

**Lao PDR SME Access to Finance Project (P131201)
 Mid-Term Review (MTR) Mission**

AIDE MEMOIRE

<i>KEY PROJECT INFORMATION</i>			
Project Number	<i>P131201</i>	Effectiveness Date	September 15, 2014
Signing Date	<i>August 14, 2014</i>	Closing Date	June 30, 2019
Credit Amount	US\$10 million	Credit Number	IDA 54710
Grant Amount	US\$10 million	Grant Number	IDA H9580
Disbursements	Grant: US\$ 5,756,451 Credit: US\$ 5,498,127	Committed: US\$ 13,214,765	Expenditures: US\$ 10,402,216

I. Introduction and Acknowledgement

1. A World Bank team visited Vientiane, Lao PDR to conduct a Mid-Term Review (MTR) and Implementation support mission of the Lao PDR- SME Access to Finance Project (the Project) during May 31- June 2, and July 11-14, 2017. Additional meetings were held during a follow-up visit on July 27-29, 2017. The mission was composed of Djauhari Sitorus (Senior Financial Sector Specialist and Task Team Leader), Mombert Hope (Senior Trade Economist and Co-Task Team Leader), Isfandyar Zaman Khan (Program Leader), Mohamad Nazirwan (Senior Financial Sector Specialist), Siriphone Vanitsaveth (Senior Financial Management Specialist), Reaksmeay Sok (Financial Management Consultant), Kingfa Si Oudomphan (Financial Management Consultant), Sybounheung Phandanouvong (Senior Social Development Specialist), Waraporn Hirunwatsiri (Senior Environmental Specialist), Latharo Lor (Procurement Specialist), Vidaovanh Phounvixay (Financial Sector Analyst) and Latdavone Khounthalangsy (Program Assistant).

2. **Mission Objectives.** The main objectives of the mission were to (1) review and confirm that project development objective (PDO) and result indicators remain relevant and achievable by project closure and if required, propose the necessary adjustments, (2) review the overall implementation status and implementation by components, and (3) assess the issues and challenges faced during the project implementation, and agree on an action plan to address them to ensure successful completion of the project.

3. **Counterpart Support and Mission Schedule.** The mission team met with officials from the Ministry of Industry and Commerce (MOIC) and the Bank of Lao PDR (BOL), as well as representatives of the Participating Financial Institutions (PFIs) and other commercial banks, SME borrowers, the Lao National Chamber of Commerce and Industry, Lao-India Entrepreneurship Development Center and other stakeholders. The mission also organized workshops on safeguards on July 17 -18, 2017 for banks and SMEs, and participated in the Project Review Committee meeting for the project organized by the Ministry of Industry and Commerce on 27 July, 2017. The team would like to thank the officials of the National Implementation Unit (NIU) at the Department of Planning and Coordination, and the Department of SME Promotion (DOSMEP) of the MOIC for their excellent cooperation and support provided to the mission team. In addition, the team acknowledges to the supports extended by the World Bank Country Office in Vientiane, Lao PDR

4. This Aide Memoire summarizes key findings, recommendations and agreed next steps of the mission; the draft Aide Memoire was shared with DOSMEP and NIU for their comments. A Mid-Term Report is included as an Annex in this Aide Memoire and presents more detailed information about project progress including challenges, issues and lesson learned during implementation period up to 30 June, 2017. The mission team has reviewed the report and provided significant inputs and comments during and after the mission. As part of the World Bank's Access to Information policy, and in agreement with MOIC, the Aide Memoire including the Mid-Term Report will be publicly disclosed.

II. Project Context and Objectives

5. **The important role of SMEs in Lao, PDR.** Lao PDR has registered impressive economic growth in recent years that significantly reduced poverty levels in the country. The development of a large and competitive Small and Medium Enterprise (SME) is a key element of Lao PDR's long-term development strategy because SMEs create most jobs in private sector, which is critical for further poverty reduction. It is estimated that the SMEs in Lao PDR account for more than 98 percent of total registered firms and create jobs for 81 percent of the private sector labor force. However, it is estimated that SMEs contribute only 16 percent of GDP, which is low compared to the figures for other countries in the region.

6. **The need for long-term funding for SMEs.** The World Bank's Enterprise Survey conducted in 2012 suggested that small (and registered) firms in Lao PDR consider access to finance as one of their three major obstacles for business growth. Access to finance was also a major challenge to firm start-up, maintenance and expansion, with firms citing the extensive requirements by banks for loan documentation and collateral as key barriers. The same survey conducted in 2016 has placed access to finance in the top five major obstacles for business growth. BOL statistics also reveals that whilst SMEs account for over 98 percent of enterprises in Lao PDR, only 20 percent of bank credit goes to SMEs. A recent discussion with commercial banks' management, and a select SME business owners suggest that the credit provided to SMEs by banks is mostly short-term (less than 3 years). The main source of funding for commercial banks is short-term deposits (typically one year maturity time deposit), and thus most banks find it difficult to provide long-term credit to their customers. The 2016 Enterprise Survey found that firms which were using credit from commercial banks to purchase fixed assets have declined from 21 percent in 2012 to 16 percent in 2016. This is lower than the 20 percent average percentage for other countries in the region. More recently in May 2017, the IFC stated that lack of access to finance is a key obstacle to business growth for SMEs and their contribution to the economy. It further estimated that less than 20 percent of SMEs in Lao PDR can access long-term credit, which makes it difficult for them to grow and compete against other SMEs in Asia.

7. **The Project Development Objective (PDO)** is to provide long-term funding sources for Participating Financial Institutions (PFIs) to provide long-term credit to small and medium enterprises (SMEs). In light of the aforementioned situation, it remains as relevant in the current context as it was when the project was approved. This PDO will be achieved by increasing the supply of long-term finance provided by commercial banks, and by strengthening the capability of DOSMEP to formulate and implement public policies that promote access to finance for SMEs. The project originally had three components: (i) a Line of Credit (LOC) (\$12 million); (ii) a Risk

Sharing Facility (RSF) (\$3 million); and (iii) Technical Assistance (TA) (\$5 million). As part of project restructuring in 2016, the RSF was cancelled and funds allocated to this component were transferred to the LOC. As a result, the project currently has two components: (i) a Line of Credit (US\$ 15 Million); and (ii) Technical assistance (US\$ 5 Million)¹.

III. Key Findings and Implementation Progress

Overall Progress

8. The project experienced implementation challenges during its early years after it became effective. The progress in the first year of implementation (September 2014 to September 2015) was slow due a lack of capacity and experience at DOSMEP in implementing World Bank funded projects. This could have been anticipated and somewhat managed with better project preparation in hindsight. The mitigation measure pursued was to hire additional staff, and international and local consultants, however, the process took time to complete. Other contributing factors to the delay were the considerable amount of time spent on: (i) selection of banks to become Participating Financial Institution (PFIs); (ii) attempts to finalize the Risk Sharing Facility (RSF) arrangement between DOSMEP and IFC, which eventually ended with the cancellation of the RSF component; and (iii) signing of an MoU between the Ministry of Finance (MOF) and DOSMEP on transfer of funds for the Line of Credit (LOC) component.

9. In the second half of 2015, some notable progress was achieved. Two banks were selected as PFIs and Subsidiary Financing Agreements were signed, the MoU between MOF and DOSMEP was signed, and institutional arrangements within MOIC to implement the project through NIU and DOSMEP were set up. Going into 2016, a few activities under the TA component were delivered in the form of trainings, workshops, and study tours for DOSMEP staff. Major TA for SMEs and banks however, was not started. Project implementation experienced another slowdown toward the middle of 2016 due to changes in institutional arrangements for project management between DOSMEP and NIU, which stalled TA component procurement processes. In addition, in this period, a decision was taken to cancel the RSF component.

10. In the second half of 2016, the new project management arrangement at MOIC was approved. Since then project management has improved and is functioning well. As a result, project implementation has progressed more rapidly. In July 2016, MOF and MOIC resolved the issue related to the currency risk, after which the funds were transferred to the two PFIs. A third bank was selected as a PFI and signed a Subsidiary Financing Agreement during this period. In October 2016, the first loan to an SME (sub-loan) was disbursed by a PFI. By the end of 2016, total sub-loans reached US\$2.6 million. In addition, an amendment to the Financing Agreement with the World Bank to reflect the cancellation of the RSF component was signed on December 20, 2016. Project implementation progress continued to advance in 2017. Disbursement of sub-loans increased to US\$4.4 million to 42 SME borrowers, as of end of June 2017. A couple more trainings and a study tour were also carried out. Further details are provided in the Mid-Term Report in Annex 3.

¹ The original currency for this project is SDR and given the strengthening of USD in recent times, the actual nominal in USD may be less than what is shown.

Achievement of Development Objectives

11. The project ratings assigned for progress toward achievement of the PDO and overall implementation progress have been upgraded to ‘Moderately Satisfactory’, to reflect significant improvement and progress achieved from June 2016 to date. These ratings were ‘Moderately Unsatisfactory’ in previous ISRs due to the challenges described above. The project has three PDO level indicators: (i) Volume of Bank supported Line of Credit to SMEs; (ii) Issuance of SME Master Plan 2016-2020; and (iii) Increase in sales by Beneficiary SMEs. The mission team views these three indicators as being still relevant and adequate to measure additional long-term credit from the PFIs to SME borrowers, to gauge the business growth of SME borrowers, and to define the policy direction of DOSMEP in supporting greater access to finance for SMEs more broadly. The progress of these indicators is outlined below:

PDO I1: Volume of Bank Supported Line of Credit – SME

Baseline	2014: 0 (US\$)
Progress	30 June, 2017: US\$4.4 million. The interim target for 2016 of US\$2 million was achieved.
Target	USD 15 million (it is expected to be achieved with proposed and agreed actions)

PDO I2: Publication of SME Master Plan 2016-2020

Baseline	2014: 0 (unit)
Progress	30 June, 2017: Final draft of the Master Plan was under review
Target	1 unit (it is expected to be issued before the end of 2017)

PDO I3: Increase in sales by Beneficiary SMEs

Baseline	2014: 0 (% , annual)
Progress	30 June, 2017: 0. None of the SME borrowers have yet reached one year since receiving a loan as the first sub-loan was in October 2016. Initial feedback from SME borrowers is that their increase in sales has been higher than 30%.
Target	30% annual ²

12. In addition, the project has several intermediate results indicators and their progress has been broadly on track as follows:

- a. The 2017 target for direct project beneficiaries was 80, however as of 30 June, 2017, it was 42, only from the LOC. The figure is expected to increase after training to SMEs will commence in the second half of 2017.
- b. The ratio of female beneficiaries under the LOC was at 21%, exceeding the end target of 20%.
- c. All sub-loans were reported to be current (no NPLs).
- d. The number of DOSMEP staff being trained reached 30, exceeding the 2017 target of 20 staff.
- e. The formulation of an SME census plan and methodology are ongoing and to be launched in the last quarter of 2017 hence is expected to meet the target.

² 30% is cumulative annual increase for five years.

- f. The number of SMEs benefiting from Technical Assistance has not been recorded because until June 2017 the activity had not started. This should be one of the main focus areas going forward.

Component 1 – Line of Credit (US\$15 million)

13. Currently there are three banks selected as PFIs for the project, and US\$9.5 million had been transferred from DOSMEP to these PFIs. The breakdown was: ST Bank US\$3.5 million; LCN Bank US\$4.0 million; and Sacom Bank: US\$2.0 million. All of these PFIs had signed a Subsidiary Financing Agreement (SFA) with DOSMEP in which a US\$4 million was committed to each of these PFIs.

14. As of June 30, 2017, the approved sub-loans (loans to SME) reached approximately US\$4.4 million³ to 42 SMEs which comprised of US\$1.7 million working capital loan and US\$2.7 million investment loan. This amount consisted of US\$2.66 million from ST Bank (27 SMEs); US\$1.34 million from LCN Bank (10 SMEs), and US\$0.40 million from Sacom Bank (5 SMEs). This translates to a utilization rate (approved sub-loan/ fund allocation from DOSMEP) for the three PFIs of 76 percent (ST Bank), 34 percent (LCN Bank), and 20 percent (Sacom Bank).

