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Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

Prime Minister's Office

No. 42 /PM

Vientiane Capital, Date: April 20, 2004

DECREE

ON THE PROMOTION AND DEVELOPMENT OF SMALL AND MEDIUM SIZED ENTERPRISES

- Pursuant to the Law on the Government of Lao PDR No. 02/NA, dated 6 May, 2003
- Pursuant to the Business Law No. 03/94, dated 18 July, 1994
- Upon the proposal of the Minister of Industry and Handicrafts No. 149/IH, dated 12 March, 2004

Prime Minister issues

DECREE:

Chapter I

GENERAL PROVISIONS

Article 1: Purpose

This Decree defines directions and policies and establishes an SME Promotion and Development Fund and support organizations together with regulations, practices and measures, to promote sustainable growth of small and medium sized enterprises aiming at expanding commercial goods production, trading and service business activities, so as to contribute to employment creation, the raising of living standards of people, and to lay the foundations for gradual industrialization and modernization and contribute to sustainable growth of the national economy.

Article 2: Definition of Small and Medium Sized Enterprises

Small and medium sized enterprises, or SMEs, are independent enterprises that are legally registered and operating according to the prevailing laws of the Lao PDR and are classified into the following size categories:

- i. Small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip, and
- ii. Medium sized enterprises are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred million kip or an annual turnover not exceeding one billion kip.

The SME classification determines the nature of the support measures available, according to the actual situation of the social and economic development in each stage.

In coordination with relevant parties the National SME Promotion and Development Office shall issue decisions on SME classification in each stage of development as deemed appropriate.

Article 3: Categories of SMEs

Small and medium sized enterprises are classified into three categories by sector:

1. SMEs operating in the commercial goods sector,
2. SMEs operating in the trade sector, and
3. SMEs operating in the service sector.

Article 4: Scope of Application of the Decree

This Decree is applied to all SMEs that are established and operating within Lao PDR as defined by sizes and sectors in article 2 and 3 of this Decree, with the particular aim of supporting the establishment, improvement and expansion of those businesses.

Chapter II

Directions and Policies for SME Promotion and Development

Article 5: Creating an Enabling Regulatory and Administrative Environment

The National SME Promotion and Development Office shall coordinate relevant line ministries and parties to improve existing regulations through reviewing regulations and implementation methods that are hindering establishment and expansion of businesses.

New regulations shall be issued in close coordination with representatives of all relevant sectors and parties, with participation by implementing agencies to ensure that new regulations are relevant, simple, clear and enforceable.

Provision and dissemination of information on regulations relevant to SMEs shall be improved to ensure that sufficient and updated information is available.

Article 6: Enhancing Competitiveness

The Government shall promote the development of SMEs' competitiveness through training of potential entrepreneurs, existing entrepreneurs and the SME workforce by providing technical assistance to improve the productivity of production and service operations under, quality, technology and entrepreneurs' management skills improvement projects. The Government shall support and closely cooperate with organizations, academic institutions, research institutes and technical institutes in implementing projects to develop entrepreneurs and skills of the workforce.

Article 7: Expanding Domestic and International Markets

The Ministry of Commerce shall provide information on markets, make available assistance in conducting market research, implement activities to promote Lao products, participate in domestic and international trade fairs, and facilitate SME access to public procurement.

Article 8: Improving Access to Finance

The Ministry of Finance and the Bank of Lao PDR shall provide budget, appropriate and comprehensive loan products, make available credit guarantee schemes or establish a specialized SME Promotion Bank to ensure that SMEs are provided with adequate credit according to established operational plans.

Article 9: Encouraging and Creating Favorable Conditions for Establishment of Business Organizations

The National SME Promotion and Development Office shall study and develop regulations to facilitate the establishment of business organizations, issue regulations that facilitate and encourage the establishment of business groups, associations, cooperatives and clubs, and provide assistance to build capacity of these organizations.

Article 10: Enhancing Entrepreneurial Attitudes and Characteristics within the Society

The Ministry of Education shall coordinate with the National SME Promotion and Development Office in the development of entrepreneurial training curricula and incorporate them into the education system and enhance the status and characteristics of entrepreneurs within the society in general.

Chapter III SME Promotion and Development Fund

Article 11: Establishment of the SME Promotion and Development Fund

The Government is authorized to establish the SME Promotion and Development Fund to provide support to SME promotion and development programs. The SME Promotion and Development Fund shall be managed by the National SME Promotion and Development Office. Separate regulations for the management of the SME Promotion and Development Fund will be issued.

Article 12: Income of SME Promotion and Development Fund

The SME Promotion and Development Fund shall receive income from the following sources:

1. The National Budget,
2. International grants or loans,
3. Voluntary donations and contributions by individuals and organizations, and
4. Services and the collection of fees and others.

