



IMPROVING STARTING A BUSINESS IN LAO PDR

Introduction

1. **Reforming the business environment, as measured by the Doing Business indicators, remains a top priority for the Government of Lao PDR (GoL).** Based on the Prime Minister's Order No.02 on Feb. 1, 2018, relevant line ministries have started to reform indicator-linked areas by setting up working committees led by deputy ministers and comprised of senior and technical officials from relevant departments. The Prime Minister has issued subsequent notifications to strengthen and further guide this process. The Ministry of Planning and Investment (MPI) is overseeing coordination with line ministries on respective reform plans, monitoring implementation and reporting progress to the Prime Minister on a monthly basis and to the National Assembly every six months.

2. **The Ministry of Industry and Commerce (MOIC) is the most active ministry implementing PM Order No.02 and is leading reform initiatives on the Starting a Business and Trading Across Borders indicators.** This note summarizes key reforms within the policy area of *Starting a Business*, with the MOIC spearheading the streamlining of business registration procedures, eliminating unnecessary document requirements and coordinating with other relevant ministries to eliminate redundant procedures related to business establishment. MOIC Decision No.0023/MOIC (Jan 9, 2019) is fundamentally transforming the business registration process by removing the implicit approval process for company registration and reducing duplication of requirements to obtain operating licenses to start operations, as is good practice. The following sections will communicate key changes to the enterprise registration process, implementation status, potential reforms and impacts on the *Starting a Business* indicator as well as selected reform recommendations going forward.

Key changes to the enterprise registration process and implementation

3. **The new enterprise registration process, outlined in MOIC Decision No.0023, was launched on February 1, 2019 in all provinces, except for some districts.** The MOIC has also streamlined internal working processes within the enterprise registry authority, namely the Department of Enterprise Registration and Management (DERM), eliminated documentation requirements (for example the company location certificate), shortened the application form and document check-list and eliminated the need to submit a location certificate. New Enterprise Registration Certificates (ERCs) can be issued at provincial and district enterprise registry offices and 5,376 new ERCs have been issued since February 1. To ensure effective implementation of the new enterprise registration process and integrated database, comprehensive and hands-on trainings have been conducted since the last quarter of 2018. Some 18 provincial and 108 district enterprise registry offices received training to implement new process. In the remaining 40 districts in five northern provinces where training has yet to take place, officials continue to follow the previous process and structure for issuing ERCs (no Tax Identification Number (TIN) is integrated). The Prime Minister has underlined the need to expedite and complete such training. In parallel, DERM will publicly disseminate enterprise registration guidelines.

4. **In addition, parallel tax revenue administration reforms (introduction of TaxRIS) now make it technically possible for enterprise registry offices to generate a TIN at the time of ERC issuance (with the exception of some districts). With the reforms completed in November 2018, the enterprise and tax registration databases are now integrated in real time.** However, as of June 2019, some users claimed tax officials still used the redundant procedures, including requesting onsite inspections and payment of additional (informal facilitation) fees.

5. **The MOIC has also worked with other line ministries to simplify procedures and lower processing times and costs for starting a business by addressing challenges within the purview of these line ministries.** With success, MOIC has advocated for changes in relevant regulations to improve performance under this indicator in discussion with relevant ministries, including the Tax Department, State Asset Department, Ministry of Public Security, Ministry of Information Culture and Tourism (MICT), and Social

Security Authority. As a result, the following procedural changes have been implemented since June 2018, but enforcement needs to be monitored as feedback from relevant stakeholders indicated not all reforms were fully and consistently applied.

- i. Combining ERC and tax identification number (Tax ID)
- ii. Making tax orientation meetings optional to businesses and changing to tax knowledge training
- iii. Eliminating company name signage approval from MICT and TIN certificate
- iv. Combining company seal production and registration as one procedure and processed within one jurisdiction, provincial public security authority within five working days (as stated in Decree on Seal No.233, dated October 1, 2018)
- v. Simplifying internal processes to reduce the social security registration process to two working days (as stated in Ministerial Instruction No.1206, dated April 23, 2019) from one week (DB 2019)
- vi. Moving registration of company assets and articles of association with the State Asset Department/Ministry of Finance (MOF) to after company registration
- vii. In early July 2019, MOIC and the Ministry of Public Security agreed to make use of a company seal optional (voluntary), but this reform has yet to be implemented and currently the company seal remains mandatory.

6. **These combined reforms are expected to significantly reduce the number of procedures as well as time and costs under the *Starting a Business* indicator.** DERM expects a reduction in procedures from 10 to four and time from 174 to 40 days, but this will require verification in practice in the next Doing Business report. DERM claims completing enterprise registration now only takes less than 10 working days on average and could be as fast as up to two working days for businesses that did not require a sectoral operating license (low-risk activities). These businesses can operate immediately after receiving an ERC. For businesses requiring a sectoral operating license (medium to high-risk activities), DERM will issue an Advice Letter to such businesses outlining next steps to contact relevant sectoral authorities and obtain required operating licenses. These changes need to be monitored and verified.

7. **There are other reform efforts under way to remove the separate VAT registration and link the enterprise registration database with the Social Security Office (SSO) database.** Using the new TaxRIS system, a new business will be automatically be entered into the VAT system if its registered capital is equal or higher than 400 million kip, while the TIN under TaxRIS will be identical to the VAT number (in the past, the VAT system added one digit to the TIN). The Tax Department agreed to clarify such a change through notification. In addition, linking the enterprise registration database with the SSO database will enable simultaneous enterprise and social security registration. SSO is working on improving its database and will link it to ERS (enterprise registration) and TaxRIS (tax revenue administration) to ensure full integration of information when accessing a enterprise/company profile, including employment.

