

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA7446

Date ISDS Prepared/Updated: 23-Mar-2014

Date ISDS Approved/Disclosed: 24-Mar-2014

I. BASIC INFORMATION

1. Basic Project Data

Country:	Lao People's Democratic Republic	Project ID:	P131201
Project Name:	Lao PDR - Small and Medium Enterprise Access to Finance Project (P131201)		
Task Team Leader:	Jose De Luna-Martinez		
Estimated Appraisal Date:	28-Mar-2014	Estimated Board Date:	29-May-2014
Managing Unit:	EASFP	Lending Instrument:	Financial Intermediary Loan
Sector(s):	SME Finance (100%)		
Theme(s):	Micro, Small and Medium Enterprise support (100%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Financing (In USD Million)			
Total Project Cost:	47.00	Total Bank Financing:	32.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			20.00
International Finance Corporation (IFC)			12.00
Borrowing Country's Fin. Intermediary/ies			15.00
Total			47.00
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

2. Project Development Objective(s)

This project aims at providing long-term funding sources for banks to provide long-term credit to SMEs. The project will support the growth of privately-owned SMEs by increasing the supply of

long-term finance provided by commercial banks and by strengthening the capability of the Department for Small and Medium Enterprise Promotion (DOSMEP) to formulate and implement public policies that promote access to finance for SMEs.

3. Project Description

The project has three components:

- 1) A Line of Credit
- 2) A Risk Sharing Facility
- 3) Technical Assistance

Component 1: A Line of Credit (IDA US\$12 million)

IDA will provide US\$12 million to the Ministry of Finance (MoF) which will pass on project funds to the Department of SME Promotion (DOSMEP). DOSMEP will provide long-term funding in local currency to participating financial institutions (PFIs) - financially-sound and well administered commercial banks. Because DOSMEP is not a financial institution, the funds to be provided by DOSMEP to PFIs will be in the form of long-term bank deposits (5-7 years) in local currency (maximum US\$4 million to a PFI). The PFIs will pay interest to DOSMEP same as the 3 month deposit rate in local currency (or interbank rate), and pay back the entire deposit amount to DOSMEP at the end of the agreed period. The PFIs will on-lend these funds for long term loans (up to US \$200,000 equivalent in local currency with 2-7 years maturity at market rates) to privately-owned SMEs enabling them to carry out long term capital investments that increase their business operations and enhance their productivity. Although, SMEs operating in any sector will be eligible, it is expected that most of the demand for credit will come from SMEs in the manufacturing, services and trade sectors.

Component 2. Risk Sharing Facility (IDA US\$3 million and IFC up to US\$12 million)

This component will support the establishment of a Risk Sharing Facility (RSF) which will provide a partial credit guarantee to eligible private commercial banks (PFIs) that lend to SMEs. The RSF will cover 50 percent of the losses, on a pari passu basis, that the PFIs may incur in their SME lending operations (enabling them to lower their excessive collateral requirements for loans to SMEs). The total lending amount to be covered by the RSF could reach up to US\$30 million, where IDA will provide US\$3 million on behalf of the Lao Government, IFC up to US\$12 million, and PFIs will absorb the remaining up to US\$15 million. To cover claims from PFIs, the resources from IDA will be used first (first loss). If, and once the IDA resources are exhausted, then IFC will start to use its own resources to cover the losses (second loss) from the loan portfolio. The IFC will serve as the Agent, on behalf of DOSMEP, to manage the RSF, and will conduct due diligence of PFIs. The Agent Agreement between the DOSMEP and IFC as well as the participation of PFIs in RSF, will be subject to approval by the World Bank. The team is aware of a perceived conflict of interest between the IFC and the World Bank on the RSF and has advised the Lao Government about the same.

Component 3: Technical Assistance (US\$5 million)

This component will provide technical assistance (TA) to strengthen capacity of DOSMEP in areas such as formulation and implementation of a SME development strategy, SMEs census, design of new SME lending and non-lending products, impact assessment, SME business advisory services, as well as project implementation and monitoring and evaluation, including outsourcing of

procurement, financial management functions to the National Implementation Unit (NIU) of the Ministry of Industry and Commerce (MoIC). The project will also provide TA to PFIs in improving their SME lending business such as the design of SME banking strategy and new SME banking products, and compliance with Bank's environmental standards, etc.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The Project will provide financing to eligible SMEs, through Participating Financial Intermediaries (PFI). The banking system in Lao is small, with only 82 bank branches. Banks' outreach is highly concentrated in urban areas. Most banks are reluctant to serve rural areas given the difficulties that banks have faced in executing collateral in those areas in the past. Banks also find difficult to find registered SMEs in those areas, as most firms operate in the informal sector. This operation will finance projects that take place mainly in urban areas (cities and towns with more than 10,000 people).