15. The mission team raised the concern that a large amount of project funds had been transferred (deposited) to the PFIs without a clear mechanism or clause in the SFAs to require the PFIs to utilize these deposits quickly for loans to SMEs (sub-loan). The mission team recommends to DOSMEP to only make any additional allocations to the PFIs if they show good performance in sub-loan disbursements and utilize most of the funds they already received. The SFA has a clause that requires PFIs to submit a marketing plan, and DOSMEP must use it to require the PFIs to provide an indicative target of sub-loan disbursements for six months ahead and evaluate their actual achievement against this target disbursement.

16. As noted in the previous section, the cancellation of the RSF component has resulted in additional funding for the LOC. Due to the appreciation of the US Dollar against the SDR (the currency of the IDA credit and grant), the funding will be less than the US\$3 million originally allocated for the RSF component.⁴ The mission team and MOIC (DOSMEP/NIU) have agreed to add one more bank as a PFI in the project. The mission team is aware of the time that it took to process the selection of the PFIs and suggests to accelerate this process. At the same time since the three PFIs remain in the project and have unutilized allocations, the downside risk to sub-loan disbursement is limited.

17. At the same time, the project will benefit from adding a new PFI including: (i) a new PFI will likely increase the disbursement rate of the LOC; (ii) every PFI tends to have a specific clientele/target niche in the SME market, in terms of sector, location and size, and thus any new PFIs will increase the outreach of the LOC to SMEs; (iii) indirectly this addition will also help increase the number of PFIs which will receive technical assistance from the project.

³ Total approved loans was LAK 33.3 billion and converted with 1US\$=LAK 8,000.

⁴ At the writing of the Aide Memoir, the amount is estimated to be US\$1.5 million.

18. DOSMEP conveyed to the mission team the repeated concerns from the PFIs on the challenges they are facing in extending the sub-loans due to the constraints created by the LOC requirement for a maximum of 30 percent of the loans to be for working capital, with the rest being for investments. The PFIs have also informed the mission team that the loan applications they received from SMEs have mostly been for working capital. The mission team acknowledges the concern reflecting the current demands for SME loans in Lao PDR. DOSMEP has requested a revision Project Implementation Manual and Subsidiary Financing Agreements to increase the working capital limit up to 50 percent, and the mission team agrees with it provided that the maturity of the loans are minimum 2 years⁵.

19. The PFIs also raised another concern regarding the perceived heavy burden imposed by the requirement to comply with the safeguard policies and the Environmental and Social Management Framework (ESMF) created for the PFIs. Upon further clarification, the mission team views that most of the concerns raised were mostly due to misinterpretation of the ESMF and the lack of understanding by the PFIs (further details in Annex 2).

Component 2- Technical Assistance including Project Management, and M&E (US\$5 million)

20. Several activities have been carried out as planned including training programs, workshops and study tours for the staff of DOSMEP, NIU, BOL, PFIs, LNCCI, related line ministries and the private sector. These include a workshop on E&S and credit evaluation, a project dissemination workshop, and study tours to Thailand and Malaysia. Based on the feedback from the participants there are some tangible lessons learnt and outcomes from these activities such as better understanding of safeguard policies and an improved understanding of SME development policies and measures based on experiences in other countries⁶. These outcomes are in line with the development objectives of the project.

21. Delivery of the project's key capacity building activities to PFIs and SMEs has however been delayed. The needs assessments for commercial banks and SME capacity building started in April 2017 but has yielded suboptimal results. A final report on the needs assessment for SMEs was submitted to MOIC at the end of August 2017, reflecting comments provided by MOIC and the World Bank team. The contract with the consultant undertaking the needs assessment for PFIs was cancelled due to poor performance of the consultant.

22. Given the limited remaining time for project implementation, the mission team reminded the Government that the procurement of companies to undertake capacity building and training for commercial banks and SMEs remains a high priority for the project to achieve its objectives. The mission team and the Government (DOSMEP and NIU) agreed that terms of reference (ToRs) for both capacity building activities would be finalized by the end of October 2017. The teams further agreed that the ToRs for the capacity building of SMEs and PFIs would require the hiring of international firms to design a number of training modules that could be offered in collaboration with local companies, which will continue the delivery of such trainings in the future.

⁵ As agreed with MOIC and in accordance with PAD, PIM and SFAs.

⁶ One of new policy and measure to be taken is to carry out a feasibility study for establishment of credit guarantee scheme in Lao, PDR.

23. DOSMEP has raised the issue of a lack of reliable and up-to-date data on SMEs with sufficient granularity to allow DOSMEP to understand better the profile, needs, and opportunities of SMEs in Lao PDR. It has expressed its intention to commission work to develop a methodology to capture SME data in the next economic census, which is conducted by Lao PDR's Statistics Bureau. In this context, the mission team and DOSMEP agreed that a consultant will be hired to do the work and the ToRs should be clear on the scope of the work, type of data to be collected and how the data would be useful for analysis by DOSMEP. DOSMEP also agreed that the project would ensure proper coordination with the Statistics Bureau to ensure that the next census would collect data relevant for DOSMEP's policy making and that the project would not fund any duplicative data collection.

24. In addition, during the Mid-Term Review mission, DOSMEP confirmed to the mission team that the new SME Development Plan 2016-2020 has been approved and will be published before the end of 2017. DOSMEP is now working on identifying and developing the work plan for selected activities in this document that would be supported through the available funding in component 2 of the Project. This is considered as part of the capacity building for DOSMEP. The mission team and DOSMEP agreed that priority should be given to critical activities which can be completed within 12-months or less considering the closure date of the Project, and that DOSMEP would share the approved SME Development Plan with the World Bank. As the new SME Development Plan has been approved, the mission team and DOSMEP also agreed that the originally planned evaluation of the 2011-2015 SME Development Plan would no longer be undertaken as part of the project.

25. Overall, disbursements under the TA component remain limited and based on the discussions held during the Mid Term Review mission, the MOIC (NIU and DOSMEP) and the mission team agreed to the earmarking and re-focusing of how to allocate the remaining US\$2.7 million uncommitted funds in the TA component. It was agreed to use the remaining funds equally to support capacity building activities for PFIs, capacity building activities to benefit SMEs, and capacity building activities to DOSMEP, i.e. improvement of a database containing data required by DOSMEP to better understand the SME sector and its challenges, and the implementation of priority areas in the SME Master Plan 2016-2020.

Overall Project management and Fiduciary issues

Project Management

26. Over the past year, project staff turnover has been quite high. This could be attributed to the low remuneration and partly to poor performance. The World Bank team suggested that MOIC look into this and find appropriate mitigation measures in order to retain the good staff. In addition, it was agreed to have the Project Implementation Manual (PIM) and Financial Management Manual finalized by the end of September 2017. Key documents for project implementation will then be translated and shared with concerned stakeholders including PFIs.

Monitoring and Evaluation

27. **Project Progress Reports** have been produced regularly every quarter. There is a dedicated staff member at NIU to produce the report. The mission team observed that there is a reasonably good coordination effort to get information from DOSMEP and PFIs for preparing the progress report. Recently, based on the input from the World Bank team, more information is being captured about the sub-loans (loan to SMEs) with regard to the sector of SMEs borrowers, gender and sales volumes, which are useful for monitoring project intermediate result indicators.

28. **Monitoring of Compliance with Provisions in Subsidiary Financing Agreement (SFA).** The SFA agreements between DOSMEP and PFIs stipulated a number of provisions for PFIs and DOSMEP to comply with. For instance, DOSMEP has a responsibility to monitor that the funds are used for their intended purposes. The mission team noted that there is a system in place for reporting from PFIs to DOSMEP to comply with requirement in the SFA, however, this reporting and monitoring procedures are partial and need to be strengthened. The mission team recommends that project management reviews the SFA more thoroughly and then introduces a more systematic and comprehensive monitoring of compliance with SFA, in particular in relation to reporting requirements. TA and capacity building for this work can be planned for under Component 2 of the project.

29. As described previously, there exist a Monitoring and Evaluation system of the project which seems to be adequate to respond to the needs thus far. The rating assigned for Monitoring and Evaluation (M&E) is Satisfactory. That said, the project implementation has picked up significantly since the last quarter of 2016, so going forward, it is expected to show more rapid progress, particularly on the disbursement of the Line of Credit (including the sub-loans) and delivery of capacity building activities. Consequently, more information and data will be produced and the project management team needs to develop a much stronger M&E system and provide more personnel to handle the integrated M&E system for the project. The mission team requested efforts to be taken to strengthen overall M&E system of the Project and in this context, the mission team is pleased to note that an M&E officer will be added to the project management soon and help develop concrete proposals on data collection.

Procurement

30. **Review of Procurement Performance and Rating.** For the ex-post review of the procurement packages which were procured by the project in FY17 as of end April 2017, no major issues were found. At the same time, the mission team suggests the project management further improve the procurement record and filing system. The overall procurement performance rating of the Project is Satisfactory.

31. The mission team discussed the progress of procurement for all procurement packages in the procurement plan with the procurement team of the project management. The mission team acknowledged procurement progress has substantially improved since the project restructuring was completed. However, the mission team noted several important procurement packages are still pending, including such as the selection of consultant firms to deliver capacity building for

SMEs and PFIs. The mission team strongly encouraged the project management to finalize the process soon.

32. **Adoption of STEP.** The project will be subject to the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) system, which is a comprehensive and mandatory end-to-end procurement processing system that allows the World Bank and the Project to track and manage all procurement related exchanges through the procurement cycle. The training on the STEP system was delivered to the project by the Bank's procurement team recently.

Financial Management

33. **Financial Management Review and Rating.** The rating for financial management performance of the project remains "satisfactory". The IFRs were submitted in a timely manner and the next IFR, covering the period from April to December 2017, will be due on 14 February 2018. The subsequent IFRs from 2018 onward will cover half calendar-years. The adjustment is in line with the government's new fiscal year. Although the auditor's opinion on the financial statements for FY2016 was unmodified (clean), the audit report and management letter were submitted with approximately 3 weeks' delay. A continued delay in audit report submission may have an impact on the performance rating and therefore the project management team is encouraged to ensure timely submission of the audit reports in future. The next audit report for FY17 covering from October 2016- December 2017 will be due by June 30, 2018. The mission team also reviewed some key internal controls and selected transactions from January to April 2017. The result of the review indicated that controls were in place and working, and supporting documents for transactions were adequate.

34. **Accounting Software Upgrading.** The project is currently using QuickBooks to capture its financial transactions. However, there were issues with the accuracy of reference numbers when exporting data from the QuickBooks to Excel. As the current software version is a few years old, the NIU has decided to upgrade the software to the latest (2017) version with access for 5 users. The estimated cost of software upgrade is US\$3,000. NIU has commenced discussion about the upgrade with the software provider. The mission commends this action and this will further strengthen financial management performance of the project.

Environment and Social Safeguards

35. On the basis of the mission team's findings, safeguard compliance by the project is rated to be Moderately Satisfactory. No major safeguard issues were identified during the mission and all sub-loan proposals reviewed included completed safeguard assessment reports and impact management tools. The mission team, however, noted the need for enhancing the understanding and capacity among PFIs and SMEs for the application of safeguard policies and instruments. There were a number of cases in which safeguard policy requirements and procedures detailed in the ESMF were not fully understood by PFIs, and unnecessarily prevented SMEs applying to and accessing sub-loans. It was reported that since August 2016, only 2 out of 52 sub-loan applications received by one of the PFIs were approved and released, largely due to misinterpretation of the safeguard requirements by that particular PFI. The situation has improved following a consultation with the local safeguard consultant and the PFI has able to disburse more sub-loans recently.

36. The mission team advised that there are certain aspects which are not covered by the ESMF, but may be governed by specific technical standards and regulations of the Government of Lao PDR, for example the quality control for bottled drinking water required by one of the PFIs, and official certification of the sources of raw materials supplied to SMEs e.g. timber for a furniture factory SME. The responsibility for these types of requirements rest with the concerned government agencies; in these cases, the Ministry of Public Health, and the Ministry of Agriculture and Forestry. The above highlighted issues were discussed at a refresher safeguards training for the PFIs and SMEs conducted by World Bank Safeguard Specialists on July 17 and 18, 2017. At the training, participants also reviewed and updated the safeguard assessment and impact mitigation tools provided in the ESMF to make them more user-friendly and applicable for SMEs and PFIs.