Feedback from private sector

8. **According to private sector feedback, the ERC process had become streamlined, but challenges remained.** While companies acknowledged that company registration was now simpler, they stressed that regulatory reforms downstream to reduce the regulatory burden on operations were critical for larger impacts, in particular to review the need and processes related to obtaining and renewing operating licenses. However, companies also complained that coordination among policy-making and implementing agencies and cross-ministry coordination needed to be enhanced. In reality, applicants must still run through all the steps and face numerous interactions with government agencies. For example, the company seal-carving process is simplified on paper, but implementation is challenging. Given DERM eliminated a letter containing a name of ministry administering such company operation, the public security authority has faced difficulties in determining the correct name of the ministry for seal production, so newly-registered companies must return to get the name of sectoral ministries. Importantly, information services at the front desks of all agencies must be improved to ensure information on new procedures, fees and document requirements is fully and correctly communicated with potential business operators. For example, upon issuing ERCs some tax officials suggested following the old procedures which require onsite inspections, obtaining TIN certificates and paying additional (and often informal) fees. This counteracts the reforms and limits their positive impacts on the private sector and economic development.

Potential impact of reforms on *Starting a Business*:

DB Report 2019/Pre-Reform	Post-Reform
1. Obtain Business Location Certificate	Eliminated <i>Impact (DB2020 report): Reduction of one procedure, time (one day) and cost 2 percentage points</i>
2. Obtain Enterprise Registration Certificate	Simplified process with shorter application form and check-list of documents required, streamlined internal approval process <i>Expected impact once fully implemented: Reduction in time</i>
3. Register Article of Association at MOF	Remaining No longer required by MOIC, but still required by MOF
4. Apply for Tax Registration Certificate	Combined with ERC <i>Expected impact: Reduction in processes, time and cost once fully implemented</i>
5. Attend to a Tax Orientation Meeting	No longer compulsory. Change to voluntary basis as training provision on tax knowledge organized weekly <i>Expected impact: reduction in time once clearly communicated it is no longer mandatory and effectively no longer used by most firms</i>
6. Carve a company seal	Combined company seal production and registration at same office under provincial public security by: 1. Reallocating resources and tasks within the public security sector to carve and register a company seal under same jurisdiction. 2. Decentralizing production of company seal, now available at regional and provincial offices. 3. Approval of company seal production by MOIC removed. <i>Expected impact: Reduction in time once fully implemented (Public Security Ministry announced that seal would be carved and registered within five working days for any businesses located in Vientiane capital, but confirmation remains pending)</i>
7. Register company seal at Department of Public Security	Eliminated / combined with previous step <i>Expected impact: reduction in process and time once fully implemented</i>
8. Obtain approval of content on the company signage	Eliminated <i>Expected impact: Reduction in time once fully implemented at relevant jurisdictions</i>
9. Register workers for social security	Remaining
10. Register for VAT	Remaining

9. Given reform implementation is progressing, the reform agenda must continue and deepen, for example in these areas of:

- i. Closely monitor the impact of these reforms to identify implementation gaps and issues to take corrective actions. Monitoring could be conducted through collection of simple and accurate data on processing times (from receipt of application to completion of request), which could be reported on a weekly basis to management and DERM. Short focus group discussions with key private sector actors (such as law firms) could complement this as quick feedback loop mechanism.
- ii. Move the worker registry process to post-registration, instead of the preliminary starting a business stage. In reality, this requirement is often conducted once a company or manufacturer is in operation. Any legal document defining such a worker registration requirement should be revised accordingly.
- iii. Complete the process to merge VAT registration with ERC and Tax ID issuance process.
- iv. Remove the tax orientation meeting. If the purpose of this requirement is to increase awareness of tax compliance, it could be done through public awareness-raising programs, disseminating precise informational brochures listing tax requirements and processes to each firm receiving an ERC (as well as existing firms), and ensuring all laws and regulations related to tax compliance are publicly available and accessible.
- v. Conduct process mapping of procedures outside MOIC to provide a clear picture of workflows, tasks and responsibilities as well as in-depth analysis of costs and benefits of simplification of burdensome procedures.
- vi. Review reform processes related to company operations, in particular reviewing justification for all business operating licenses and streamlining where possible, including simplifying and accelerating

application and approval processes and reviewing the need for annual renewals of such operating licenses.

Annex 1: Regulatory changes for Starting A Business reforms:

Name of legal documents	Remarks
1) MOIC Decision on Enterprise Registration, No.0023 dated January 9, 2019	Effective date February 1, 2019
2) DERM Notification No.1596 dated November 15, 2018 on Elimination of Company Location Certificate	In effect
3) MOIC Notification on Company Seal and Company Signage, dated November 26, 2018	In effect
4) MOIC Notification on Carving Enterprise Seal and Enterprise Signage, No.1542/MOIC Office, effective June 21, 2018	In effect
5) Notification of MOF Cabinet Office on Tax Identification Number No.0489/MOF dated March 5, 2019	In effect
6) Notification of MOF Cabinet Office on Company Asset and AOA Registration No.1618 /MOF dated May 30, 2019	In effect
7) Decree on Stamp No.322/PM, dated October 1, 2018	In effect
8) Ministerial Instruction on Social Security Law Implementation No.1206/MoLW, dated April 23, 2019	In effect
9) Notification of MOIC Cabinet Office on Voluntary Company Seal Production No.1412/MOIC, dated July 12, 2019	