direction, Priorities and Plans

1. The government's "strategic direction" for the economy has poverty alleviation as a key goal, in part through transforming the agricultural sector from maintaining subsistence livelihoods to producing marketable commodities. Family businesses with agriculture-related production are to be encouraged as a way of improving their living conditions. Responsibility for infrastructure and for poverty alleviation is to be transferred to regional and local levels and provinces, districts and villages will take charge of the planning, budgeting, and implementation of projects. This "strategic direction" is intended to maintain a leading role for the state economy, promote cooperatives and give greater employment to women.

2. The strategic direction also gives priority, in terms of education, vocational/technical training and health, to the poor, ethnic minorities, and women. However the improvement of living conditions through the promotion of micro/small enterprises still does not yet appear within national policies.

Organizations Supporting Micro/Small Enterprises and Employment

3. A number of government agencies work in a very limited way to support private enterprise and employment. Some, such as the Lao Women's Union, work directly with women, others work with the rural population, or with persons with disabilities. So far there is no government organization working specifically to promote micro/small enterprises. Other organizations work indirectly on micro/small enterprise development but mainly by focussing on the interests of their own group. One such as the National Chambers of Commerce and Industry which consist of nine business groups, one association, and eleven sectors representing various enterprises and industries. The interests of people with disabilities are safeguarded by the Lao Handicapped Women and Children's Association, and the Lao Disabled People's Association.

4. All agency assistance to private enterprises is limited by severe budget and capacity constraints so that assistance from international donors and NGOs has been essential. Most efforts have been centered on promotion of micro/small enterprises through a supportive policy framework, business development services, and access to credit. So far there has been no practical initiative in the development of cooperatives.

Policy and Regulatory Framework for Micro/Small Enterprises

5. Key international development agencies such as JICA, ADB, and UNIDO have worked with their Lao counterparts through a number of workshops to develop a market-oriented economy, national and provincial economic policies, and improved governance for state-owned commercial banks. Efforts are being made to improve the physical infrastructure needed for business development through rural access roads, power generation, and distribution. Such interests as the World Bank, European Union, United Nations Development Programme, Japan, Sweden, France, and Australia have been involved in this work. However it is difficult to identify any agency initiatives to mainstream micro/small enterprise development within government policy.

Business Development Services

6. Some services related to business development are being delivered, mainly through formal and non-formal vocational skills training in urban and rural areas, and through exposure to workshops and trade fairs. These services have been limited to specific groups and often have insufficient market-orientation. Other services such as entrepreneurship training, advisory services on markets and technology, assistance in establishing business linkages, and developing business associations have all been extremely limited.

Access to Credit

7. Improving the formal finance sector is an ongoing focus for a few international donors. Informal forms of financing through village revolving funds, rice banks, animal banks, credit and saving schemes have been on the increase through the work of international agencies and NGOs operating in rural and community development. Attention is now being given to the sustainability of these programmes.

6.2 Recommendations

Interventions are required both to support the whole micro/small enterprise sector and to work on specific micro/small enterprise issues.

6.2.1 Interventions for General Micro/Small Enterprise Development

(1) Enabling policy and regulatory environment

If the overall business environment has a negative impact on the development of small businesses and cooperatives, then direct assistance to any specific group or project is likely also to have only limited impact.

It is recommended that a national Micro/Small Enterprises and Cooperatives Promotion Committee be established.

It should include representatives from concerned line ministries such as the Ministry of Industry and Handicraft, the Ministry of Commerce, the Ministry of Agriculture and Forestry, the Ministry of Labour and Social Welfare, the Ministry of Education, and

the Ministry of Finance, as well as representatives from the private sector including micro/small enterprises and cooperatives.

The committee should:

1. Formulate standard definitions of micro, small, medium and large enterprises and cooperatives so that assistance programmes can be tailored more appropriately.
2. Clarify the definition of cooperatives, and accord them an appropriate legal status.
3. Advocate micro/small enterprises as a means to foster employment and address the obstacles that impede rural entrepreneurs, women, ethnic groups, and persons with disabilities from running successful enterprises.
4. Introduce micro/small enterprise development as a standard policy imperative in addressing other areas of government activity such as poverty reduction. Use both informal and formal channels to develop better awareness among government personnel of the benefits of micro/small enterprise development to socio-economic progress and employment creation
5. Create better awareness regarding the role of micro/small enterprises in economic development and employment and the importance of targeting specific groups. Stakeholder organizations should be given the relevant technical knowledge to assist stakeholder organizations to include these elements in their project designs.
6. Encourage organizations to adapt existing programmes to be more sensitive to the different needs and obstacles, as experienced by women and men, ethnic groups and persons with disabilities, and establish follow-up systems to assess project effectiveness.
7. Ensure that micro/small enterprise development is reflected in overall country strategies, e.g. the Country Assistance Program and Project Preparatory Technical Assistance. The promotion of women and men with disabilities should also be prioritized and expressed in specific targets within a comprehensive strategy.
8. Develop sector and location specific strategies for promoting micro/small enterprises and cooperatives. Provincial and district levels need to be resourced to make thorough evaluations of local economic and business strengths, weaknesses, opportunities, and threats.
9. Develop laws and regulations that recognize, protect, and promote the interests of micro/small enterprises and cooperatives. These laws should cover free and fair trade, access to basic infrastructure and related public utilities, equalities between women and men in access to credit, import restrictions on certain products, subsidies for vulnerable sectors, such as processing substitute products, tax reform, and the establishment of micro/small enterprise and cooperative associations.