IV. Agreed Follow-up Actions

37. The next project implementation support mission is scheduled for December 2017. The following action plan was agreed with MOIC and relevant stakeholders.

No	Activity	Responsible Entity	Due by Date
Project Management and Fiduciary			
1.	Strengthening the M&E framework for the project to allow for regular data collection and reporting for the analysis of the project's outcomes/result framework, including the hiring of M&E officer.	DOSMEP	September 30, 2017
2.	Finalize the sub-financing agreement between MOF and DOSMEP	MOF/ DOSMEP	October 31, 2017
3.	Review the Financial Management Manual and PIM	NIU	October 31, 2017
4.	Conduct regular E&S safeguard field visitations to support SMEs and PFIs under line of credit	DOSMEP	September 2017 – September 2018
5.	Finalize pending ToR and procurement process for the hiring of local consultants for positions of: (i) National Project Coordinator; (ii) SME Data stocktaking specialist; (iii) Web designer; and (iv) Communication officer	DOSMEP	October 31, 2017
Component 1 – Line of Credit			
6.	Finalize the selection of a new PFI and signing of Subsidiary Financing Agreement with new PFI	DOSMEP	October 31, 2017
7.	Finalize the amendment of Project Implementation Manual (PIM) and Subsidiary Financing Agreements (SFAs) to reflect the change of a maximum ratio between working capital loan 30% and investment loan 70% to a new ratio of 50% for working capital loan and 50% for investment loan	MOIC/WB	October 31, 2017
Component 2 – Technical Assistance			
8.	Revise the project budget to allocate uncommitted funds to anticipated activities under component 2	DOSMEP/NI U	August 31, 2017

9.	Final submission of needs assessment report together with the TA proposal, ToR, and Action Plan for capacity building and training for SMEs	DOSMEP/NI U	September 30, 2017
10.	Final submission of ToR for NOL to contract a firm for capacity building and training for PFIs	DOSMEP/NI U/WB	October 31, 2017
11.	Finalizing and publication of the SME Development Plan for 2016-2020	DOSMEP/ MOIC	October 31, 2017
12.	Complete hiring of consultants (firms/IC) for the delivery of capacity building for SMEs	DOSMEP	December 31, 2017
13.	Complete hiring of consultants (firms/IC) for delivery of capacity building for PFIs	DOSMEP	January 31, 2018
14.	Complete methodology for capturing SME data in economic census	DOSMEP/ MOIC	January 31, 2018
15.	Develop a work plan for the implementation of the SME Master Plan 2016-2010	DOSMEP/ MOIC	November 30, 2017
16.	Commence implementation of select activities to implement the SME Master Plan 2016-2020	DOSMEP	January – December 2018

Annex 1 -List of Persons Met

Ministry/Agency	Department/Unit	Name	Title
Ministry of Industry and Commerce	Planning and Cooperation Department and NIU	Mr. Phouvieng Phongsas	Deputy Director General
		Ms. Vilayvanh Bounleuth	Deputy Director of FAD
		Ms. Nitnida Phongsavanh	Trade Officer
		Mr. Sengxay Phousinghoa	PSD Advisor
		Mr. Soulivong Chanthalasy	Finance Officer
		Mr. Keophouthone Inthivong	Procurement Officer
		Ms. Vanida Vongmountha	Trade Analyst
	Department of Small and Medium Enterprise Promotion (DOSMEP)	Mr. Somdy Inmyxai	Director General
		Mr. Kingxay Chounlamountry	Director, SME Fund Management Division
		Mr. Phetanong Insarn	Deputy Director, SME Fund Management Division
		Mrs. Sengkeo Phouthavong	Technical Officer
		Ms. Anisa Phanthasombuth	Technical Officer
		Mr. Sith Soukchaleunphone	National SMEs Program Specialist
	Mr. Bounhom Phothimath	Safeguards Specialist	
Bank of Lao PDR	Bank Supervision Department	Mr. Soulysack Thamnouvong	Deputy Director General
		Mr. Kongsana Chandala	Officer
		Mr. Souksavath Chanthavong	Officer
		Mrs. Latdavanh Pilavong	Officer
	Financial Institution Supervision Department	Mrs. Phetsamone Chandala	Director of Division
	Monetary Policy Department	Mr. Vienglakhone Khathoumphon	Director of Division
	International Relation Department	Ms. Boupavaly Southavong	Deputy of division
		Mr. Bounthavong Chandalasan	Officer
Lao-China Bank		Mr. Bounlath Soutisack	Deputy General Manager
		Mr. Solvane Chandyphit	Compliance and Risk Management Dept. Manager
		Ms. HU Dongmei	Marketing General Manager
ST Bank		Mr. Bounsy Thanousing	Consultant
		Mr. Khantho Souphannavong	Deputy Manager of Credit Department
		Mr. Sesomsack Khamking	Credit Officer
Sacom Bank		Ms. Oulayphone Songuen	Deputy Director General
		Mr. Wiley Khotnhotha	Head of Credit Management Dept.
		Mr. Yongyilee Xaiyasang	Corporate Banking Division
		Mr. Sengsouvanh Dathienthong	Retail Banking Officer

Ministry/Agency	Department/Unit	Name	Title
Lao-Viet Bank		Mr. Pham Quoc Cong	Deputy General Director
		Mr. Lam Hong Huyen	Deputy Chief of Planning Department
		Mr. Nguyen Viet Duc	Deputy Chief of Corporate Banking Department
		Mr. Pham Huy Dong	Chief of Accounting Dept.
		Ms. Sommy Vongsoulinh	Chief of Investment Management and Financial Institution Dept.
		Mr. Anoulak Vannali	Deputy Chief of Enterprise Relations Dept.
		Ms. Sommaly Vongkhamkao	Technical Officer, Planning Dept.
Vietin Bank		Ms. Duong Thi Thanh Thuy	Deputy General Director
		Ms. La Thanh Mai	Manager of Capital Management & Investment Dept.
		Ms. Heuangvilay Phengkhammay	Officer of Capital Management & Investment Dept.
SME Service Center/ LNCCI		Mr. Phutthasone Phomvisay	Head of SME Service Center and Chief of Business Development and SMEs Division of LNCCI
Lao Bankers' Association		Ms. Sengdavone Bangonsengdet,	Secretary General
Lao- India Entrepreneurship Development Center		Mr. Siamphone Chanthaphone	Director
Maniphone Kindergarden		Ms. Khammoun Silapany	Business Owner
Xokxai Garment Factory		Mr. Bounpheang Khammanyvong	Business Owner

Annex 2- Environment and Social Safeguard

During the Mid Term Review, the mission team found that the safeguard implementation is moderate satisfactory. Below are the mission findings:

Capacity of Safeguard Consultant, PFIs and SME on safeguard - After the environmental and social (E&S) safeguard training in May 2016, Safeguard consultant provided E&S safeguard trainings to three PFIs, DOSMAP, related government officers in Champasak and Luangprabang provinces in March and May, 2017 respectively. From the reviewing of sub-loan and the discussion with three PFIs, all of them understand how to screen sub-loan using negative checklist and list of type and size of projects and required IEE preparation well. One PFI's screening process to award sub-loan is stringent both on collateral requirement and on safeguard screening. The PFI checked the drinking water quality by themselves and rejected to award the sub-loan to that drinking water enterprise even though they secured the operation license. The PFI also took labor issues seriously as criteria to award the sub-loan.

With close consultation and support from safeguard consultant, all PFIs can assess the environmental and social impact and filled up the assessment form without difficulty. However, PFIs requested a simplified and less duplication questions of the E&S assessment template. The revised template has been submitted to the Bank for its clearance. In conclusion, capacity of safeguard consultant as a trainer and advisor to safeguard implementation of sub-loans is good and capacity of three PFIs on safeguard implementation have been built.

However, due to one PFIs has changed the safeguard team and requested safeguard training to the new team. The mission agreed with PFIs to provide refreshment safeguard training on July 17, 2017. As mission found out from the discussion with PFIs that it is important to raise SME awareness on safeguard to increase SME participation to the project, the mission suggested to conduct SME training back to back to the PFIs training on July 18, 2017.

During the PFIs safeguard training, several important issues has been discussed including PFI request the Bank to withdraw some activities from negative checklist such as liquor factory, mini-hydropower plant, quarry for construction material, etc. The mission clarified that the purpose of this project is to support SME access to finance. It will not aim to the large-scale SMEs that can easily have access to finance. And within the project period, it should avoid the sub-loan that pose high risk and high environmental and social impact that will delay the approval process. The simplified environmental and social impact assessment form has been discussed and agreed with PFIs. PFIs requested safeguard consultant to translate additional questions in ESSD into Lao for their benefit to assess different type of SMEs. Safeguard consultant will send the additional screening questions in Lao to all PFIs.

There are few sub-loans that required IEE. It took a long process to find the qualified consultant to prepare the IEE report and get approval from PONRE. The qualification of IEE consultant, number of registered IEE consulting firm and type and size of project that required IEE have been discussed with the officer from MONRE. It is unclear if construction of school that has not been included in the type of project that require IEE, should prepare IEE or not. As per the Environmental protection law it is not required but PONRE may request the IEE. The same as qualification of IEE consultant, the regulation allow both individual and consulting firm to be the

one who conduct the IEE and EIA. However, in practice only 18 registered consulting firms can prepare the IEE/EIA not an individual consultant. The qualified consulting firm need to have at least 3 staffs with master degree or above. The license will be last for only 2 years and need to be renew. This may pose the risk to delay submission of IEE report if the license has not been renewed in time. One concern raised by a PFI is that the hotel with number of room less than 80 rooms need to prepare the IEE. Without threshold limit, all hotel less than 80 rooms need to prepare the IEE. The mission requested MONRE officer to raise this concern to the committee who will revise the Environmental Protection regulations. MONRE agreed to bring back comment and concern from the workshop to discuss with the responsible body.

During SME training, the mission and safeguard consultant provided safeguard and clean technology training to SMEs. Three participating SMEs have shared their experience working with DOSMAP, PFIs and the Bank on this project. All three participating SMEs have positive feedback joining the project. They found that working on this project is doable and lower interest rate is interesting. One SME expressed their gratitude to the Bank recommendation during implementation support mission. They found it is useful. It is anticipated that more SME will be interested to join the project after the workshop.

Site Visits to SMEs.

The mission conducted site visits to 6 SMEs during the MTR mission. Most of the sub-Loan perform well from the safeguard perspective. Mission findings and recommendations to SMEs are as follows:

Jian Guo Grand Hotel Co., Ltd. – The purpose of sub-loan is for buying construction equipment and sanitary ware and equipment for refurbishing the hotel. Even though, project sub-Loan is only small part of the entire investment cost of the Hotel, the mission informed this SME that safeguard policies will cover the entire hotel operation and management. All hotel facilities need to be complied with Lao law and regulations in particular, wastewater treatment system, fire control and fighting system and solid waste management system, etc. From the site visit and interview hotel officers, the mission observed that the construction of the hotel equipped with the necessary facilities except for the fire emergency exit that need to be improved. The mission recommended SME to improve the fire emergency exit and get approval from the concerned agencies to ensure its safely use.

Sysavad Glass and Aluminum Sole Proprietor – The purpose of sub-loan is for buying equipment for glass and aluminum frame cutting. Glass wastes have been placed in containers. However, some left over on the floor and working area. Waste management and house-keeping need to be improved. The mission suggested the SME to improve working environment and provide personnel protective device such as gloves, safety shoes, goggle to reduce risk to workers.

Anousone Steel Formworks and Shore Rental Service shop – The purpose of sub-loan is for buying frames and blocks to be rent to construction companies to expand SME business. The mission found good house-keeping and well managed working area. There is a room for improvement on oil contaminated frame keeping. The mission suggested SME to place the lubricated oil contaminated frames in a tray or container to avoid the floor slippery in the future. Trees should be planted along the fence area to absorb noise from its activities.

Namkhong Fish Restaurant – The purpose of sub-loan is to expand the restaurant business. The mission found that the restaurant has already installed the oil separator. The mission suggested the SME to consider to buy non-ODS Air-Conditioner with low global warming potential and high energy efficiency to avoid costly maintenance fee and benefit from energy saving.