The target beneficiary SMEs are registered small (1-19 employees) and medium private enterprises (20 to 99 employees) operating in Lao PDR that have been in business for at least two years and wish to expand their business activities. As a minimum, SMEs must present a viable business plan to the commercial banks, have a good credit history, and have all legal documents required by banks willing to finance them, including collateral. It is anticipated that the majority of beneficiary SMEs are in the trade, manufacturing, and services sectors. Specifically, beneficiary SMEs are expected to comprise of the following private business types: Restaurants, coffee shops, hotels, grocery stores, transportation firms, medical laboratories, information technology companies, private schools, radio and TV stations, cable companies, gasoline stations, travel agencies, private tour operators, production and distribution of construction materials, automobile repair centers, etc.

Types of activities to be financed are: Acquisition of new transportation equipment (automobiles, trucks, other specialized equipment, and replace parts), acquisition of communications equipment (phone and fax equipment, computers, printers, servers, software, other hardware, etc.), purchase of construction materials, building of warehouses or expansion of existing physical premises in the land fully-owned by the SME, acquisition of fixed assets (industrial machines, refrigerators, industrial equipment, replace parts, tools and equipment, etc), and working capital needs (loans for payment of salaries, marketing costs, audit and accounting costs, etc).

The project will not finance land acquisitions, namely because banks are not able to provide long-term loans with maturities of 15 to 30 years, which is the usual maturity required to finance this type of operations. Moreover, the project is expected to close in 5 years or so.

5. Environmental and Social Safeguards Specialists

Manida Unkulvasapaul (CEAMV)

Satoshi Ishihara (EASTS)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/ BP 4.01	Yes	OP 4.01 Beneficiary SMEs of line of credit (Component 1) and Risk Sharing Facility (Component 2) are expected to engage in diverse types of activities, some of which may have negative environmental and/or social impacts and

	<p>risks. The exact location, nature, scale and scope of environmental and social impacts can only be known during implementation when PFIs receive applications from eligible SMEs. Given the nature and size of credit to be provided to each SME, however, the potential negative impacts are most likely to be minor, localized, and reversible and can be mitigated with well-known standard measures and environmental and social good practice.</p> <p>It is expected that the wide majority of transactions will be Category C or Category B transactions. In the unlikely case where a transaction may be considered as a Category A the FI will inform the IFC and/or the World Bank to determine whether such transaction should be considered eligible based upon significance of potential impacts and client capacity.</p> <p>To screen, minimize and mitigate potential environmental and social impacts and risks on the line of credit to the SMEs under Component 1 and the risk sharing facility under Component 2, an environmental and social management framework (ESMF) was developed during preparation which includes environmental and social screening of transactions, environmental categorization, environmental and social review and assessment, monitoring and supervision. It also requires PFIs participating in RSF to establish an Environmental and Social Management System.</p> <p>The ESMF combines both the requirements of the IFC 'sSP and World Bank safeguard policies. Most transactions will typically be covered by PS 1 on Environment and Social Management and PS 2 on Labor and Work Conditions as well the WBG Guidelines on Environment, Health and Safety. The ESMF contains and the Operation Manual will provide in specific detail how the applicable IFC SP and WB safeguards policies will apply. In cases, such as for medium sized companies, were the IFC Performance Standards may also apply for potential effects on natural habitats, forestry and Indigenous Peoples the</p>
--	---