Article 13: Expenditures of the SME Promotion and Development Fund

The SME Promotion and Development Fund shall be used for the following purposes:

1. To support SME promotion and development projects,
2. To provide financial support to SMEs,
3. To cover administrative expenses of the National SME Promotion and Development Committee,
4. To pay bonuses and other rewards to staff of the National SME Promotion and Development Office,
5. To develop human resources of the National SME Promotion and Development Office, and staff and workforce of the business sector,
6. To cover administrative expenses of the National SME Promotion and Development Office, and
7. To support other activities related to SME promotion and development.

Article 14: Annual Budget of the SME Promotion and Development Fund

The annual budget of the SME Promotion and Development Fund will be considered by the National SME Promotion and Development Committee prior to being submitted to the Government for approval.

Chapter IV

Action Plan for SME Promotion and Development

Article 15: Methods for Implementation of the Action Plan for SME Promotion and Development

All SME promotion and development measures will be planned and implemented in the form of projects and programs that will be in line with socio-economic development plans and the laws of the Government.

The National SME Promotion and Development Office shall issue standards and methods in developing projects and programs, and monitoring and evaluation of program implementation.

An action plan for SME promotion and development shall be prepared, consolidated by the National SME Promotion and Development Office, and submitted to the National SME Promotion and Development Committee for consideration and approval in principle prior to presenting it to the Government.

Article 16: Contents of the Action Plan

The contents of the Action Plan shall be related to projects and activities supporting SMEs in one of the following areas:

1. Promoting and developing SMEs in each sector with special attention to those considering appropriate utilization of local resources,
2. Financial support,
3. Technical support,
4. Enhancing the capabilities of entrepreneurs of SMEs and their personnel in the areas of marketing, finance, production, personnel, management and development together with other managerial areas,
5. Promoting improvement of the quality of commercial goods production, trade and services,
6. Promoting domestic and international market expansion,
7. Providing information,
8. Promoting research and development, including transfer of modern and appropriate technology, to SMEs,
9. Promoting linkages and support between SMEs and large enterprises,
10. Encouraging clustering among SMEs for mutual assistance,
11. Promoting and developing various organizations that play a role in promoting the development of SMEs,
12. Promoting and facilitating investment in establishment and operation of SMEs,
13. Granting privileges and incentives and advising SMEs on taxation issues,
14. Promoting and advising on issues related to employment, health protection, sanitation and environmental protection,
15. Promoting and supporting copyright, patent, trade mark and other intellectual property,
16. Improving and revising rules, procedures and practices which obstruct SMEs,
17. Promoting the establishment of new SMEs,
18. Promoting SMEs to apply accounting systems,
19. Advising on regulations and practices prescribed in the laws of Lao PDR, and
20. Other activities related to promotion and development of SMEs in order to foster business expansion and competitiveness.

Chapter V

Organization System and Mandate of SME Promotion and Development Organizations

Article 17: SME Promotion and Development Organizations at National Level

The SME promotion and development organizations at national level consist of:

- The National SME Promotion and Development Committee,
- The Standing Committee of the National SME Promotion and Development Office, and
- The National SME Promotion and Development Office.

Article 18: The National SME Promotion and Development Committee

The National SME Promotion and Development Committee shall be established as a public and business partnership.

The National SME Promotion and Development Committee shall operate in the form of meetings and advise the Government on policies and SME promotion and development projects and programs.

Article 19: Membership of the National SME Promotion and Development Committee

Membership of the National SME Promotion and Development Committee consists of:

1. Minister for Industry and Handicraft as Chairman,
2. Vice Minister for Finance as vice Chairman,
3. Vice Minister for Communication, Transport, Post and Construction as a member,
4. Vice Minister for Commerce as a member,
5. Vice Minister for Agriculture and Forestry as a member,
6. Vice Governor of Bank of Lao PDR as a member,
7. Vice President of Lao Women's Union as a member,
8. Rector of National University of Laos as a member,
9. President of Lao National Tourism Authority as a member,
10. President of Lao National Chamber of Commerce and Industry as a member,
11. Director General of the SME Promotion and Development Office as a member and its permanent secretary, and
12. Fifteen business people and senior people as members, to be appointed by the Prime Minister upon recommendation of the Chairman of the National SME Promotion and Development Committee.

Article 20: Criteria and Qualifications for Business People and Senior People Members

The National SME Promotion and Development Committee business people and senior people members shall have knowledge, competence and expertise, with more than 5 years experience in the field of business. They shall operate SMEs and be selected by representatives of the private SME sector.

The qualified members must possess the following additional qualifications:

1. be Lao national,
2. not be a bankrupt,
3. not be an incompetent person, and

4. not have been imprisoned, except for an offence committed through negligence or carelessness.