Kingfish Group Lao Import Sole Co., Ltd. – the purpose of sub-loan is to buy machine for producing of fish feed. The mixing process to produce fish feed is in the close building. The mission found no significant impact from this sub-loan activity.

Sakoun Lao Silk Individual shop – the purpose of sub-loan is to renovate the show room and buy wooden weaving frames and a fabric cutting machine. The mission found the working environment need to be improved for the good agronomic that will impact the quality of the product. Sufficient light and good ventilation should be provided. The fire hydrant should be unlocked and fire extinguishers should be provided.

Annex 3 – Mid-Term Report



Lao People's Democratic Republic

MINISTRY OF INDUSTRY AND COMMERCE

DEPARTMENT OF SMALL AND MEDIUM ENTERPRISE PROMOTION

SMALL AND MEDIUM ENTERPRISE ACCESS TO FINANCE PROJECT

(Financed by the World Bank Group)

MID – TERM REVIEW

JULY 30, 2017

Lao PDR

SME Access to Finance Project Mid-Term Review Report – September 15, 2014 – June 30, 2017

<i>KEY PROJECT INFORMATION</i>			
Project Number	P131201	Effectiveness Date	September 15, 2014
Signing Date	August 14, 2014	Closing Date	June 30, 2019
Credit Amount	US\$10 million	Credit Number	IDA 54710
Grant Amount	US\$10 million	Grant Number	IDA H9580
Disbursements	Grant: US\$ 5,756,451 Credit: US\$ 5,498,127.38	Committed: US\$ 13,214,765	Cumulative to date: Total: 10,402,216 Line of Credit: US\$ 9,498,127 ⁷ Technical Assistance: US\$ 904,088

I. Background

1. World Bank's Enterprise Survey conducted in 2012 showed that small (and registered) firms in Lao PDR see unfair competition from informal sector, tax rates, and access to finance as their three major obstacles for business growth. Access to finance was also a major challenge to firm start-up, maintenance and expansion with firms citing the extensive requirements by banks for loan documentation and collateral as key barriers. Banks were reluctant to lend to SMEs due to serious information asymmetries and serious difficulties in executing collateral. A large number of SMEs that applied for bank loans was simply not registered. Credit provided to SMEs by banks was mostly short-term. Because the main source of funding for commercial banks is short-term deposits and most banks find it difficult to provide long-term credit to their customers.

2. Based on the situation mentioned above, The Access to Finance Project aims to provide long-term funding sources for Participating Financial Institutions (PFIs) to provide long-term credit to small and medium enterprises (SMEs). This objective will be achieved by increasing the supply of long-term finance provided by commercial banks, and by strengthening the capability of the Department of Small and Medium Enterprise Promotion (DOSMEP) to formulate and implement public policies that promote access to finance for SMEs. The original project had three components: (i) A Line of Credit (LOC) (\$12 million); (ii) A Risk Sharing Facility (RSF) (\$3 million); and (iii) Technical Assistance (TA) (\$5 million). Component 2 the RSF was cancelled

⁷ US\$9.5 million has been transferred to the three PFIs. Of this amount US\$ 4.3 million has been disbursed as sub-loans.

during the project restructuring and funds were transferred to component (i)⁸. As a result, the project currently has two Components: (i) A line of credit (US\$ 15 Million); and (ii) Technical assistance (US\$ 5 Million)⁹.

II. Summary of Project Progress

3. *Progress Towards the Achievement of the Project Development Objective (PDO) and Implementation Progress to Date.* The PDO is relevant in the current context as it was when the project was approved. Progress has been made towards achieving the PDO (see para 9) and it is anticipated that this will be achieved by the time of project closing in June 2019. However, the first year of project implementation (September, 2014 – September 2015) was slow due to the lack of capacity and experience at DOSMEP in implementing World Bank funded projects. Mitigation measures were in place to rectify this situation (e.g. selection of an international project advisor, procurement and FM consultants to assist DOSMEP). However, critical actions required for smooth project implementation was not concluded as anticipated, such as the: (i) Capacity enhancement of DOSMEP team, including the recruitment of key external positions and clearly defined responsibilities for project implementation; (ii) Selection of PFIs for on-lending to SMEs; (iii) Finalizing Risk Sharing Facility (RSF) arrangements between DOSMEP and IFC; and (iv) Signing of the Loan Agreement between the Ministry of Finance (MOF) and MOIC for the loan portion of the Line of Credit (LOC) component.

4. Once the required staff and external consultants were recruited towards the second half of 2015, project implementation picked up and several activities were launched, among them: (i) Signing of the Loan Agreement between the Ministry of Finance (MOF) and MOIC for the Loan portion of the LOC; (ii) The selection of three participating financial institutions (PFIs) namely the Lao China Bank (LCB), ST Bank (STB) and in mid- 2016, the SACOM Bank; (iii) The decision to cancel the RSF under component two and transfer the funds (US\$3 million) to the LOC component; (iv) Clearly defined responsibilities for the relevant staff of DOSMEP; and (v) The transfer of the first tranche of the LOC to LCB and STB (in June, 2016). It should also be noted that implementation arrangements included that DOSMEP would take the lead in project implementation from a technical aspect and that NIU would provide the fiduciary assistance (FM and procurement as NIU already had staff engaged in these activities for other WB funded projects). However, there were some early coordination issues between DOSMEP and NIU which also led to delays in initiating procurement activities.

5. Work also commenced in early 2016 on the Technical Assistance component. This delay in part was due to the delay in the selection of key personal both external and internal for project implementation. Apart from selecting the core group of DOSMEP staff and external consultants, TORs were developed for the capacity building for both the PFIs and the SMEs. In addition, several workshops on E&S, procurement and financial management were conducted for internal staff as well as the PFIs. One study tour to Thailand (to observe the internal operations of leading financial institutions and learn about international trends and best practices in SMEs financing)

⁸ Based on the discussions carried out with the IFC and their reluctance to change their standard agreements, DOSMEP after discussions with the Bank Team decided to cancel this component and transfer the funds to the LOC component.

⁹ Based on the depreciation of the SDR to the US\$, the total amount of the loan/grant is approximately US\$18.5 million.

were also arranged for the relevant DOSMEP and other stakeholder staff. Training courses in the English language was organized for select MOIC and DOSMEP staff.

6. However, project implementation slowed down towards mid-2016 due to changes introduced in the internal operations on project management between DOSMEP and NIU. These changes were expected to lead to smoother implementation of activities. All major procurement activities were requested to be put on hold by the MOIC till the new structure was in place. Adjustments to the project implementation arrangement were made as follows: (i) Similar to other donor funded projects, the Program Executive Committee (PEC) became steering committee of the project. PEC's main mandate is to provide strategic advice, coordination, common operating guidelines with regard to the implementation of trade related programs and projects in Lao PDR; (ii) the Department of Planning and Cooperation became main executing agency for the project; and (iii) DOSMEP became implementing/technical department. Under this arrangement, DOSMEP continued to sign Subsidiary Financing Agreements (SFA) with eligible and selected PFIs, while the approval for the selected PFIs was to be made by the PEC, instead of the SME Fund Board.

7. During the second half of 2016, the following activities took place: (i) Project (implementation) restructuring as discussed with the WB mission in June 2016 was completed. The Amendments to the Financing Agreement between WB and MOF was signed on 20 December, 2016¹⁰. As a result of the restructuring, Component 2, the Risk Sharing Facility (RSF) was officially cancelled and the US\$ 3 million allocated for this component was re-allocated to component 1, the Line of Credit; (ii) Implementation arrangements were adjusted to confirm that the MOIC was the implementing agency and the project would be implemented through the Department of Planning and Cooperation (DPC); (iii) An amount of US\$2 million was transferred to SACOM Bank in October 2016; (iv) Disbursements by the PFIs for sub-loans was approximately US\$2.6 million; (v) Several procurement activities under Component 2 commenced after a delay of a few months; (vi) Training activities were carried out for DOSMEP, MOIC staff and selected officers of PFIs; and (vii) The Work Plan for 2017 was developed and approved by the PEC.

8. Implementation progress picked up in the first five months of 2017 with the following ongoing activities: (i) Allocation of the \$3 million from the cancelled Component 2 to the PFIs was discussed internally by DOSMEP although the decision to cancel component two was taken in 2016. After the mid-term review mission of the WB it was agreed between the WB Team and DOSMEP to pursue the selection of another PFI to participate under the LOC to absorb the remaining amount of US\$1.5 million from the reallocation and due to changes in exchange rate between the SRD and US\$. Two banks have shown interest and one is expected to be selected within the next three months; (ii) Several activities agreed under the 2017 Work Plan with respect to the Technical Assistance Component got under way; (iii) Many training activities were conducted by DOSMEP for PFIs, Lao National Chamber of Commerce and Industry (LNCCI), DOSMEP staff, related departments and private sector stakeholders in Vientiane and in the provinces; (iv) The procurement activities too progressed with the hiring of two International experts (needs assessment for capacity building and training for PFIs and SMEs). Other

¹⁰ Salient features were the cancelation of Component 2 (RSF) and transfer of funds to Component 1 (LOC), changes to the institutional arrangements (see under project management) and change of date for the submission of the MTR report.

outstanding issues identified in the last quarter of 2016 were discussed and agreed namely: (i) The Revision of the Project Implementation Manual (PIM); and (ii) Revision of the sub Financing Agreement between MOF and DOSMEP regarding MOF taking the FX risk of on-lending from DOSMEP. It has been agreed that MOF will now take the FX risk. However, the loan agreement between the MOF and MOIC is still under review and is expected to be completed soon. Another study tour to Malaysia (to observe the internal operations of leading financial institutions and learn about international trends and best practices in SMEs financing) were also arranged for the relevant DOSMEP and other stakeholder staff (see more detail of training and Workshop activities in the table below under para 21(“training and workshop”).

9. Progress with respect to the achievement of the DO (provision of LT financing to PFIs and provision of LT credit to SMEs) is on track after a slow start. With respect to the results achieved under the project (based on the Results Framework), the following have been achieved to date:

- Volume of Bank support under the LOC to SMEs is on track to achieve the target for 2017 (of US\$6 million). As of June 30, 2017, cumulative disbursements to SMEs stand at US\$4.3 million. The 2016 target of US\$2 million was met;
- To develop a methodology to capture SME data in the census. The development of the methodology is expected to be launched in the next quarter to meet the target of 2017. Based on the developed methodology DOSMEP will coordinate with the Census Bureau to carry out the census;
- Increase in Sales by beneficiaries SMEs (% annual). Not yet measured, to start in October 2017, one year after the first sub-loan was approved;
- Direct project beneficiaries for 2017 were targeted to be 80, to date over 430 officials and stakeholders, including 38 SMEs have benefited under the project via training programs and workshops or by receiving sub-loans;
- Non-Performing Loans of SME loans (NPLs) are currently reported as 0.
- Female beneficiaries under the LOC stands at 60%, exceeding the target for 2016 of 5% (number of sub loans to women), and 55%, in 2017, exceeding the target for 2017 of 10%;
- Formulation of the new SME Development Master Plan¹¹ has been delayed (2016 target), but expected to be completed and approved in 2017. The opportunity to learn lessons from the previous plan was missed, although a review of the experience was planned under the project; and
- Number of DOSMEP staff being trained stand at 30, exceeding the target of 20 for 2017.
- The Number of SMEs benefitting from Technical Assistance is still nil because training has not started (target 2016 was 10).

The results yet to be achieved and the details of results mentioned above under the project to date can be found in the **Results Framework shown as Annex 1**.

¹¹ The key areas outlined in the draft SME Development Master Plan are: Productivity, Technology and Innovations Promotion; SME Access to Finance; Business Development Services Access (BDSA); Promotion of SME Market Access both in domestic and international markets; New Entrepreneur Creation and Development; Enabling Environment for Establishment and Operation of SMEs; and Customs-Tax and Finance Policy.

III. Detailed Project Implementation

Component 1- Line of Credit (US\$15 million):¹²

10. In 2016, \$4 million was disbursed to the two PFIs (LCNB and STB) and additional \$2 million in 2016 to SACOM Bank. During the first quarter of 2017, both Lao China Bank and ST Bank requested additional financing. Approximately, 3.5 million was transferred to the two PFIs (\$1.5 million was transferred to ST Bank and \$2 million transferred to LCNB in March and April 2017 respectively) for a total of US\$9.5 million disbursed to the three PFIs under the LOC.