		ESMF contains and the Operation Manual will also provide for the specific details on how to apply together the relevant IFC and World Bank policies
Natural Habitats OP/BP 4.04	Yes	The project activities are not envisaged to create significant negative impacts on natural habitats. Nevertheless, the ESMF includes provisions to screen impacts of transactions on natural habitats. Transactions that will cause significant degradation of critical natural habitats will not be supported in line with the policy. Transactions that will cause adverse impacts or degradation of non-critical natural habitats may be supported provided that the benefits of the transaction outweigh the negative impacts and that measures are devised and implemented to address negative impacts in line with the ESMF.
Forests OP/BP 4.36	Yes	The project will not support transactions that may significantly affect or degrade critical natural forests. However, production and distribution of construction materials is one of the eligible activities under the project, which will likely involve wood/lumber production. The ESMF includes provisions to screen transactions and their potential impacts on forests, forest health and forest-dependent communities. The screening will also ensure that lumbers are sourced legally and further due diligence of the sources will be pursued as part of processing and approval of the transaction.
Pest Management OP 4.09	No	None of the transactions is expected to involve procurement of pesticides or pesticide equipment or lead to an increase in usage of pesticides.
Physical Cultural Resources OP/ BP 4.11	No	The project activities will be limited to acquisition of new equipment, purchase of construction materials, building of warehouses or expansion of existing physical premises in the land fully-owned by the SME, acquisition of fixed assets, and working capital needs. There is no civil works or activities in new areas that are expected affect physical cultural resources.
Indigenous Peoples OP/BP 4.10	Yes	Some transactions may entail sourcing of materials from areas that have the presence of indigenous peoples (e.g., production and distribution of construction materials) or some transactions may involve IP businesses.

		An Ethnic Group Planning Framework (EGPF) has been prepared detailing the process and actions to be undertaken if applicable for specific transactions in the course of project implementation. The EGPF includes screening for the presence of indigenous people in areas where these transactions take place and, where they are present, the project will ensure that they are adequately consulted and are benefiting in a culturally appropriate manner from these transactions and are not excluded. The EGPF also includes provisions to assess if a transaction in an area with indigenous peoples may have any adverse impacts and measures to avoid or mitigate for such impacts in a culturally appropriate manner.
Involuntary Resettlement OP/BP 4.12	No	The project will not result any involuntary resettlement or acquisition of lands as civil works such as building of warehouses or expansion of existing physical premises will be undertaken in the land fully-owned by the SMEs. Moreover, in practice commercial banks cannot finance land purchases due to the long time usually needed for repayment of loans (20 to 30 years). Banks do not have access to long-term sources of funds to finance loans with a maturity of more than 10 years. It is expected that the sub-projects supported by this operation will not have a maturity of more than 8 years. This project is expected to close in four years. Loan applicants will be required under ESMF to demonstrate that transactions will be carried out on their own land to which there is no legacy issue or competing claims.
Safety of Dams OP/BP 4.37	No	The project is not envisaged to support any transactions that will involve any dam construction and rehabilitation or any transactions that would depend on existing dam or dam under construction.
Projects on International Waterways OP/BP 7.50	No	The project activities/transactions will be located in urban areas in Lao and are not expected to trigger the policy.
Projects in Disputed Areas OP/BP 7.60	No	The project activities/transactions will be located mainly in urban areas and are not expected to be located in disputed areas.

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p>
<p>Beneficiary SMEs of line of credit (Component 1) and Risk Sharing Facility (Component 2) are expected to engage in diverse types of activities some of which may entail negative impact on local people or environment. The exact location, nature, scale and scope of environmental impacts can only be known during implementation when PFIs receive applications from eligible SMEs. Given the nature and size of credit to be provided to each SME (about \$30,000) the potential negative impacts are likely to be minor, localized, and reversible and can be mitigated with simple measures and environmental good practice. To ensure that the potential environmental and social risks are adequately mitigated, an environmental and social management framework (“ESMF”) has been developed describing the safeguard measures to be carried out by the Participating Financial Intermediary (PFI) and the eligible SMEs including safeguard screening, assessment, and mitigation of potential negative impacts.</p>
<p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p>
<p>The Project will not create any potential indirect and/or long term negative impacts. It is anticipated that given rapid development of hydropower projects and socioeconomic development in Lao PDR, development of service providers and other related activities would likely to be rapidly increased mostly in Vientiane and large cities.</p>
<p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p>
<p>Not applicable.</p>
<p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p>
<p>The Ministry of Industry and Commerce (MOIC) through the Department of Small and Medium Enterprises Promotion (DOSMEP) is responsible for management of SME services and will be the responsible for the implementation of the project.</p> <p>To screen and manage the environment and social risk of the project, MOIC has developed an ESMF to guide the project implementation unit and the participating financial intermediary to screen and manage the social and environmental risk and monitor the implementation of the ESMF.</p> <p>The ESMF also requires PFIs participating in RSF to establish an Environmental and Social Management System in compliance with IFC’s Sustainability Policy (SP). The ESMF combines both the requirements of the World Bank safeguard policies and International Finance Corporation’s SP.</p> <p>The ESMF also has an Ethnic Minority Development Framework detailing the process and requirements to be undertaken in case it applies to specific transactions in the course of project implementation. This includes screening for the presence of IPs in areas where these transactions take place and, where they are present, the project will ensure that they are adequately consulted, are benefiting from these transactions in a culturally appropriate manner. and are not excluded. The ESMF also includes provisions to assess if a transaction in an area with indigenous peoples</p>

may have any adverse impacts and measures to avoid or mitigate for such impacts in a culturally appropriate manner.