Article 21: Service Term of Business People and Senior People Members

The service term of business people and senior people members is three years (one term) from the date of appointment and they can be appointed for multiple terms.

Business people and senior people members shall vacate office upon:

1. death,
2. resignation,
3. being removed by decision of the Cabinet, or
4. lacking qualifications and others.

In case a business or senior people member, for any reason, vacate office prior to completion of his term, if there is an appointment of a new business or senior people member as replacement, the new appointed member shall hold office only for the remaining term of his predecessor.

Article 22: Meetings of the National SME Promotion and Development Committee

At meetings of the National SME Promotion and Development Committee, the presence of at least 2/3 of members is required to constitute a quorum. Regular meetings shall be held once every six months. In case of urgent matters, extraordinary meetings may be held at any time.

Article 23: The Standing Committee of the National SME Promotion and Development Office

Not more than nine members of the National SME Promotion and Development Committee shall be appointed as members of the Standing Committee of the National SME Promotion and Development Office to administer operations of the National SME Promotion and Development Office.

Mandate and membership of the Standing Committee shall be defined by the Chairman of the National SME Promotion and Development Committee.

Article 24: The National SME Promotion and Development Office

In the beginning the National SME Promotion and Development Office shall be set up as a technical office at departmental level under the auspices of the Ministry of Industry and Handicrafts to coordinate all matters related to SME promotion and development.

The National SME Promotion and Development Office shall consist of its Director General, who is appointed and dismissed by the Prime Minister upon the proposal of the Chairman of the National SME Promotion and Development Committee; Deputy Director Generals and technical staff are appointed and dismissed by the Chairman of the National SME Promotion and Development Committee.

The National SME Promotion and Development Office shall have independent financial status, its own seal and bank account and shall be managed by its Standing Committee.

Decisions on the establishment and operation of the National SME Promotion and Development Office shall be issued by the National SME Promotion and Development Committee.

Article 25: Authority and Duties of the National SME Promotion and Development Office

1. To act as a secretariat for the National SME Promotion and Development Committee in the formulation of policies and plans for SME promotion and development and to facilitate the operation of the National SME Promotion and Development Committee,
2. To define SMEs according to socio-economic conditions in each locality,
3. To manage the SME Promotion and Development Fund according to policies and decisions of the National SME Promotion and Development Committee,
4. To implement, monitor and evaluate SME support projects and annual SME development plans,
5. To report progress on SME promotion projects to the National SME Promotion and Development Committee and seek for approval of quarterly plans,
6. To disseminate information on legislation and regulations, SME support projects and socio-economic development plans of the Government to SMEs,
7. To upgrade knowledge and skills of the Government and private sector staff on SME promotion and development,
8. To coordinate all parties involved in the implementation of SME promotion and development projects,
9. To cooperate with international organizations in SME promotion and development,
10. To advise relevant agencies, State Owned Enterprises and the private sector in the implementation of SME promotion plans, and
11. To exercise other authorities and perform other duties as assigned by the National SME Promotion and Development Committee and as prescribed by law.

Article 26: Local SME Promotion and Development Organizations

1. The Government shall support and facilitate establishment of local SME promotion and development organizations as public-business partnerships in the form of production groups, associations, cooperatives and the like to suit the actual situation in each locality.
2. Existing Departments of Industry and Handicrafts in municipalities, provinces and special zones shall perform duties of promoting and developing SMEs at the local level, and coordinate with the National SME Promotion and Development Office, production groups, associations, cooperatives and others.
3. The National SME Promotion and Development Office shall develop and issue regulations on the status, authority and duties of local SME promotion and development organizations, including associations, production groups, cooperatives and others related to SME promotion and development at local level.

Article 27: Role of Provincial Governments, Municipalities and Special Zones

Authorities of provinces, municipalities and special zones are responsible for incorporating SME development policies and measures defined in this Decree into their socio-economic development plans according to the actual conditions of their localities.

Authorities of provinces, municipalities and special zones shall assist, cooperate and coordinate with the National SME Promotion and Development Office and local SME support organizations in developing and implementing SME promotion and development projects in their localities according to the actual situation in each locality.

SME development promotion programs and projects using State budget resources in the localities shall comply with the guidelines to be issued by the National SME Promotion and Development Office.

Authorities of provinces, municipalities and special zones shall provide six monthly reports on results achieved, the difficulties encountered and the solutions recommended on SME promotion and development in their localities to the Government through the National SME Promotion and Development Office.

Chapter VI

FINAL PROVISIONS

Article 28: Implementation

The National SME Promotion and Development Committee, relevant ministries, t ministry equivalent organizations and local authorities shall organize and strictly and realistically implement this Decree.

Article 29: Effectiveness

This Decree comes into effect on the date of its signing.

Prime Minister