11. From October 2016 through May 31, 2017, 38 sub-loans have been processed by the three PFIs for an amount of Lak 35 billion (US\$ 4.3 million approximately). Of the 38 approved sub-loans, 19 sub-loans were for trade related activities, 14 sub-loans for service related activities and 5 sub-loan for manufacturing activities. The break down between investment (22 sub-loans amounting to US\$2.6 million) and working capital sub-loans (16 sub-loans amounting to US\$1.7 million) respectively. Profiles of selected SME beneficiaries are shown in **Annex III**. However, the rate of sub-loan approval has declined over the first quarter of 2017. There are several reasons for the slow process given by the PFIs as follows: (i) Due to stringent E&S requirements, in some cases, for instance: UXO clearance, IEE and EMP approval by authorized organizations, under the LOC for approval of investment sub-loans, the PFIs were finding it difficult to find suitable investment sub-loans that met the E&S criteria for financing.

12. This has been an issue, as most SMEs are not aware of and do not have the capacity or ability to meet required E&S standards. In addition, as mentioned above, SMEs in some provinces where un-exploded bombs may be present, the land area to be included in a sub-loan approval has to be inspected and cleared by the UXO organization, adding another layer of bureaucracy (e.g. Xiengkhuang, Savanakheth, Saravanh and Huaphanh Provinces). As a result, the portfolio of eligible investment sub-projects has been low, as the SMEs are refraining from applying for Investment Loans due to issues mentioned above; (ii) Since the E&S requirements do not apply (in most cases) to working capital sub-loans, the PFIs have had less issues with this category of sub-loans. In addition, there has been more demand for WC loans for expansion purposes. As a result, the PFIs have requested from DOSMEP and the WB to revise the lending criteria between working capital sub-loans and Investment sub-loans. Currently, the criteria are to have a ratio of lending between Investment/Working Capital sub-loans at 70%/30% respectively. The PFIs would like this ratio revised to be 30%/70% or at the very least 50%/50% between Investment sub-loans and Working Capital sub-loans. Some PFIs (STBANK and SACOMBANK) had reached the current ratio (including the number of pipeline sub-loans) under the first tranche of the loan allocation and was unable to approve new WC sub-loan, until the second tranche was requested. These issues have been discussed with the WB Team and a decision needs to be taken as soon as possible; and (iii) Slight delays were also experienced as the approval of the second request for additional financing took time to be approved by MOF. To date, PFIs have no “none performing loans” (NPL)¹³ on their portfolios of sub-loans under the LOC, due to the short time duration since the LOC became active. Summary of sub-loan utilization is shown below:

¹² Based on the current SDR rate to the US\$, the amount is approximately US\$13.5 million. This leaves US\$1.5 million as uncommitted funds to be given to the PFIs.

¹³ This is in reference only to the loans approved under the LOC. Does not refer to the PFIs total loan portfolio.

Summary of Loan utilization from October, 2016 to June 30, 2017

PFI	No. Sub-Loan		Value of Sub-Loans		No. Sector			No. Women	
	Approved (A)	Transferred (T)	Approved (A)	Transferred (T)	Trade	Service	Manufacturing	A	T
STB	26	25	20,803,500,000	19,203,500,000	14	10	1	16	15
LCB	10	9	12,110,000,000	10,450,000,000	4	4	2	3	3
SACOM BANK	2	2	2,100,000,000	1,000,000,000	1	0	1	2	2
Total	38	36	35,013,500,000	30,653,500,000	19	14	5	21	20

13. Based on the analysis of the 2016 Audited financial statements, two PFIs are in compliance with the legal requirements to continue to participate under the LOC. The STB had a qualified audit opinion, see foot note 4 below. The Bond amount in doubt was less than 0.01% of the total assets of STB and does not have an adverse effect on its BS. This issue has been resolved in 2017 (STB to send verification). All three PFIs are in compliance with all BOL regulations and have complied with all WB requirements in the discharge of the LOC obligations. The NPL rates are very low for STB and SACOM Bank, while LCB reports no NPLs. Details are provided below:

Legal Requirements for Commercial Banks to Participate Under the LOC Component Based on the Audit Financial Statements for 2016

Requirements	Name of Bank LCB	Name of Bank STB	Name of Bank SACOM Bank
Total Assets > US\$ 50 Mil.	Yes – US\$80.4 Million	Yes – US\$ 327.9 Million	Yes – US\$131.4 Million
In compliance with applicable legal and regulatory obligation	Yes	Yes	Yes
Profitability	Yes – US\$0.82 Million ¹⁴	Yes – US\$ 2.1 Million	Yes – US\$0.7 million
NPL > 5%	Yes – 0%	Yes – 1.4%	Yes – 0.01%
Satisfactory Audit Report	Yes – Unqualified Audit Report	Yes – Qualified Audit Report ¹⁵ . However, this issue has been resolved with the MOF. (According to a letter	Yes – Unqualified Audit Report

¹⁴ Second year of operations

¹⁵ The qualification is with reference to the cancellation of 2 Government Bonds (face value of LAK 15,000 million) by MOF, which were purchased by the bank from third parties. As at December 31, 2014, the bank had made provisions in the amount of LAK 1,800 million. The Bond amount in doubt is less than 0.01% of the total assets of STB and will not have an adverse effect on its balance sheet. As at December 31, 2016, the bank has been unable to carry out necessary procedures to determine the recoverability of these bonds and the amount of additional provisions to be made. STB is discussing with MOF for a resolution to the issue.

		from the government inspection organization reference No. 193/ອກລ.ຫກ at Vientiane Capital, on 4th April 2017)	
In Line with all prudential requirement of BOL	Yes – LCNB is in line with all prudential requirements of BOL	Yes – STB is in line with all prudential requirement of BOL	Yes – SACOM Bank is in line with all prudential requirements of BOL
Application of sound banking procedures and all WB prudential requirements in the approval of sub-loans	Yes – LCB follows the application of sound banking procedures and all WB prudential requirements in the approval of sub-loans.	Yes – STB follows the application of sound banking procedures and all WB prudential requirements in the approval of sub-loans.	Yes – SACOM Bank follows the application of sound banking procedures and all WB prudential requirements in the approval of sub-loans.

14. As mentioned above, DOSMEP has discussed and agreed that the amount of \$1.5 million, now available as a result of the cancelation of Component 2 (and due to changes in exchange rate between the SDR and US\$), would be allocated to a new bank to be selected among the banks that have shown an interest in joining the LOC within the next three months. DOSMEP has received the first interest payments from LCNB and STB in September and October, 2016 respectively. DOSMEP will also follow up with the PFIs on the payment of the commitment fees on the undisbursed balances¹⁶ in the PFI’s accounts. Detailed sub-loan information for each PFI is shown as **Annex II**.

Component 2- Technical Assistance including Project Management, M&E (US\$5 million)

Technical Assistance:

15. As mentioned above, the performance of this component has been mixed over the last two years (2015-2016). Work programs and budgets were revised constantly, however, implementation lagged behind due to reasons mentioned earlier in the report. The activities under the component made little progress towards the middle of 2016, as there was restructuring of the roles of both the DOSMEP and NIU, and all procurement activities were put on hold as mentioned above. However, once the restructuring was completed, implementation picked up and several activities were launched based on the revised and approved Work Plan for 2017 as indicated below. However, implementation of the two main technical assistance activities, the assistance to be provided to the PFIs and SMEs has not yet been implemented.

16. **Needs Assessment for Capacity Building for PFIs, including Commercial Bank and SMEs:** As per the original work program TORs were developed to select two firms to provide technical assistance to the PFIs as well as to the SMEs. However, after the internal restructuring

¹⁶ A fee of 0.05% per annum will be charged on the undisbursed balances in the PFI’s account. This was meant to discourage PFIs in requesting allocations and then not disbursing the funds, preventing other PFIs from accessing the funds.

between DOSMEP and NIU was completed, it was decided that before the two firms were to be hired a needs assessment for both activities should be carried out. As a result, two new TORs were developed for these activities and the procurement process was launched to select the two candidates. The candidates were selected in February 2017 and commenced work shortly thereafter:

- **Needs Assessment for PFIs:** The consultant started the assignment on March 01, 2017. Unfortunately, the experience with this consultant has not been good. The first two reports submitted by him were not up to expectation and did not meet the requirements listed in his TORs. The final report was submitted by him, even though the second report was rejected by DOSMEP. In addition, the consultant did not incorporate comments provided (on the second report) by DOSMEP in the final report. Project has canceled his contract as well as the final payment. During the mid-term review mission, it was agreed that a new needs assessment will not be launched and that the Bank team would draft a Tor for the selection of consultants to provide the TA to PFIs. The TORs would also take into consideration available resources (service providers) in Laos in drafting the TORs, to be completed by end August, 2017.
- **Needs Assessment for SMEs:** The Consultant completed the third mission end May and submitted the draft “Final Report”. The previous reports submitted by him have been satisfactory and was approved by DOSMEP and NIU. Both DOSMEP and NIU have been very satisfied with his performance to date as the quality of his work has been good and he has worked closely with the key stakeholders. DOSMEP and the Bank has reviewed the report and submitted several comments to the consultant to have the report more focused and action oriented. The consultant is expected to incorporate the comments and submit the final revised report, including the TORs for the TA component by end August, 2017.

17. **Training and Workshops:** Several training programs and a study tour were conducted in 2016 as shown in the table below. As per the agreed Work Plan for 2017, several training and workshop sessions were conducted for PFIs, LNCCI, DOSMEP, related departments and private sectors in Vientiane and provinces namely: (i) the Malaysia study tour in February, 2017; (ii) E&S and credit evaluation for PFIs and government officers in Champassak and Luangphabang provinces in March and May, 2017 respectively; (iii) Project Dissemination Workshop in Savannakhet and Luangphabang provinces in March and May, 2017; (iv) The launching of the second semester of English Language training program for 35 MOIC officers in February, 2017; and (v) The Malaysian Study Tour dissemination workshop April, 2017 and other relevant trainings (see more details of trainings and workshops in below table).

The Training and Workshop from September 15, 2014 – May 31, 2017

No	Date	Training & Workshop	Place/area	No. Participant	No. Women	Organizations
2015						
January to December, 2016						
1	15 Feb	Project Cycle and Management training	In Vientiane	7	3	MOIC
2	18 Feb	Procurement Management training	In Vientiane	18	8	MOIC, PFIs
3	16-22 April	Thailand Study Tour	In Thailand	14	3	MOIC, LNCCI, BOL, MOF, Prime minister office and MONRE
4	5-6 May	E&S Safeguard training	In Vientiane	30	10	MOIC, PFIs (CB), LNCCI
5	Sept to Dec	The first semester of English Language training program	In Vientiane Capital	37	23	MOIC
6	18 Nov	Project Review Committee Meeting	In Vientiane	35	12	MOIC, WB, BOL, MOF, LNCCI, LDB, PFIs (CBs)
7	22 Dec	Dissemination Workshop	In Vientiane	100	32	MOIC, WB, DoIC, PFIs (CB), LNCCI, BOL, MOF, Prime Minister Office and PONRE
Total				241	91	
January to May 31, 2017						
1	5 Feb	The second semester of English Language training program	In Vientiane	35	18	MOIC
2	20-24 Feb	Malaysia Study Tour	In Malaysia	17	6	MOIC, PFIs (CB), LNCCI, BOL, MOF, Governor

						Cabinet office, DOTC
3	2-3 Mar	The second E&S training	In Pakse province	30	3	MOIC, PFIs (CB), LNCCI and MONRE
4	29 March	Dissemination Workshop	In Savannakhet province (south)	108	25	MOIC, DoIC, PFIs (CB), LNCCI, BOL, MOF, Governor Cabinet office, DOTC and PONRE
5	06 April	Study Tour wrap up Workshop	In Vientiane	42	15	MOIC, PFIs (CB), LNCCI, BOL, MOF, Governor Cabinet office, DOTC
6	04 May, 2017	Financial and Procurement Management Training	In Vientiane	25	10	MOIC and PFIs
7	17 May	Dissemination Workshop	In Luang Prabang Province (North)	99	29	MOIC, DoIC, PFIs (CB), LNCCI, BOL, MOF, Governor Cabinet office, DOTC and PONRE
8	18-19 May	The third E&S training	In Luang Prabang Province	38	11	MOIC, PFIs (CB), LNCCI and MONRE
Total				392	207	

18. Feedback from participants in the English language program has been very positive, with most of the participants reporting that they feel more confident in conversing in English and have seen improvements in their writing abilities. The individuals who participated in the two study tours to Thailand and Malaysia respectively, also reported positive outcomes and have indicated that they had picked up several ideas that would enable them to improve their contributions to the relevant SME development tasks that they were involved with. Some lessons learned are as follows:

- Establishment of a National Steering Committee to coordinate SME development activities among the various line Ministries;

- Establishment of a Government policy to provide incentives for commercial banks to lend to the SME sector;
- Encouraging commercial banks to develop a strategy for lending to the SME sector;
- Government to facilitate a simplified accounting system to be used by SMEs;
- Establishment of a SME Development center in the Chamber of Commerce to assist SMEs in the development of business plans; provide information to the SMEs of the requirements of banks for lending to SMEs, filling out of credit applications, etc.
- Carry out more research on Credit Guarantee Systems that are applicable to the Lao situation.