Given weak institutional capacity of MOIC on policies and regulations related to safeguards for SMEs and limited knowledge and capacity of PFIs and SMEs, technical assistance will be provided as part of Component 3 to establish appropriate regulatory mechanisms and building knowledge and capacity of the MOIC and ensure effective implementation of the ESMF. The TA will include training on WB's safeguard policy and IFC's SP.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders for this project include small and medium enterprises, local entrepreneurs' associations and chambers of commerce, and NGOs supporting SMEs and entrepreneurs as well in broader manner beneficiaries of increased investments and services by SME in Laos.

The project is not expected to create significant negative impacts on stakeholders or other people in Lao PDR. The ESMF provides a checklist that will be used by all PFIs to ascertain the absence of involuntary resettlement as part of the appraisal of proposals for credit lines. The main provisions of the ESMF will be further elaborated in the project's operation manual. The ESMF was uploaded at DOSMEP's website and translated into Lao language. The document is easily available to anyone interested in this project. In addition, on March 11, 2014, DOSMEP organized a workshop in Vientiane open to all the public to present the ESMF and receive feedback from participants. Participants included representatives from SMEs' Associations, NGOs, commercial banks, as well as other government institutions in Laos. During the workshop, most questions of participants were related to the interest rates of the loans to SMEs, minimum amount of loans, list of activities that will not be financed (negative list), and technical assistance to be provided under the project to commercial banks in order to meet the standards described in the ESMF. During project implementation, the ESMS will remain available to the public.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	20-Mar-2014
Date of submission to InfoShop	20-Mar-2014
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

"In country" Disclosure	
Lao People's Democratic Republic	04-Mar-2014
<p><i>Comments:</i> The ESMF of this project has been disclosed to the public by the Department for Small and Medium Enterprise Promotion through its website (www.smepdo.org) and a workshop open to the public was held on March 11, 2014. Participants at the workshop included: NGOs, entrepreneurs' associations, SMEs, commercial banks, and various government agencies. Questions of participants were related to the interest rates of the loans to SMEs, minimum amount of loans, list of activities that will not be financed (negative list), and technical assistance to be provided under the project to commercial banks in order to meet the standards described in the ESMF. Overall, all participants expressed enormous support to this project and welcome the technical assistance to be provided by the World Bank to ensure compliance with the ESMF. The ESMF has been further refined to clarify the list of activities that will not be supported under the project.</p>	
Indigenous Peoples Development Plan/Framework	
Date of receipt by the Bank	20-Mar-2014
Date of submission to InfoShop	20-Mar-2014
"In country" Disclosure	
Lao People's Democratic Republic	04-Mar-2014
<p><i>Comments:</i> An Ethnic Group Planning Framework has been prepared as part of this project and has been disclosed to the public together with the ESMF. During the public consultation workshop on March 11, 2014, all participants expressed enormous support to this project and welcome the assistance to be provided by the World Bank to ensure compliance with the ESMF, as well as the Ethnic Group Planning Framework.</p>	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
OP/BP 4.04 - Natural Habitats	
Would the project result in any significant conversion or degradation of critical natural habitats?	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]

OP/BP 4.10 - Indigenous Peoples		
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional unit responsible for safeguards or Sector Manager review the plan?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Sector Manager?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
OP/BP 4.36 - Forests		
Has the sector-wide analysis of policy and institutional issues and constraints been carried out?	Yes [<input type="checkbox"/>]	No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
Does the project design include satisfactory measures to overcome these constraints?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Does the project finance commercial harvesting, and if so, does it include provisions for certification system?	Yes [<input type="checkbox"/>]	No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
The World Bank Policy on Disclosure of Information		
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies		
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

III. APPROVALS

Task Team Leader:	Name: Jose De Luna-Martinez	
Approved By		
Regional Safeguards Advisor:	Name: Peter Leonard (RSA)	Date: 23-Mar-2014
Sector Manager:	Name: Hormoz Aghdaey (SM)	Date: 24-Mar-2014