10. Coordinate the various international and local efforts in micro/small enterprise and cooperative promotion so as to maximize limited resources.
11. Monitor national micro/small enterprise development strategies so that useful lessons can be learned and acted upon.
12. Learn from other countries the best practices for promoting micro/small enterprises and cooperatives.

(2) **Data**

Formulation of policy, intervention strategies and indicators of success depend on updated comprehensive data. Despite the smaller studies on specific issues and programmes carried out within the last few years and integrated into this report, the last comprehensive study was done in 1996. Since then there has been remarkable expansion in the overall private sector and in particular in the small/micro enterprise field.

It is recommended that:

- Either a 1996-style survey be undertaken with expanded terms of reference to take into account the shape of the private sector in Laos as it has emerged since 1996 and the refinements in the analysis of BDS that has arisen out of international experience;
- Or a series of specific studies related to the policies and programmes that may be adopted in particular sub-sectors, but co-ordinated within an overall research plan and agreed common definitions and objectives. This research should be co-ordinated with the mechanisms for evaluation and review of the policies and programmes adopted.
- Research is also needed on the current status of cooperatives including characteristics, size, composition, structure, sector, opportunities, and constraints. It should focus on agriculture and related sectors where there is considerable promise for cooperatives to assist in economic development both urban and rural.
- Research is also needed on people with disabilities and their micro/small enterprise practices. This would help find better ways to integrate these persons into the existing micro/small enterprise promotion environment. Future projects could include persons with disabilities and be designed to ensure promotion of the equality of the target group as a whole.
- Assessment is needed of the impact of the present regulatory and policy environment both as to the financial, time, and opportunity costs to micro/small enterprises of compliance with the present regulatory environment and on their ability to expand and so create more employment.

(3) Business Development Services

Laos is a small country and at a relatively youthful level of development in terms of a contemporary private sector. There is therefore potential for a coordinated 'state of the art' strategy to be developed among the relevant national and international agencies as to how to apply the latest experience in poverty alleviation, employment creation and private sector development. A number of steps are recommended:

3.1 The formation of a national Micro/Small Enterprises and Cooperatives Promotion Committee could be one mechanism to fashion this strategy.

3.2 A BDS Centre has been proposed, to be attached to one of the existing organizations supporting micro/small enterprise development. It would:

1. Provide training on entrepreneurship, basic business management, and marketing for new micro/small enterprises.
2. Offer advanced training for established entrepreneurs.
3. Provide counselling as an ongoing process for new entrepreneurs, as well as for those at turning points within different stages of their business.
4. Provide updated information on technology and markets that is designed to enhance productivity and competitiveness.
5. Clarify and respond to the differing needs of male and female entrepreneurs, rural entrepreneurs and entrepreneurs with disabilities.

However a BDS programme, and such a Centre, should be tailored to the needs of the large number of geographically dispersed micro/small enterprises in Laos.

3.3 No single form and type of assistance may be appropriate to all micro and small enterprises and a careful study should be made of the sources of advice and support that already exist in Lao communities and how this can be improved. Private sector delivery of business development services needs also to be a priority over the medium to longer term. Imaginative delivery of business development services through print media and radio, formal and informal networks -- or packaged with information flows via both private and public sector personnel -- should all be actively explored.

3.4 At an early stage entrepreneurs should be assisted to form business associations relevant to their locality, size and sector. These associations should be encouraged not only to take responsibility for many business development services but also to advocate on behalf of their members to Government and other authorities and agencies. Such associations will need capacity building and governance training. To be effective such interventions should understand existing structures and cultural patterns of decision-making in Lao communities.

3.5 Laos should also be able to benefit from the international reappraisal of cooperative and other forms of group enterprise. Such business systems may be a natural outgrowth of existing microfinance schemes or arise as a means of bulk purchasing or marketing for micro/small entrepreneurs. It will be important to identify the patterns of social capital formation and maintenance that exist in Lao family and community relationships and for external interventions to work with Lao leadership in developing appropriate models of cooperative enterprise.

3.6 Consideration should be given to introducing and adapting a globally experienced business skills programme suitable for micro/small enterprises, such as the ILO's Start and Improve Your Business Programme.