19. **Project Management:** Project management was weak due to lack of qualified and experienced staff at the inception of the project, leading to delays in planned activities. Apart from the lack of capacity, the lack of proper coordination between DOSMEP and NIU further hampered smooth project implementation. As mentioned above, once the core staff was in place at DOSMEP, implementation progressed well. Coordination between DOSMEP and NIU too improved after the project team was in place. In mid-2016, changes were made to the project implementation arrangement as follows: (i) The Program Executive Committee (PEC) for all donor funded projects including the TDF project was to be the new body to oversee project implementation; (ii) The executing agency was the Department of Planning and Cooperation (NIU); and (iii) DOSMEP was to be the project technical implementation agency. Under this arrangement, DOSMEP would continue to sign SFA with eligible and selected PFIs, while the approval for the selected PFIs (if any) in the future was to be made by the Project Executive Committee, instead of the SME Fund Board. Over the past one year, project staff turnover has been high adding more burdens on the existing staff. Part of the reason could be attributed to the low remuneration and part to poor performance. The remuneration of project staff needs to be reviewed in order to retain good staff.

20. **Revision and Amendment to the Sub Financing Agreement between MOIC and MOF.** The Sub-Financing Agreement has been revised by MOF, based on the revision agreed with DOSMEP and submitted to the MOIC for comments on April 19, 2017. The FX risk now will be carried by the MOF. The comments from MOIC were submitted to MOF on May 10 to be incorporated. It is critical that this document is finalized as soon as possible.

21. **Revisions to the PIM.** All changes and revision agreed as a result of the project restructuring between NIU and DOSMEP under MOIC, were completed. NIU submitted the revised PIM to the World Bank for review and approval on March 3, 2017. The PIM is expected to be finalized after the mid-term review is completed.

22. **Environment and Social Safeguards: Environment and Social Safeguards:** The following were some of the challenges mentioned by PFIs and SMEs for SMEs to improve their E&S capacity, namely: (i) SMEs lack of knowledge and information on E&S and how to fill in the required forms; (ii) Misunderstanding by SMEs that improvement of E&S is only to comply with regulations on E&S, but not for any benefits to the environment or to the SMEs; (iii) Due to the size of their operations, SMEs are under the impression that their operations will have no E&S impact; (iv) Lack of E&S capacity in SMEs (including the financial resource required to implement E&S recommendations, human resources, and technology); and (v) Weak enforcement of non-compliance of E&S standards and procedures at the local level. As a result,

the PFIs have requested revisions to the E&S assessment formats. The E&S consultant along with WB E&S support have introduced mitigation measures to assist the PFIs and SMEs to overcome the issues mentioned above by providing: (i) training on E&S requirements and how to fill in the required forms, which will be done on an on-going basis; (ii) by rearranging the forms to make them simpler to understand and complete; and (iii) holding workshops for the stakeholders on the benefits of implementing E&S mitigation measures with relevant case studies. It is hoped that these mitigation measures will help to ease some of the concerns mentioned above.

23. **M&E Implementation.** Currently, there is no proper M&E system or officer in place. Data collection has been ad-hoc. It should be noted, that the original position for an International M&E advisor was included under the TA to be provided to the PFIs. Since that activity has been delayed, the position has not been filled. However, as agreed in the approved Work Plan for 2017 by MOIC, the position of a M&E Officer (local) was advertised and a candidate selected, who is expected to commence work on August 1, 2017. It is expected that once the officer has been selected, the M&E activities under the project will commence and required data for monitoring and evaluation will be up-dated. In addition, if the position for an International M&E advisor is still required, it could still be included under the TA to be provided to the PFIs as was originally planned.

24. **Procurement:** Overall procurement performance under the project has been satisfactory. Most activities indicated in the Procurement Plan have been completed (contracts signed or finalized) by now, and major packages (TA for firms) have been rescheduled for quarters III and IV of 2017 due to a technical reason¹⁷. The following remaining activities have been scheduled to start in the second half of year 2017:

ID	Activity	EOI date as per PP	Actual Status
CS-03	Project Coordinator (IC)	7/2017	Will be re-selected (resigned).
CS-12	M&E Officer (Local)	3/2017	Contract signed- Will start August 1, 2017
CS-22	TA for PFIs (Firm)	10/2017	ToR was prepared before re-structuring and needs revision.
CS-23	Capacity building for SMEs in selected sectors (QCBS)	8/2017	ToR will be prepared as part of the needs assessment, by August 2017.
CS-24	Capacity building for SMEs, Women/young entrepreneurs in selected sectors (CQS)	1/2018	ToR under preparation.
CS-25	International Consultant for the Development of a Strategy and Action Plan for the collection of SME sector data (CQS)	8/2017	ToR is being reviewed by the WB – pending NOL.

¹⁷ The TA for the PFIs had to be postponed as the selected consultant's report on the needs assessment was rejected as it did not meet the specified requirements. This activity will not be re-launched. DOSMEP will revise an earlier version of the TORs for provision of TA to PFIs.

CS-26	M&E Systems Design Specialist (IC)	10/2017	ToR under preparation.
CS-34	National Consultant for IT & Website Upgrading (IC)	7/2017	ToR is being reviewed by the WB.
CS-35	National Project Analyst (IC)	7/2017	ToR is under preparation.

25. There can be other consultancies added (depending on the need) – International TA on Needs Assessment for Capacity Building for Banks and PFIs, which had already commenced in March 2017, but then terminated due to former consultant’s poor performance. Details of completed and on-going contracts are shown in **Annex IV**, and the approved procurement plan is shown as **Annex V**.

26. **Financial Management.** The overall financial management performance under the project is deemed satisfactory. The cumulative disbursements as of 30 June 2017, was US\$ 10,402,216 (Line of Credit US\$ 9,498,127 and Technical Assistance US\$ 904,088) and Outstanding commitments to date are approximately US\$ 2,812,549¹⁸. Both the 2015 and 2016 audit reports had clean audit opinions and there were no issues identified in the Management Letters. The draft Financial Management manual will be finalized shortly.

Disbursement Status: (From September, 2014 - June 30st 2017)

Component	Original Allocation USD	Expected Disbursements as per the PAD – USD	Committed USD	Disbursed Cumulative USD
Component 1: Line of Credit	15,000,000	n/a	12,000,000	9,498,127
Component 2: Technical Assistance	5,000,000	n/a	1,214,766	904,088
Total	20,000,000 19	8,000,000.00	13,214,766	10,402,216

27. The sector data on PFI lending can be found in **Annex VI**.

28. **Lesson Learned:** Based on the implementation experience to date, the following have been the lessons learned:

¹⁸ Of this US\$ 2,812,549 the amount allocated to Sacom Bank and LCB US\$2 million and STB US\$ 0.5 million and the rest is for consultancies that have already been signed.

¹⁹ Currently the amount is approximately US\$18.5 million based on the latest exchange rates between the SDR and US\$.

- For efficient and smooth project implementation, the project management unit within DOSMEP should have dedicated staff engaged full time on project implementation. Having staff that have a full-time job in the Department and working part time on project activities is not optimal and sustainable.
- Given that DOSMEP had no prior experience in working on WB funded projects and the lack of in-house capacity in project management, better arrangements (early recruitment of core staff and consultants) should have been established.
- The needs assessment for TA to be provided to PFIs and SMEs should have been done as part of project preparation or early on during project implementation. Commencing activities after the mid-term of the project does not leave adequate time for the TA to be disseminated.

IV. Issue, Recommendations and Next steps.

29. The following activities need to be followed and completed for smoother project implementation:

#	Activity	Responsible Entity	Date When Action Should Be Taken
1	Finalize the selection of a new PFI to participate under the LOC to absorb the remaining US\$1.5 million and to sign the SFA.	DOSMEP	December 31, 2017
2	Strengthening the Monitoring and Evaluation (M&E) framework for the project, to allow for regular data collection for the analysis of project's outcomes/results framework	DOSMEP	September 30, 2017
3	Response of World Bank to PFIs and DOSMEP on lending ratio between working capital 30% and investment 70 according to the request by PFIs to World Bank and DOSMEP that the lending ratio should be amended to: (i) 50% for working capital and 50% for investment loans	DOSMEP/WB	August 31, 2017
4	Final submission of need assessment report together with the TA proposal, TOR and Action Plan for capacity building and training for SMEs	DOSMEP/NIU	August 31, 2017
5	Final submission of the TORs for capacity building and training for PFIs.	WB/DOSMEP/NIU	August 31, 2017
6	Finalizing the SME Development Plan for 2016-2020	DOSMEP/MOIC	August 31, 2017
7	Completing methodology to capture SME data in the SME Census	DOSMEP/MOIC/Bureau of Statistics	January 15, 2018
8	Finalize the sub-financing agreement between MOF and DOSMEP	MOF/DOSMEP	August 31, 2017

9	Finalize the Financial Management Manual and PIM	NIU	September 31, 2017
10	Specific E&S field visit Work Plan to support SME Companies under line of credit	DOSMEP	2017 – 2018
11	Revise the project budget to allocate un-committed funds (approximately US\$2.7 million to anticipated activities.	DOSMEP/NIU	August 31, 2017

- Annex I: Results Framework**
- Annex II: Detailed PFIs Sub-Loan Information**
- Annex III: Profiles of Sample SME Beneficiaries**
- Annex IV: Status of Signed/Completed Contracts**
- Annex V: Approved Procurement Plan**
- Annex VI: Sector Data on PFI Lending**

Results Framework

Indicator Name	Core	Unit of Measure	Baseline	YR1 2015	YR2 2016	YR3 2017 ²⁰	End Target
Volume of Bank Support: Line of Credit - SME	<input checked="" type="checkbox"/>	Amount (US\$ mln)	0.0	0.5	2.0	6.0	13.5
	Actual			0.0	2.6	3.7	
Census on SMEs	<input checked="" type="checkbox"/>	Percentage	0.0	0	0	1	1
	Actual			0	0		
Increase in Sales by Beneficiary SMEs		Percentage	0	10	15	20	30
	Actual			0	0	X ²¹	
Intermediate Results Indicators							
Direct project beneficiaries (line of credit)	<input checked="" type="checkbox"/>	Number	0	20	50	80	150
	Actual			0	0	269	430
Female beneficiaries (line of credit)	<input checked="" type="checkbox"/>	% Sub-Type	0	5	5	10	15
	Actual	Supplemental			60	55	
Performance of SME loans (NPLs)	<input type="checkbox"/>	%	0.0	0.0	3.0	5.0	5.0
	Actual			0.0	0.0	0	0

²⁰ As of May 31, 2017²¹ To be revised as of October, 2017, one year after the first sub-loan disbursement.

Formulation of new SME Development Master Plan (2016-2020)	<input checked="" type="checkbox"/>	Report	0	0	1		1
	Actual					1 (in the process of being approved)	
Number of DOSMEP Staff trained	<input type="checkbox"/>	Number	0	10	20	20	30
	Actual				25 (including English course, E&S, Project Cycle and Management; study tour; Finance & procurement management training)	30 (including English course; E&S, study tour; Finance & procurement management training)	
Number of SMEs benefiting from TA	<input type="checkbox"/>	Number	0	10	20	50	70
	Actual				0	SME Needs Assessment underway	
Formulation of SME Census Plan and Methodology	<input type="checkbox"/>	Report		1			1
	Actual					In the process of selecting a consultant	

Detailed PFIs Sub-Loan Information**Lao China National Bank (LCB)**

	Name of Company/ Enterprise & Legal Status of Sub-borrower,	Gender	Investment or WC Sub-Loan	No. of staff	Sector	For baseline only (from application/borrower appraisal report)			Purpose of the Sub-loan	Amount of sub-loan approved (mln)	Disbursed in LAK Mil.
						Net Sales in LAK (Mld)	Net Income in LAK	Expected Sales			
01	MKE Electronics (Lao) Co., Ltd	M	WC	36	Trade	108,000	6,600		Buying telephones and communication devices for resale	1,620	1,620
02	Jintai Co., Ltd	M	WC	16	Trade	24,000	3,000		Buying agricultural machines and electronic equipments for resale	1,620	1,620
03	He Jian Construction Sole Co., Ltd	F	WC	90	Service	13,458	3,633		Consumables for construction (Oil, tyres etc.)	1,640	1,640
04	Jian Guo Grand Hotel Co., Ltd	M	Investment	82	Service	5,740	1,148		Purchase of equipment and sanitary ware/equipment for refurbishing the hotel	1,620	1,600
05	Sysavad Glass and Aluminium Sole Proprietor	F	Investment	6	Service	1,008	403		Purchase of machines for utilization in the glass manufacturing business	400	400
06	Engineering Building ASEAN	M	Investment	11	Service	4,880	2,196		Purchase of equipment for	1,250	1,250

	International Co., Ltd								building construction		
07	Thiva Silk Handicraft Sole Co., Ltd	F	Investment	14	Handicraft	360	216		Refurbishment of Showrooms	120	120
08	Subnapha International Machinery Service Co., Ltd	M	Investment	13	Industry	7,543	3,823		Purchase of agricultural machinery and household equipment for leasing	1,600	1,600
09	Kingfish Group Lao Import Sole CO., Lth	M	Investment	19	Agriculture	4,689	2,913		Purchase of machinery for producing livestock feed	600	600
10	Huida Automobile Co., Ltd	M	WC	21	Trade				Guarantee by third party under discussion	1,640	
TOTAL DISBURSED TO LCB IN MIL. LAK =										12,110	10,450
TOTAL DISBURSED TO LCB IN MIL. US\$ =										1.5	1.3

ST Bank

No	Name of Company/Enterprise & Legal Status of Sub-borrower,	Investment or WC Sub-Loan	No. of staff	Sector	For baseline only (from application/borrower appraisal report)			Purpose of the Sub-loan	Amount of unit	Disbursed in LAK
					Net Sales in LAK (Mill)	Net Income in LAK (Mill)	Exports if Any in LAK (mil.)			
01	Padith Chalernsup Sole	WC	3	Ser.	450	47		Procure groceries and brewery products for resale	800	800
02	Anousone Steel Form Work Rental Service	Inv.	10	Ser.	262	109		Purchased Steel Frames for rental service	500	500
03	Mrs. Sengkeo Inthalungxy Shop	Inv.	4	Tra.	4,500	273		Purchase of Building and Renovation	1,040	1,040
04	Chansouk Clothing Store	Inv.	4	Tra.	3,456	251		Purchase of Building and Renovation	900	900
05	Noykham Beer-Soft Drink and Retail Sole Trader	WC	3	Tra.	1,170	70		Purchase of Building and Renovation	500	500
06	Chanthasone Clothes Store	Inv.	3	Tra.	1,770	180		Purchase of Building and Renovation	500	500
07	Amphai Clothes Store	Inv.	4	Tra.	1,368	156		Purchase of Building and Renovation	624.75	624.75
08	Sengmany Clothing Store	Inv.	2	Tra.	1,260	164		Procured the stall/store in the ZhangJiang Market/center	774	774
09	Viengkesone Clothes Store	Inv.	3	Tra.	9,000	428		Purchase of Building and Renovation	1,125	1,125

10	Phonesy Panepart and car service shop	WC	3	Ser.	800	79		Procured the Car service equipment (car modify equipment and spare parts)	150	150
11	Homsombat Trading Export-Inport Co.,Ltd	WC	5	Ser.	10,518	654		Procure groceries and brewery products for resale	700	700
12	Fook Mobile Shop	WC	2	Ser.	1,200	177		Purchase of Cellphone & telephones spare part for resale	500	500
13	Namkhong Fish Restuarent	WC	31	Tra.	2,427	71		To renovate the restaurant and buying the equipment for event service	1,600	1,600
14	Vilaiphone Clothes Store	Inv.	3	Tra.	3,600	228		Purchase of Building and Renovation	835	835
15	Phothavanh Shoes Shop	Inv.	3	Tra.	2,520	293		Purchase of Building and Renovation	625	625
16	Phair Mai Hotel	Inv.	8	Ser.	3,780	2,157		Procure equipment and linens for the hotel	1,200	1,200
17	Viengxay Construction Material Store	WC	3	Ser.	46,944	1,302		Procure construction equipments and raw materials for resale	1,600	1,600
18	Phoutthasone Selling-Repairing Phone	WC	3	Ser.	2,304	447		Purchase of cell phones and parts for resale	600	600
19	Malayphon Shoes Shop	Inv.	3	Tra.	5,400	252		Purchase of Building	420	420

								and Renovation		
20	Phonephet Retailer Store	Inv.	2	Tra.	1,345	297		To renovate and expand the store/shop	600	600
21	Sydalardsavo ng Gold Shop	Inv.	5	Tra.	82,800	1,063		Purchase of Building and Renovation	1,310	1,310
22	Soukhamvil ay	WC	6	Tra.	2,880	205		Constructio n equipments and raw materials for resale	300	300
23	Manivan Gold Shop	WC	3	Tra.	3,000	444		Buying gold and silver products for resale	500	500
24	Khounnouxai Furniture Sole	Inv.	6	Ind.	2,308	106		Machinery and Equipment	800	800
25	Xokxai Gsrment Factory	Inv.	13	Ind.	3,600	260		Machinery and renovation of the factory	700	700
26	Phouphadeng Hotel	Inv.							1,600	
TOTAL DISBURSED TO STB IN MIL. LAK									20,804	19,204
TOTAL DISBURSED TO STB IN MIL. US\$ =									2.57	2.36

SACOM BANK

No	Name of Company/ Enterprise & Legal Status of Sub-borrower,	Gender	Investment or WC Sub-Loan	No. of staff	Sector	For baseline only (from application/borrower appraisal report)			Purpose of the Sub-loan	Amount of sub-loan	Disbursed in LAK Mil
						Net Sales in LAK (Mil)	Net Income in LAK	Expected Sales			
01	Anousone Individual Retail Shop	F	WC	3	Trade	1,800	540		Purchase of grocery products	500	500
02	SAKOUN LAO SILK INDIVIDUAL SHOP	F	Inv.	5	Trade	1,800	540		Buying new wood-framed weaving looms, fabric cutting machine, renovation of antique silk show room.	1,600	500
TOTAL DISBURSED TO SACOM BANK IN MIL. LAK =										2,100	1,000
TOTAL DISBURSED TO SACOM BANK IN MIL. US\$										0.3	0.1

Profiles of Selected SME beneficiaries

Kingfish Group Lao Import: LCB

The Kingfish Group has its facilities (fish farm) in the village of Nongteng, Sikohtabong District, approximately 20 KM from Vientiane. The facility has 29 fish ponds in an area of approx. 81,600 m². The SME has an investment sub-loan with LCB for an amount of LAK 600 million. The full amount of the loan has been disbursed. The purpose of the sub-loan was to purchase equipment for the production of fish food. Prior to the investment, the SME used to purchase fish feed from Thailand at Bhat 500 per KG. With the new investment, the SME is able to produce fish food at TH 300 per KG, saving an estimated TH 200 per KG, a 40% savings in fish feed, which has been the SMEs main cost ingredient associated with the marketing of fish. This is expected to increase the SMEs profitability considerably. With this level of production (without any additions) the investment will be paid off in 4 years time. Currently the SME has ten workers including the owner and hope to increase staff in the future as they look to expand the business. The SME is keen to receive TA under the project to improve the quality of fish and also to improve its marketing activities. In addition, the SME would like TA on how to get rid of fish excrement and the installation of air circulating machines for the improvement of water quality in the fish ponds.



Sakoun Lao Silk Individual Shop: SACOM Bank

The Sakoun Lao Silk SME is in the business of weaving high-end silk fabrics and made-to-order garments. The SME has a sub-loan with the SACOM Bank for US\$ 200,000 for investment in its business. The funds are being used to purchase wooden weaving frames (20), a fabric cutting machine and to renovate its show rooms in its facility in Vientiane. 70% of the sales are for handmade custom order dresses (traditional Lao dresses) of high quality especially for weddings and functions, while 30% are for general sales. 80% of the raw materials are imported from Japan France, Thailand and Vietnam, while the rest is locally procured. It is estimated that with the new investment, production and sales will double from its current levels and that the investment will be recouped within a period of five years.



Anousone Steel Formworks and Shore Rental Service Shop: ST Bank

The above SME is located in the suburbs of Vientiane. The SME rents steel frames and blocks to construction companies for constructing buildings. The steel frames and blocks rented by this SME is of very high quality and there is a very good demand for their services. The SME has taken a loan of LAK 500 million to expand its business. The frames and blocks were purchased from Thailand. The SME employs 10 workers and three clerical staff and is managed by a dynamic young lady. The rentals are billed in Thai Bhatt. The net profit prior to the investment was around 40% and is expected to increase to 60% as a result of the investment. There is a growing demand for their business and it is estimated that the investment can be paid off within 2-3 years. The SME is very keen to participate under the TA component and is looking forward to participating as they require assistance in marketing and business management. They are also looking to apply for additional financing under the LOC.



Annex IV

Status of Signed/Completed/On-Going/Planned Contracts

	Activities Completed by December 31, 2016	US\$	
1	Procure IT equipment for DOSMEP	49,313	
2	Procure furniture for DOSMEP	27,475	
3	Procure (2) vehicles for DOSMEP	139,028	
4	Inputs from International E&S Advisor	24,610	
5	Inputs from International FMS	17,100	
6	Training and workshops as of 31 Dec 16 (E&S, FM, Procurement, PFIs, Study Tour Thailand)	56,738	
7	IOC completed as of 31 Dec 2016	44,061	
	Total	358,325	

	Completed Activities by June 30, 2017	Budget	Actual
2.1.1.2	Training - Procurement and FM for DOSMEP and PFIs	3,000	1,041
2.1.1.3	Regional Study Tour to Malaysia	27,000	24,120
2.1.1.4	Wrap up Study Tour Visits - Thailand and Malaysia	3,000	1,597
	Training ,workshops and dissemination (in three provinces) as of May 31, 2017 E&S, FM, Procurement for PFIs and MOIC.		
	Total	33,000	26,758

	On-Going Activities As of June 30, 2017		Contracts Signed	Actual as of June 30, 2017
1	International Project Advisor		127,544	98,505
2	International Procurement Specialist		78,500	43,900
3	Finance Officer		114,152	51,633
4	Procurement Officer		112,500	52,500
5	Administrative Officer		40,743	19,963
6	Project Coordinator		68,600	25,400
7	National SME Program Specialist		48,000	34,000
9	External Auditor -		64,955	22,440
10	Part time E & S specialist		47,520	24,953
2.1.1.1	Training - English MOIC and DOSMEP	Training	30,000	14,175
2.1.2.1	Administrative Officer (NIU)	IC	12,091	2,467
2.1.2.2	PR/Communications Officer	IC	36,000	3,000
2.2.1	E&S Training for PFIs Staff	Training	15,000	11,065
2.2.3	Needs Assessment of TA for PFIs	IC	50,000	12,480
2.2.3a	Local Consultant Needs Ass. PFIs	IC	18,000	14,400
2.2.6	Field Monitoring on LOC Implementation	IOC	30,000	2,491
2.3.1	Needs Assessment of TA for SMEs	IC	60,000	35,126
2.3.3	Information Dissemination on SME Access to Finance in South and North Regions	Workshop	30,000	19,834
2.1.1.13	Project Review Committee Meetings (Multiple)	Workshop	20,000	0
2.3.5	SME Media Promotion Activities	Firm	10,000	3,225
	Total		1,030,705	491,557