(4) Improving access to credit

Both formal and informal financing systems should be used to support micro/small enterprises. Interventions can be at two levels: managerial and entrepreneurial. At the managerial level the suggested national Micro/Small Enterprises and Cooperatives Promotion Committee could take the leading role with assistance from donors to:

Formal sector

1. Advocate the provision of loans for promoting micro/small enterprises particularly to the Ministry of Finance and the Central Bank. Some guidelines for including loans for micro/small enterprises and cooperatives into the concerned Ministry's operations cycle could be as follows:
 - The micro/small enterprise and cooperative sector is important to employment creation and the national economy and should be effectively financed;
 - Awareness is needed among the relevant ministries and the banks of the importance of including micro/small enterprises within their loan programs; and
 - Resource the relevant Ministries with the necessary technical know-how in designing their lending programmes.
2. Loans programmes should be designed according to the kinds of micro/small enterprises involved, including those of women and marginalized groups, and should incorporate small-scale funds, flexible credit schemes and terms, manageable banking procedures for entrepreneurs, and access for people with disabilities.
3. Small entrepreneurs should be encouraged to establish active relationships with commercial banks, by opening some kind of account at an early stage.
4. As banks have preference for real estate collateral for loans, entrepreneurs should be advised to establish clear and registered title to any relevant real estate.

Informal sector

Credit and revolving funds implemented by community-based development programmes will continue to be a key source of funds for micro/small enterprise development and promotion. This sector can also act as a 'bridge' between the formal banking sector and micro/small enterprise owners, particularly those disadvantaged or marginalized.

Through participation in informal credit schemes, the target groups of a project can start to develop more confidence in approaching the formal sector as an alternative source of funding. Informal credit programmes that at present are disparate might be

appropriately integrated. To improve the informal financial sector it is also recommended that:

5. Loan provision is mainstreamed in any micro/small enterprise development or promotion project.
6. Accompanying any credit scheme, savings should be encouraged to ensure that the overall system remains viable. The management committee of the scheme should be community-based and well-trained.
7. In designing any micro-finance component in micro/small enterprise development projects, international aid agencies should continue to pay attention to establishing real interest rates that include appropriate cost recovery mechanisms and so avoid creating distortions in the savings and credit market.
8. Experience should be drawn from earlier development projects to ensure the financial sustainability of such schemes.
9. Monitoring and evaluation is vital though this is a new practice for many organizations and they will need capacitating appropriately.
10. Micro/small enterprise development projects should cooperate with the formal banking sector and with the APB bank. The bank could act as a kind of 'clearing bank' for such projects, and save and release funds according to approvals made by fund management committees at grassroots levels. This process could strengthen the competence of these committees.

6.2.2 Interventions for Specific Micro/small Enterprise Issues

1. Micro/small enterprises that are rural, female-owned, or family businesses have a high capacity to absorb labour, yet they receive comparatively little support for their start-up and growth. Such micro/small enterprises have emerged mostly around the commerce and manufacturing sectors in the retail, textiles and food processing sub-sectors and should be given special attention. The government's guidelines recognize the need to promote rural family businesses, but so far the emphasis has been on agriculture-related production. It is recommended that agriculture-related micro/small enterprises be given more attention. Any proposed production or business venture should be thoroughly studied and include appropriate geographical focus, topography, climate, soil quality, as well as assessment of the potential of the target entrepreneurs and skills needed.
2. Improvement efforts need to be made on many aspects of micro/small enterprise creation simultaneously including skills training, credit provision, and ongoing technical and managerial counseling. The characteristics of rural people, particularly of rural women, point to credit and savings through informal self-help organizations at community levels being the most appropriate. Feasible business venture proposals, reasonable interest rates, and an effective fund management committee need to be built into any village based funds. This will require a continuous learning process with on-the-job learning and community participation.

3. Women and people with disabilities should be given a degree of priority in all projects and their families or groups also should also be considered as potential beneficiaries. This should be expressed in terms of specific targets within a comprehensive strategy. Interventions to promote family micro/small enterprises will help share responsibilities, labour and expertise among family members.

4. Projects should be implemented at provincial, district and village levels, and less at central level. This will require 'capacity building' for hosting institutions.

5. Assisting groups who are at present hindered from full economic participation by various institutional and attitudinal inequalities is a priority. However such efforts will require considerable capacity building on both sides of the bridge that separates these groups from mainstream society. People with disabilities for example will require confidence building measures and long term support. By the same token the business systems and community institutions in which they desire to participate will themselves need capacity and confidence building measures in order to be able to integrate the "newcomers" successfully.

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Appendix II

Persons consulted or party to discussions leading to this Study

1) ADB Workshop on Private Sector Development March 8, 2002

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- 4) Mr. Khenethong Sisouvong, Director of Lao Trade Promotion Centre, Ministry of Commerce;
- 5) Mr. Sivath Sengdouangchanh, Deputy Director of Law Department, Ministry of Justice; and
- 6) Mr. Houmphanh Sirisombath, Chief of Division of Business Promotion Committee, Prime Minister's Office.

The SME Committee met on March 8, 2002, with key Government officials, private sector business leaders, financial institutions and donor organizations.

**2) National Consultation Workshop on Draft SME Development Framework
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