Expected to be Launched by 3rd Quarter 2017				
2.1.1.7	Development of Action Plan for MSME Statistics	IC	41,000	
2.1.1.8	MSME statistics: Analyze SME data and statistics obtained on a pilot basis using methodology selected in 2.1.1.7	CQS	100,000	
2.1.2.5	Up Date the FM Manual			In House
2.1.2.6	Finalize the PIM			In House
2.1.2.10	M&E Officer	IC	30,000	
2.1.2.11	Project Analyst	IC	14,500	
2.3.2	Delivery of TA for 2.3.1 Above. TA for SMEs	Firm		Budget TBD
	Total		107,500	

Expected to be Implemented Oct 2017 - June 2018				
2.1.1.5	IT and Web Site Upgrading	IC	12,000	
2.1.1.6	DOSMEP IT training	Training	1,000	
2.1.1.8	Collection of MSME data and development of Data Base	IC/Firm		Budget TBD
2.1.1.9	Implementation of the SME Master Plan	IC		Budget TBD
2.1.1.10	Translate and Publish the Final SME Development P.	IOC	30,000	
2.1.1.12	Translation and Printing of core Project Documents for PFIs and Stakeholders	IOC	20,000	
2.1.2.3	M&E Software	Goods	25,000	
2.1.2.4	M&E Systems Design Specialist	IC	12,000	
2.2.2	E&S Training for PFIs Branch Staff in Regions	Training	20,000	
2.2.4	Delivery of TA for 2.2.3 PFIs			Budget TBD
2.2.5	Technical Review Workshop with PFIs	Workshop	5,000	
2.2.7	Feed back from PFIs on LOC Implementation	Workshop	5,000	
2.3.4	SMEs Financing Exhibition	Workshop	50,000	
2.3.6	Development of LAO ASEAN SME Service Center	IC	10,000	
	Total		190,000	

Lao PDR: SMEs Access to Finance Project

Procurement Plan (Updated April 24, 2017)

I. General

1. Project Information:

Country: Lao PDR

Borrower: Ministry of Finance

Project Name: Small and Medium Enterprises Access to Finance Project (SMEAFP)

Credit No: IDA 54710; *Grant No:* IDA H9580

Project Implementing Agency: Department of SME Promotion (DOSMEP) – Operational/Technical tasks
National Implementation Unit (NIU) – Fiduciary tasks

2. Bank's Approval Date of the Procurement Plan–

(Original) April 28, 2014;

1st revision Oct 10, 2014;

2nd revision Nov 24, 2015

3rd revision April 10, 2017

3. Date of General Procurement Notice: November 07, 2014

4. Period covered by this Procurement Plan: 18 months (From April 24, 2017 to September 23, 2018)

II. Goods and Works and Non-Consulting Services

1. Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Procurement Method Threshold	Prior Review Threshold	Comments
1.	ICB (Goods)	>=US\$ 600,000	>=2,000,000	
2.	NCB (Goods)	<US\$ 600,000	None	
3.	Shopping (Goods)	<US\$ 100,000	None	

4.	Direct Contracting (Goods)	-	>=US\$ 200,000	Where justified and subject to IDA's prior agreement
----	----------------------------	---	----------------	--

2. **Prequalification:** N/A

3. **Reference to Project Implementation Manual:** Dated April 24, 2014 (or as updated in future)

4. **Any Other Special Procurement Arrangements Retroactive Financing:** Up to US\$2 million equivalent carried out after April 1, 2014, following World Bank Procurement Guidelines and other procedures outlined in the Project Implementation Manual and the Financing Agreement.

5. **Procurement Packages with Methods and Time Schedule**

1	2	3	4	5	6	7	8	9	
Ref. No.	Contract (Description)	Estimated Cost (US\$)	Procurement Method	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Revised Expected Bid-Opening Date	Comments
G-6	M&E Software	25,000	Shopping	No	No	Post	4/2016	9/2017	
G-8	IT Equipment (5 Desktop Computers, 2 laptops, 2 External Hard Disk, 1 DSLR Camera with extra Lens)	15,500	Shopping	No	No	Post	6/2017	6/2017	

III. Selection of Consultants

1. **Prior Review Threshold:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines on the Selection and Employment of Consultants:

	Selection Method	Procurement Method Threshold	Prior Review Threshold	Comment
1.	QCBS, QBS (Firms)	>US\$ 300,000	>=US\$ 1,000,000	
2	CQS (Firms)	<US\$ 300,000	None	

3.	Single Source (Firms) and Individual Consultants	-	>=US\$ 1,000,000	Where justified and subject to IDA's prior agreement
4	Least Cost Selection	-	>= US\$ 1,000,000	
5	Individual Consultants	-	Legal and Fiduciary Consultants and >US\$ 300,000	Comparison of qualifications of at least three candidates. SSS may be used where justified and subject to IDA's prior agreement

2. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than US\$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
3. **Any Other Special Selection Arrangements: Retroactive financing:** Up to US\$2 million equivalent carried out after April 1, 2014, following World Bank Procurement Guidelines and other procedures outlined in the Project Implementation Manual and Financing Agreement.
4. **Consultancy Assignments with Selection Methods and Time Schedule2/**

Ref. No.	Description of Assignment	Estimated Gross Cost (US\$)	Selection Method (Firm or Individual)	Review by Bank (Prior/ Post)	Expected Proposals Submission Date	Revised Expected Proposals Submission Date	Comments
CS-03	Project Coordinator	96,000	Individual	Post	10/2014	7/2017	Resigned and will be re-selected.
CS-04	Procurement Officer	36,000	Individual	Post	10/2014	05/2015	Completed. Contract extension signed.
CS-05	International Procurement Specialist	150,000	Individual	Post	10/2014	-	Completed. Contract signed.
CS-06	Finance Officer	72,000	Individual	Post	18/2015	3/2017	Completed. Contract extension signed.
CS-08	SME Development Advisor- Int'l	200,000	Individual	Post	12/2014		Completed. Contract extension to be signed soon.
CS-12	National M&E Officer	42,000	Individual	Post	12/2016	3/2017	Draft contract – commencement planned for August 2017.

CS-17.2	Project Administration Officer for NIU	35,000	Individual	Post	05/2016	-	Completed.
CS-18	Independent Auditor	59,050	LCS	Post	12/2014		Completed.
CS-20	Legal Services	50,000	IC	Prior	11/2015	12/2016	Cancelled.
CS-21	SME Programs Specialist	48,000	IC	Post	07/2015	07/2015	Completed.
CS-22	TA for PFIs: (i) Sub-project appraisal, evaluation, monitoring and reporting aspects; (ii) Overall portfolio and credit risk management; (iii) New financial instruments; (iv) SME Strategy and Development; (v) Credit Guarantee Schemes; (vi) Credit rating system for the banking sector; (vii) Needs assessment for capacity building for PFIs; (viii) Access to finance for SMEs; and (ix) Leasing, etc., (x) M&E Specialist	1,240,000	QCBS	Prior	11/2015	10/2017	ToR was prepared before re-structuring and needs revision. This TA will be included in the report of Needs Assessment for PFIs capacity building.
CS-23	Local Consulting Firm for Capacity building (Training/Workshop/Seminar) for SMEs in selected sectors: (i) Prepare project proposals for funding under the LOC; (ii) Prepare business plans (iii) Improve business accounting.	100,000	CQS	Post *	12/2015	8/2017	ToR under preparation (prepared by International Consultant is included in the Needs Assessment report, it is now being reviewed by DOSMEP).
CS-24	Local Consulting Firm Capacity building (Training/Workshop/Seminar) for SMEs, Women/young entrepreneurs in selected sectors: (i) Improve production processes, including TQM and GMP; (ii) Access to local and export	100,000	CQS	Post *	04/2016	1/2018	ToR under preparation. It is exited in the 2017 WP, maybe it should be included in the 2018 WP). It should be against how the TA for SMEs is progressing before the activity is launched.

	markets; and (iii) Forming Business to business partnerships.						
CS-25	International Consultant for the Development of a Strategy and Action Plan for the Collection and Analysis of SME Sector Data	41,600	IC	Post	05/2016	8/2017	ToR is being reviewed by the WB.
CS-26	M&E Systems Design Specialist (IT)	12,000	IC	Post	05/2016	10/2017	ToR under preparation. This TOR, DOSMEP expected to get recommendation from International Consultant of Strategy and Action Development for data collection and Analysis for SME Sector)
CS-27	National Environmental and Safeguard Specialist	47,520	IC	Post	12/2015	-	Completed.
CS-30	PR/Communication Officer	30,000	IC	Post	11/2016	12/2016	Re-select
CS-31	Conduct diagnostic of SME banking in Laos and propose a detailed capacity building plan for selected commercial banks, including a well defined scope of the TA with specific outputs/outcomes, delivery mechanism, potential implementing partners, and propose M&E system for the project.	31,200	IC	Post	11/2016	12/2016	Completed.
CS-32	Assessment of existing SME support programs, including but not limiting to the Business Assistance Facility, Garment Service Center, Lao India Entrepreneurship Center, business start up programs supported by DOSMEP, USAID, ADB, DFAT, Luxembourg and others and identify support gaps and proposed	50,180	IC	Post	11/2016	12/2016	Completed.

	detailed SME TA package, including well defined scope of the TA with intended outcomes/outputs, target groups, delivery modality and implementing partners.						
CS-33	National Consultant for a Capacity Building Needs for Small and Medium Enterprises (SMAs) and Selected Commercial Banks	18,000	IC	Post	11/2016	12/2016	Completed.
CS-34	National Consultant for IT & Website Upgrading: (i) To re-design DOSMEP's Website and Upgrade the computer network in order to create effective E-materials tools, information and business Advisory providers access for SMEs	12,000	IC	Post	6/2017	7/2017	ToR under preparation and shall be submitted to WB soon.
CS-35	Project Analyst (National)	40,500	IC	Post	6/2017	7/2017	ToR is under preparation.

Note: * The Bank will review at shortlisted evaluation stage

Sub-loan Profile of by Sector, Region, Purpose, Loan & SME Size

AS OF JUNE 30, 2017

SECTOR DATA - PFIS JUNE 30, 2017

I. SECTOR	Amount		Number of Sub-Loans	
	US\$ 000*	Share (%)	Count	Share (%)
Textiles and Textile Products	15	0.00	1	0.00
Basic Metals and Fabricated Metal Products	7,861	0.02	74	0.02
Food Products and Beverages				
Pulp, Paper and Paper Products, Publ.& Printing				
Wood and Wood Products				
Construction Services & Construction Materials	123,154	0.35	277	0.06
Logistics	5,865	0.02	66	0.01
Machinery and Equipment	1,436	0.00	19	0.00
Furniture, Rubber and Plastic Products				
Other Non-Metallic Mineral Products				
Mining and Quarrying				
Chemicals, Chemical Products & Man-Made Fibers				
Agro-industry	25,049	0.07	129	0.03
Hotels and Restaurants Oil Separators	606	0.00	1	0.00
Trade and commerce	72,024	0.21	1,033	0.23
Health				
Education				

Other	113,608	0.32	2,854	0.64
TOTAL	349,618	100%	4,454	100%
II. REGION	US\$ 000*	Share (%)	Count	Share (%)
Urban- Vientiane	281,515	0.81	2,570	0.58
Urban- Other	65,267	0.19	1,805	
Rural				
Non-Urban	2,836	0.01	79	0.02
TOTAL	349,618	100%	4,454	59%
III. PURPOSE	US\$ 000*	Share (%)	Count	Share (%)
Working Capital	108,453	75.29	1410	0.32
Investments	241,165	24.71	3044	0.68
TOTAL	349,618	100	4454	100%
IV. SUB-LOAN SIZE (US\$)	US\$ 000*	Share (%)	Count	Share (%)
TOTAL		100		100
<5000	2,369	0.01	713	0.16
>5000 - <15,000	13,864	0.04	1687	0.38
<15,000 - >25,000	8,878	0.03	522	0.12
<25,000 - >40,000	11,183	0.03	393	0.09
<40,000	313,324	0.90	1139	0.26
Total	349,618	100%	4454	100%